

Performance Appraisal: The Case of the Complex Organization

Dr. Arvind Sudarsan

*Dr Arvind Sudarsan, MMS. M.Sc (Hons), ME (Mgmt Sys) is on the Faculty of BITS,
Pilani (Management Group)*

Abstract

Management processes are commonly discussed and analyzed in the context of functional or (product) divisional structures. However, extremely complex matrix or project type organizational forms have been evolving, particularly in the service sector. The problems posed by these organizational forms are quite different from what might be expected when operating within the framework of more traditional structures. The case of one such organization Technology Administrative Services and Systems1 (TASS) is detailed in this article.

1. The Initial Years: Structures, Systems and Processes

Some years ago a visionary entrepreneur foresaw the need for certain types of business services. He was already the promoter of various organizations, each of which partly met the requirements of the new business. So to start with he amalgamated the different firms into a new firm christened Technology Administrative Services and Systems (TASS) and in the initial period allowed the existing managers to continue to run the new firm. After a few years, it was clear that although doing well, the company was not quite what he had envisioned, and when the existing senior management began to retire, the entrepreneur promoter brought in a new CEO from outside with a mandate to overhaul the existing set up. In addition, the entrepreneur was pragmatic enough to recognize his own limitations and the new CEO was given a free hand to make the changes he deemed fit. The new CEO set about his task with enthusiasm, and initiated various changes particularly with respect to

the structure and systems and processes of the firm.

When TASS was first set up, due to the extremely specialized nature of the services provided, and the customized nature of each assignment, the work could at best be classified as a series of independent jobs, and therefore, initially a project type of organization was deemed most suitable. Each project was under the supervision of a Project Leader. The new CEO soon recognized that it would require a radically different approach to tackle the immense and complex assignments that were thrown up in this line of business. Fortunately, early on itself, some of the managers perceived that despite the apparent differences in assignments obtained by the company, it was possible to identify various distinct independent elements in each project, each of which could be handled more or less independently by teams working in parallel. As a result of this insight each project was carefully subdivided into more manageable parts, each of which was handled by a separate team led by a Team Head. The primary role of the Team Head was to focus group efforts on the task at hand. Some minor administrative responsibilities were also associated with the job. A considerable amount of coordination between the teams was required, and that became the responsibility of the Project Leader, and the ability to integrate the effort of numerous independent teams became one of the distinctive competencies of the company. It was soon recognized that in the process of division, many projects actually gave rise to quite similar elements. Since, as a general rule, these elements cropped up quite often,

the personnel (specialists) required to handle these were kept permanently on the rolls of the company. In very rare cases it was necessary to either hire temporarily or more commonly, some employees were in effect trained to handle these exigencies competently though the tasks were not within their original area of expertise.

At the same time, the initial project structure was found to be inadequate and after a number of changes, the outcome was a complex organizational structure similar to a matrix, composed of project teams, specialist services, functional departments and support staff. In the Operations Department, all the specialists were functionally organized into cells on the basis of their specialization. Each cell was headed by an Executive Officer. This was an organizational rank used in order to distinguish them from the conventional usage of the term 'Department Head' which also existed in the firm. (The highest ranking officer in each of the functional departments such as Finance, Human Resources, etc, was designated as the Department Head.) Executive Officers were responsible for some administrative functions and were appointed from the senior specialists in the cell on a rotational basis usually for a period of three years. To be appointed as an Executive Officer was not necessarily a reflection of the grade that an employee was in. In other words, under some situations, it was possible that an Executive Officer was of a lower grade than some of the others in the cell. (This was actually an inevitable outcome of the rotational policy, since all the specialists were not necessarily in the same grade.)

All the specialists (including Team Heads) reported functionally to their respective Executive Officers but were administratively responsible to one of the Project Leaders, so each specialist (including the Team Heads and Executive Officers) reported to a Project Leader, who in turn reported to one of the deputy CEOs, and so on. This type of reporting relationship was chosen because,

ultimately, individuals worked on projects, which came under the control of the Project Leaders.

A Project Leader might (and most often did) have oversight of a number of projects running simultaneously. From time to time as projects were completed employees were freed and reassigned to new projects. The advice of the Executive Officers was often sought by the Project Leaders when a project team required the services of an individual with a particular specialisation. Depending on the requirement for certain types of specialists, it was possible (and in fact considered desirable) for an individual employee to be involved in more than one project at the same time. As and when projects were completed, the teams were disbanded and individuals relieved and reassigned elsewhere according to organizational needs. Only in very extreme circumstances were individuals relieved and reassigned in mid-assignment.

