

# **SSA Thesis**

**2021**

**Nora Buchalter**

**Possible steps in measuring human resource performance  
for a manufacturing company**

Supervisor: Daniella Kucsma  
Institute of Management Sciences

Manuscript closure: October 20. 2021.

# CONTENT

|                                                                       |           |
|-----------------------------------------------------------------------|-----------|
| <b>1. Introduction .....</b>                                          | <b>4</b>  |
| <b>2. Literature overview .....</b>                                   | <b>6</b>  |
| 2.1. Performance management .....                                     | 6         |
| 2.1.1. Process of performance management .....                        | 8         |
| 2.1.2. Goal of performance management.....                            | 9         |
| 2.1.3. Cycle of performance management .....                          | 10        |
| 2.1.4. Performance management by BSC way .....                        | 11        |
| 2.2. Performance evaluation .....                                     | 14        |
| 2.2.1. Concept of performance evaluation.....                         | 14        |
| 2.2.2. Goals of individual performance evaluation.....                | 14        |
| 2.2.3. Individual assessment techniques .....                         | 15        |
| 2.2.4. Performance evaluation of leaders.....                         | 15        |
| 2.3. Communication .....                                              | 16        |
| 2.3.1. Communication of results - Feedback .....                      | 16        |
| 2.4. Outcomes of performance management.....                          | 18        |
| 2.5. Importance of organizational culture.....                        | 19        |
| <b>3. Presentation of the Company .....</b>                           | <b>20</b> |
| 3.1. Grand Tokaj Zrt.....                                             | 20        |
| 3.2. Strategic direction of the Company .....                         | 22        |
| 3.3. Strategic awareness .....                                        | 24        |
| 3.4. The role of human capital in the implementation of strategy..... | 25        |
| <b>4. Suggestions for measurement of performance .....</b>            | <b>28</b> |
| 4.1. Deriving goals from the strategy .....                           | 28        |
| 4.1.1. Target setting .....                                           | 28        |
| 4.1.2. Target cascading .....                                         | 35        |
| 4.1.3. Evaluation .....                                               | 37        |
| 4.1.4. Timeliness of performance management.....                      | 40        |
| <b>Summary .....</b>                                                  | <b>42</b> |
| <b>Bibliography .....</b>                                             | <b>45</b> |

## LIST OF FIGURES

*Figure 1: Cycle of performance management*

*Figure 2: Balanced Scorecard framework*

*Figure 3: BOFF principle*

*Figure 4: Strategy map of Grand Tokaj*

*Figure 5: Dimensions of employee performance appraisal*

*Figure 6: Cycle of performance management*

*Figure 7: Connection of performance evaluation to other HR functions*

## LIST OF TABLES

*Table 1: Net income of Grand Tokaj Zrt.*

*Table 2: Strategic goals of Grand Tokaj Zrt.*

*Table 3: Indicators to strategic goals of Grand Tokaj Zrt.*

*Table 4: Sample for CEO objectives*

*Table 5: Sample for CFO objectives*

*Table 6: Change of indicators of Grand Tokaj Zrt.*

*Table 7: Individual competence assessment form*

# 1. INTRODUCTION

*„If you can't measure it, you can't manage it.”*

*(Kaplan-Norton, 1996.)*

An organization's measurement system strongly affects the behavior of people both inside and outside the organization. If companies are to survive and prosper in information age competition, they must use measurement and management systems derived from their strategies and capabilities. (Kaplan-Norton, 1996.)

In my dissertation I deal with performance management, within that the possibilities of measuring the performance of human resources in the case of Grand Tokaj Zrt. I am currently an employee of the Company and in charge of the human resource management there. With my current work I would like to give some suggestion to the organization developing an efficient, easy-to-use and functional system as currently there is no such activity at the company.

The main purpose of performance management is to promote better performance of the organization by involving highly motivated employees which is a clear success for both parties. In the performance management system there is a two-way communication between the manager and the employees, therefore they are aware of what is expected of them. Because there is feedback in the process towards them they also find out what performance they are providing.

What makes performance management successful? If it is an integral part of the corporate culture and managers do not see it as an administrative task to be “ticked” but they are committed to operating the system. Global principles need to be combined with local realities, evaluation criteria, the system needs to be accepted, goals need to be clarified at the organizational and individual level. Managers and employees need to be taught the performance appraisal process. The development of employees must be ensured: their fate is in their hands. Regular monitoring of the process is an essential task. (Dara, 2013)

During the preparation of my dissertation my goal was to develop a performance measurement and evaluation method for Grand Tokaj Zrt. - the largest winery in the historical Tokaj-Hegyalja Wine Region - which can be introduced and used in the future.

The actuality and significance of the topic is justified by the fact that the changing wine market environment, the operational problems of the Wine Region and the development resources directed to the region are expected to result significant changes in the life of Tokaj-Hegyalja. These changes will fundamentally determine viticulture, wine production and trade, infrastructure investment, the development of tourism and consequently, employment in the wine region for the next decades.

In this changing environment the company's stability can be ensured by producing high-quality wines and increasing their domestic and export sales which based on an efficient and cost-effective organization with adequate human resources.

## **2. LITERATURE OVERVIEW**

### **2.1. Performance management**

The operation and competitiveness of an organization is influenced by several factors. Examples are the market in which the company sell a product or service, the customers from whom the revenue comes, suppliers whose even short-term delays can hinder fast delivery or the technology with which the company works can be fundamentally decisive in its operation. It cannot be neglected the influence of the legal and economic regulatory system as it basically determines the operating environment. Finally, one of the most dominant factors is the competitive environment itself. Vainly wants the company to become a market leader if his competitors produce, supply or sell faster, or in better quality or cheaper than him.

Anyone can rightly ask the question: what makes a business better than others?

More and more leaders are realizing that in fact their most important “asset” is the person they work with.

Managers have realized if their employees are well trained and motivated, can be a source of sustainable competitive advantage. Employees of such companies are more task-oriented and committed which results in higher levels of productivity and satisfaction. Such organizations attract and retain well-trained, conscientious and loyal employees more easily.

Of course, business enterprises are not charity organizations, they are clearly formed to generate profit for the owner and from the owner's point of view everything is subordinated, its aim is to squeeze as much better performance out of the company as possible.

What is performance? → Performance is the result of an activity that can be characterized by a quantitative and qualitative indicator, so it can be measured.

In order to achieve maximum performance a number of conditions should be met. The good and effective performance of employees can also include efficiency and cost-effectiveness. Efficiency refers to the extent achieving a goal while economy refers to the use of resources required to achieve a result.

However, to increase performance, employee performance must be managed.

This is particularly important from an ownership or management perspective because personal costs are one of the largest items of expenditure. The efficient use of resources is a priority in the life of every business and their constant review is necessary on a regular basis.

Components of business performance:

- Human resources (knowledge, competence, motivation)
- Organizational strategy
- Applied technology
- External environmental (market) effects
- Quantity and quality of other resources (financial, information, etc.)

Performance levels:

- corporate
- group / organizational unit
- individual

Many people mistakenly think of performance management as a performance appraisal system, even though it is much more than that. Performance measurement is only part of performance management. Performance management is a future-oriented system that aims to ensure that the goals set by the organization are met. (Gergely, 2012.)

A performance management system is a complex process in which employees of an organization understand and agree on what each actor needs to do to achieve the company's strategic, tactical and operational goals. By creating the conditions for this process the results of the actions are measured and fed back with supportive and empowering leadership.

As a result, it seeks to increase not only individual but also organizational performance, creating a complex system that combines performance appraisal with motivation, competency development, quality assurance and remuneration (salary, reward, bonus, etc.) decisions.

Formal performance evaluation is only part of the performance management process. A complex and organization-specific activity that seeks to measure, analyze and evaluate organizational, group and individual performance at regular intervals based on indicators. They examine which employees meet the expectations placed on them for a given task and job.

### **2.1.1. Process of performance management**

Performance management is a communication process that helps managers create a motivating atmosphere, support their employees in development, in conscious and effective working, in achieving performance goals contributing with that to the achievement of organizational goals and improvement of individual and team performance.

Steps:

#### **1. Development of measuring tools and standards**

- This process is most related to strategy and business planning
- The goals of the organizational unit are broken down into individuals and positions
- It aims to measure three factors: end result, behavior, personality traits

#### **2. Communicating of expectations**

- Perhaps the most critical step in the performance management process
- It is important to articulate the expectations clearly and to make sure that the assessee has understood and accepted them

#### **3. Performance planning**

- The leader develops strategies and plans with his or her subordinates to meet performance expectations
- The necessary resources are provided
- Completion of this section means concretization of plans into concrete action plans, budgets, deadlines

#### **4. Performance monitoring**

- The key phase of performance management's success
- The manager constantly monitors the performance of his employees and compares them with the previously communicated expectations