Over time, the organization also became geographically dispersed, and it established operations at several locations. Excluding the corporate office (where the CEO and associated staff were based), each location was headed by a deputy CEO and there could be as many as 20 Project Leaders at a location, overseeing the efforts of about 300 specialists and perhaps thrice as many non-managerial staff. The services demanded at different locations could and did differ and therefore, at each location, some projects were similar to those at other locations and others unique to that location.

This structure though complex served the organization well, since to a very large extent, it was based on the type of business and therefore had enabled the organization to meet its objectives even while ensuring that its customers were reasonably satisfied with the service obtained by them. Also, since it was not possible to forecast which type of projects were going to be obtained, it also allowed the organization to maximize the productivity of its most valuable

resources namely the time of the functional specialists.

TASS under its new CEO also pioneered many management practices in its industry in India. One such area was selection. In its initial years the organization put into place a policy of as far as possible not merely hiring the best candidates, but also of attracting the best qualified candidates in the country to apply to it. This was regarded as essential by the firm so that the quality of its services would not be compromised. One consequence of this approach was that candidates from premier institutes tended to be favoured as the academic rigour of their institutions gave them a clear edge.

Another was the practice of encouraging employee participation in business development. Due to the specialized nature of the work and individual competencies, it was recognized that individual employees might not be fully occupied at all times by the organization. Individuals were therefore permitted, and under some circumstances even encouraged, to seek out new projects, under certain terms and conditions. In such cases, the individual who got the project became the de facto project head, (in function though not in designation), and depending on the size, they were usually permitted to consensually involve others in the organization either formally or informally. The employee responsible for acquiring the project was also entitled to a significant share of the extra remuneration brought in by the project, and all others associated with the project were also additionally remunerated for the same. This was thought to be an equitable arrangement to encourage and reward employee initiative and also served as a business development activity for the firm.

However, the area which was most significant transformed was the performance appraisal system, which was quite comprehensive and made more complicated by the need to take into account different functions, projects, locations,

multiple appraisers and so on. It might be argued that the organizational structure necessitated such a system, but to the credit of the company it actually evolved a system to suit its requirements, a brief description of which follows.

Employees filled in a self-appraisal form based on their achievements during the previous year - primarily the contributions to the various projects. Employees were also permitted to comment on any aspects of their career or contribution for the previous year that they believed was important.

Each employee was evaluated by all the Project Leaders. This was necessary since it was possible that any employee had worked on practically any project, and therefore it was only fair and proper that all those Project Leaders who had utilized an employee's services were given an opportunity to comment on the quality of the performance. In keeping with the changing nature of the business, and in order to attract and retain the best talent, the organization reviewed the criteria for rewards from time to time, and made changes as deemed necessary. After the Projects Leaders completed their evaluations, the report was forwarded to the Deputy CEOs and CEO who added their assessment, and then took any suitable administrative decisions. In order to avoid any politicking or attempts to play the system, the evaluation was carried out confidentially.

In addition to these developments, the new CEO also took the initiative of entering into technical collaborations with some reputed international firms. All these steps enabled the firm to reach a pre-eminent position in its industry.

2. Changes

However, over the years, the picture was starting to look less rosy. The liberalization of the economy led to a number of new firms entering the industry. TASS had not been overly concerned with this development, but

it soon became apparent to the disinterested observer that most of these new comers appeared to be growing at a very much faster pace than TASS despite its reputation and experience in the field. Furthermore, even though a number of them charged much higher rates, they did not appear to face any shortage of customers, who were willing to pay. It seemed that many potential customers no longer considered TASS as their first choice. In fact in some cases it began to appear that it did not appear in their preferred list of consultants at all! None of this however stirred the management of TASS to take any action, nor did it shake their belief in their paramount position. On the other hand, TASS gave the impression of not merely rusting on its oars, but appeared to be stuck in a time warp content with basking in its past glories.

The ancient Greeks observed that where Hubris went there inevitably Nemesis followed, and so also here. One fine morning, the original promoter peacefully passed away in his sleep and the company was inherited by a young and dynamic heir who had, as a young boy, been brought up hearing stories about the achievements of the company. He decided that in order to emulate his eminent predecessor he had to gain a first hand understanding of the business, to which end he devoted his time and energy. He relocated to the company's headquarters, spent his working hours there and without interfering in the running, insisted on being present in meetings and on knowing all that was going on. This of course came as a great shock to the management who had grown accustomed to the hands off approach of the founder promoter. In fact it must be confessed that the promoter had been ailing towards the last few years of his life and had simply not been able to devote enough attention to the firm, leaving it to be run by the professionals he had appointed. The more hands-on approach of the successor came as an unpleasant surprise to the top managers who had grown complacent in their ways.