#### **5. Evaluation**

- Performance appraisal involves recalling performance observations and making judgments
- This is aided by concrete, behavior-based scales, well-communicated standards and well-documented mid-year performance

## 6. Feedback

- Although feedback is continuous in performance management, a formal discussion (interview) is also required
- The manager communicates here and justifies the outcome of the evaluation
- It is important for the leader / evaluator to focus only on visible, observable behavior and to abstract from his or her own feelings

## 7. Personnel decisions

- The manager makes the necessary personnel decisions here: promotion, retraining, pay raise, dismissal depending on what he or she expects to improve performance
- These decisions must be based on very clear, unambiguous principles and the connection to other systems must be clearly recognizable

## 8. Development

- Here need to explored the limitations of the work system, got to the characteristics that are most difficult for the individual to perform and inserted the missing links of excellent performance
- This is also the starting point for the new cycle  
(Dara, 2013.)

### **2.1.2. Goal of performance management**

Several goals have been formulated in connection with performance management such as:

- Focus on the key activities that best influence the results and efficient operation of the organization
- Encourage better performance by addressing and eliminating barriers to good performance
- Facilitate the achievement of the organization's strategic goals and work in coordination with the organization's strategic and planning processes
- Break down organizational objectives into individual goals of employees, making expectations, annual tasks, priorities clear to all employees
- Improve the working relations between the organizational units, the harmonization of tasks and goals and the joint work that promotes the realization of organizational goals through continuous horizontal and vertical communication within the organization

- Provide continuous feedback and on-the-job development, performance management focused on goals comparing them with the level of performance achieved
  - Promote an atmosphere that motivates excellent performance, increasing the performance and continuous development of both managers and employees
  - Orient towards behaviors and competencies that ensure the achievement of outstanding performance
  - Contribute as a management tool to strengthening a performance-oriented organizational and leadership culture in the organization
  - Facilitate an honest discussion about development opportunities between the manager and his / her staff
  - Set performance goals for employees that are important to quality
  - Motivate and manage employees align with quality objectives
- (Dara, 2013.)

### **2.1.3. Cycle of performance management**

#### *1. Planning, setting individual goals and defining development plans:*

- Determining the annual main priority goals based on the strategic goals of the organization, rolling it down to the goals of the organizational units which is the basis for defining individual performance goals
- The other element of the individual goal is the competence goals and expectations defined for the positions and managers which significantly contribute to the effective fulfillment of the goals
- Individual training and development plans for the development of competencies, expansion and increase of professional and personal skills

#### *2. Performance management, continuous monitoring:*

- It is realized in the daily work with the help and feedback of a direct leader

#### *3. Evaluation:*

- Formal assessment of full-year performance, individual competencies and development

#### *4. Contribution-based incentive:*

- Distribution and payment of the bonus based on the individual contribution
- (Dara, 2013.)

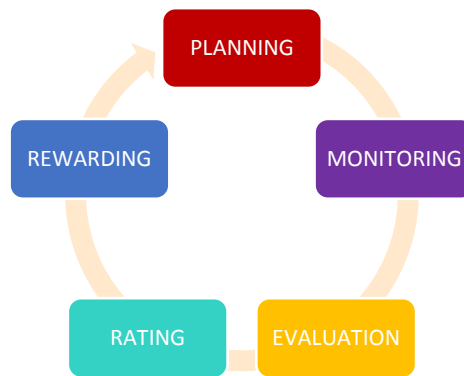


Figure 1: Cycle of performance management (own construction based on Dara,2013.)

#### 2.1.4. Performance management in BSC way

In the early 1990s, David Norton and Robert Kaplan began intensive research into a system that goes beyond traditional financial performance measurement. The result of their research was the Balanced Scorecard system which can effectively track business developments. The BSC table is the aggregate result of indicators grouped around four different perspectives: financial performance, customers, operational processes, innovation and learning. The organization focuses on the critical success factors, the results and factors of achievement of the strategic goals. It can provide an integration framework for other business programs and systems at the strategic level.

The BSC:

- ✓ Clarifying the vision and strategy and translating them into action
- ✓ Linking and communicating strategic goals and indicators
- ✓ Planning, setting expectations and aligning with strategic measures
- ✓ Facilitate strategic feedback and learning

Indicators strike a balance between external indicators that are important to customers and owners, internal indicators that characterize critical operational processes and developmental learning capacity. The indicator system is balanced as it contains both the result indicators showing the past performance and the factors that most influence the result, the performance indicators. What indicators we work with depends on what our strategic goal is!

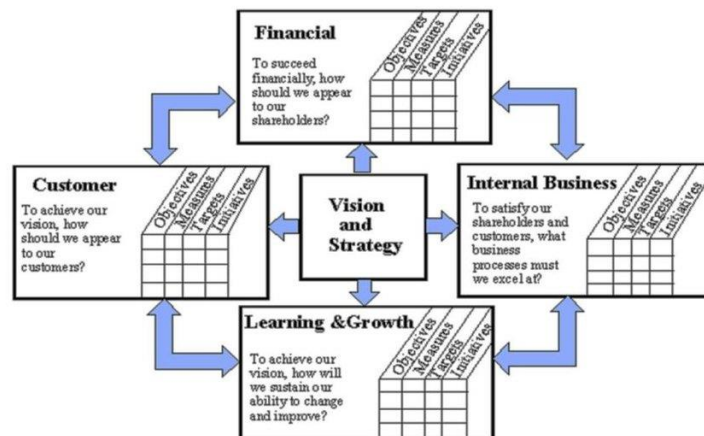


Figure 2: Balanced Scorecard framework (Source: Kaplan-Norton,1996.)

## The four perspectives of the BSC:

(according to Kaplan and Norton)

### 1. Financial Perspective:

From a financial point of view corporate goals should reflect ownership expectations.

Indicators:

- Return on working capital
- Operating and business results
- Added value

### 2. Customer Perspective:

The customer perspective takes into account consumer expectations and values (customer value) when formulating corporate goals.

Indicators:

- Consumer satisfaction
- Market share
- Number of customers retained and newly acquired

### 3. Internal-Business-Process Perspective:

The operational processes perspective describes the critical processes in which the organization must provide excellent performance taking into account customer and owner expectations.

It examines corporate processes not in themselves but in their interaction with each other. It monitors the value creation process backwards from the customer side keeping in mind a single

principle the value chain: which process characteristic results in a plus recognized by the customer (cheaper price, higher quality, shorter delivery time, faster administration, stable customer relationship, customer-friendly service) which gives it a more advantageous business position than its competitors.

These processes enable businesses to deliver value that will retain their customers in the target market segment as well as gain new customers and meet owners' expectations for achieving excellent financial results.

#### ***4. Learning and Growth Perspective:***

It defines the infrastructure that an organization must build to ensure long-term growth and development.

There are three basic sources:

- People
- Systems
- Procedures

#### *Learning, training, innovation indicators on the employee side*

If the employees of the company do not feel the principles of the BSC, their attitude does not adapt to the changed values of the company, the process is doomed to failure. The 21st century is a period of rapid technological change when employees with competitive knowledge and competencies become even more important. The key is the ability to learn continuously. Key indicators related to employees can be divided into three groups:

- productivity and performance of employees
- staff satisfaction,
- retention of staff.

## **2.2. Performance evaluation**

### **2.2.1. Concept of performance evaluation**

Performance evaluation is the assessment and appraisal of the performance of all employees working in an organization for a given period. (Gyökér, 2003)

The performance of an organization is given by the total performance of its employees, so measuring the performance of each employee is essential to ensure effective operation.

During the performance evaluation the organization receives continuous feedback and provides information on the work of its employees, so that all elements of the company are aware of the effectiveness of its activities and if necessary, can improve it in a timely and appropriate manner.

As a result, performance evaluation is closely linked to the HR systems, addressing the issues of remuneration, training or succession, determining their direction.

### **2.2.2. Goals of individual performance evaluation**

Performance appraisal in general aims to improve the performance of employees and to develop their skills more fully but of course it can also contribute to the achievement of specific organizational goals:

- Assessing and describing the employee's situation, strengths and weaknesses
- Providing information on the capabilities and potential of employees for workforce planning
- Providing information on promotion goals and succession plans, regular review and revision of position descriptions and job goals
- Encouraging and rewarding individual effort
- Systematic assessment of individual training needs
- Developing and passing on the corporate culture
- Compliance with legislation

(Dara, 2013.)

### **2.2.3. Individual assessment techniques**

When choosing performance evaluation methods it should be considered whether it is worthwhile to carry out formal procedures at all, after all, in a smaller company personal contact and direct tone is more suitable as the official feedback. However, for larger numbers of employees it is essential to introduce a comprehensive evaluation system that can be based on a variety of evaluation techniques.