Since the successor was an intelligent and hard working young man he soon realized that there was a great difference between the internal reality of the firm and the perception he had had about it. Even then he might have not taken any immediate action if the company had continued meandering along profitably.

3. Problems and Perceptions

Unfortunately, misfortune likes company and the time came when several of the firm's oldest and biggest customers declined to renew their contracts and took their business elsewhere. This came as a bolt from the blue to the top management who had not had any inkling about the disaster awaiting them and for the first time in its history, the company posted an annual loss. The news spread like wild fire throughout the company and the successor realized that the problem had to be tackled quickly if the firm was to be salvaged. By making confidential enquiries, he was able to study the actual situation of the company and unearthed the following problems/symptoms. Most of them appeared to relate to the appraisal system and the consequent administrative decisions. These are briefly discussed below.

Since the appraisal criteria underwent revision periodically, nobody was sure of the criteria before hand. Decisions were made by the management on the basis of the criteria prevailing at that point of time. Therefore, for example, some employees might have been denied incentive payments or passed over for promotions on the grounds of poor communication, or lack of flexibility. However, those rewarded earlier would have been selected according to the criteria used at that point of time and since the earlier criteria were possibly different, this meant that it was quite possible that many of those individuals rewarded earlier also lacked communication ability or flexibility. This gave the impression that the same rules did not apply to everyone, and employees started wondering if all the reasons advanced for promoting people were simply

generated after the fact. This problem was further compounded by the fact that the employees were kept ignorant about several aspects of the appraisal system. Since decisions were made centrally and at the very top, sometimes even the Project Leaders were in the dark until the announcements and this only served to confirm employees' suspicions.

The system of choosing the Executive Officers was by rotation. Disgruntled employees groused that they were chosen neither by seniority nor by merit but by some other unknown criterion. (The choice of the Executive Officers was a sore point, because they had some influence as to which individual was assigned to which project team and the allegation was that invariably, the more sought after assignments were allotted to their favourites.) This perception about unwritten criteria was in fact not limited to the appointment of Executive Officers but extended to the entire system of rewards and promotions. Some brave souls bluntly stated that it depended on the whims and fancies of top management. According to this school of thought, a person seeking any change or advancement simply had to do impress top management by doing them or their families some favours. In this way many persons found that they were eminently qualified for jobs that might otherwise have been out of their competence. Specific examples were cited such as that of the specialist in area A, who was suddenly found to be qualified to handle assignments in area B, over the heads of those employees with specializations in area B! All kinds of moribund jokes made the rounds at such times. Old timers narrated the perhaps apocryphal story of the highest paid employee. As a new recruit, X had been the lone supporter of some of the changes initiated by the then CEO who had rewarded him with a double promotion. Many years later when X retired, it was claimed that he was the highest paid employee in the organization due to the out of turn promotions he had got early on!

Another story concerned how the current CEO had been selected. Three candidates had been short listed for the post. Each was individually called for a confidential interview with a panel consisting of the outgoing CEO and his top advisors. At the interview after the usual question and answer session, each candidate was shown a beautiful vase in the corner and asked to pick it up. He was then asked to throw the vase down. The beautiful porcelain vase broke into pieces. Promptly the interviewers scolded the candidate for breaking the expensive vase. Candidate A angrily defended himself arguing that it was the boss's fault and he was being unfairly blamed. Candidate B was astonished at the turn of events and could only blurt out that he had only followed the instructions given. Candidate C put his head down and asked to the boss to excuse him for his 'mistake'. Shortly thereafter it was announced that the process of identifying a new CEO had been successfully completed. Candidate C was appointed successor to the CEO. Candidate B was appointed as his assistant and Candidate A was transferred to a remote field office!

At the other end of the hierarchy, another employee narrated the following incident. Some time earlier, an exercise had been carried out to identify good performers among the support staff. At the conclusion, some employees had been promoted, some had received additional increments and others had been left untouched. One person had attempted to commit suicide upon hearing that he was the only one in the group who had not received any increment or benefit. Another employee who had likewise been passed over approached the managers involved in the exercise and asked that he be given feedback about his shortcomings, since he had not been promoted, even though in actual fact he had been assigned and had been doing work which had earlier been handled by persons placed two or three grades higher than him. If his work had been unsatisfactory, then he had not been informed about it even once though he had been carrying out his present assignment for

two years now. Was it that he was to be returned to his previous duties as a result of his performance? From the deputy CEO downwards till his immediate boss, no one could or would give him any answers except to parrot that his scores had been low. He was just required to continue as he had been for the past two years without any explanation.

Another problem derived from the firm's selection and recruitment policies. Over time the organization's approach of choosing the best candidates degenerated into considering candidates from certain 'premier' institutes as 'better'. Such candidates needed to do little to justify this perception. The mere fact that they were from a premier institute labelled them as being premier too! Consequently, the linkage between performance and appraisal became tenuous. People who had graduated from other institutes irrespective of their potential, abilities or performance started to believe that they were considered to be inferior to the select few from better institutes and that all that mattered was to have a stamp of certification from a reputed institute. A related problem was that some specializations came to be regarded to be superior to others. Naturally, the quality of the outputs of both sets of employees those regarded as superior as well as those regarded as inferior, suffered².

A further bone of contention concerned the projects brought in by employees on their own initiative. Employees who obtained projects by their efforts were able to cite this in their contributions to the company. Since the additional revenues due to the projects could be easily determined and stated, anyone mentioning this in the list of their contributions was immediately noticed as having brought additional benefits to the company. However, many employees felt that this was more than slightly unfair, because of several reasons. First, at least one major factor that facilitated employees in getting such projects was the good name and reputation of the company, which had

been achieved and sustained by the collective efforts of all the employees. Second, employees felt that only those individuals whose workload was low could engage themselves in such activities and therefore employees who were already fully occupied in company work were being unfairly treated. Finally, employees whose contributions were more qualitative in nature, such as the individuals who had developed a better budgetary and control system, or those who streamlined the quality assurance system, tended to be rated lower, not because their contribution was in any way lesser, (arguably the converse), but because it was so much more difficult to estimate the value of their contribution in monetary terms.

Yet other grievances were precipitated due to changes in the industry. Due to the increase in the number of players in the same business as well as their rate of growth, there was currently a lack of qualified specialists in many areas and therefore, it was not difficult for a competent person to easily get employed elsewhere. This was not the case in the earlier days, when TASS was one of the pioneers in the field. There had been very few competitors and correspondingly hardly any opportunities for employees. Now, due to the shortage of specialists, on several occasions TASS had hired back former employees at considerably higher salaries, after relatively short periods of time of about six to eight months. It therefore became difficult to justify the more favourable emoluments by citing experience or similar grounds. Other employees soon became aware that not only had the returning employees not been penalized, but that they had instead received significant increments. On the other hand, some continuing employees found that their annual increment had decreased from the previous year for no perceptible reason! Consequently this led to considerable dissatisfaction among employees who had remained with the company as the impression formed was that their loyalty had resulted in their being punished.

To sum up, the performance system had become completely discredited in the eyes of the employees. Any practicing manager might recognize the problems mentioned here and indeed perhaps might have faced some of them too. While it might not have been possible to categorically conclude that these employee perceptions were either solidly grounded on fact or mere rumours, there could be little argument that the prevalence of such opinions and beliefs among the employees was damaging to the organization. No doubt some errors had been committed but whether the situation was as bad as at least some of the employees perceived it to be was the question. However, the successor was still faced with the question of what action to take, Simplistic solutions such as changing the structure were fraught with dangers since, all said and done, the present structure and systems had been evolved in response to business forces over considerable time, and despite the current problems, it would most likely prove to be difficult to improve on them by quick fix changes. However, answers had to be quickly found since the frustration level among the employees was reaching dangerous levels and still increasing, and had already started to spread to the firm's clients.

Notes

1. The organization is a compound organization comprising of a collage of a number of organizations. Names, places and some details have been changed in order to protect identities and avoid breaching confidentiality.
2. "We must recognise that there may be excellence or shoddiness in every line of human endeavour. We must learn to honour excellence no matter how humble the activity and to scorn shoddiness, however exalted the activity: An excellent plumber is infinitely more admirable than an incompetent philosopher. The society which scorns excellence in plumbing because plumbing is a humble activity and tolerates shoddiness in philosophy because it is an exalted activity will have neither good plumbing nor good philosophy. Neither its pipes nor its theories will hold water!" - John W. Gardner. [Cited July 8, 2008] Available at

<http://www.nada.kth.se/~asa/Quotes/phil>.