The most commonly used techniques:

- Classification, evaluation scales
- Labor standards
- Essay
- Critical cases
- Behaviorally Anchored Rating Scale (BARS)
- Behavior Observation Scale (BOS)
- 360 degree evaluation

### **2.2.4. Performance evaluation of leaders**

Performance management is not just about the leader evaluating of subordinates. For organizations where we can talk about multi-level leadership, evaluating leadership performance is also essential.

It consists of a set of objective and soft elements. The first group includes turnover, growth, profit, cost reduction or even gaining new market share, these are results that can be well expressed in numbers. The second part consists of elements that are less numerical, such as motivating employees, facilitating their development, conflict management, accountability and getting subordinates to keep the company's goals in mind or the evaluation of employee performance may also be included.

It is popular for managers to put together their income package specifically with performance-enhancing elements.

## **2.3. Communication**

The whole process of performance management and within that the process of performance evaluation stands or falls on communication. If managers or subordinates fail to understand the purpose of the system, the timeliness of the process, the context, if the assessor and the assessee are not able to communicate clearly, if it's all based on lies, if the promises made are not kept then a system introduced with a lot of effort becomes an ineffective, time consuming action.

### **2.3.1. Communication of results - Feedback**

It is a basic need of all people to receive constant feedback from their manager about their work and their behavior in the workplace. In the absence of feedback employee cannot be sure that what they are doing is good or whether they may need to change in work and attitude. Feedback is the polite way of praising or criticizing another person's behavior in the form of a conversation.

The purpose of feedback is to make employee aware of their behaviors, to learn how their behaviors affect others and to learn what they evoke from their own behaviors.

Through feedback, we learn to see ourselves as others see us. Effective feedback contains important elements: care, trust, acceptance, openness, consideration of the needs of others.

How evaluative, judgmental or helpful depends on the personal philosophy of the participants. Feedback is a skill that can be learned and developed.

One of the key problems of performance appraisal is giving criticism, as its improper application can damage the relationship between the manager and the employee, making the appraisal discussion impossible. There is only one acceptable reason for criticism in performance management: to help the employee develop and increase his or her performance. From the right critique, the employee can learn a lot.

The manager's main problem with criticism is how to point out the negative aspects of the work so as not to arouse resentment in his or her employee, not to provoke defensive behavior on his or her part but to take an active part in finding problems and exploring solutions, identifying opportunities for development. Criticism should always be constructive, focusing on directions and opportunities for change and development. (Gyökér, 2005.)

The BOFF principle is a technique whose application ensures objective and constructive opinion formation.

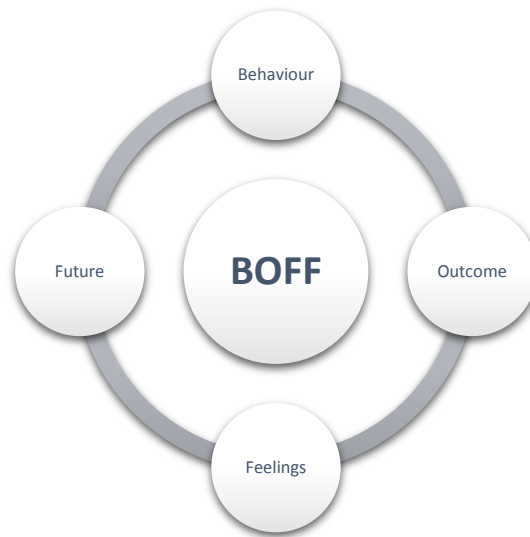


Figure 3: BOFF principle (Source: (Source: Veresné, 2011))

BOFF is an acronym for the English equivalent of the feedback stages.

In the first step, we describe the Behavior that we want to express or dislike.

→ *"You arrive late every morning!"*

Next call the result caused by the given behavior (Outcome).

→ *"Due to your delay we can't start the meeting on time because we have to wait for you!"*

It is very important to accurately describe the Feelings that the other causes us with their behavior and its consequences.

→ *"Everyone is very angry that they can get there on time, yet they have to wait for something else."*

As a final step in the feedback, it is essential to formulate expectations for the Future with which this error can be corrected. If we give colleagues the opportunity to seek out formulate their own solutions there is a good chance that they will act accordingly in the future.

→ *"Please leave earlier in the future so you can arrive on time!"*

### **Feedback rules**

The biggest challenge is to give feedback without hurting the person involved.

Feedback needs to be goal-oriented - how can I learn from it? - therefore, I only give feedback if it can be useful to the other. To do this we need to consider the following some principles:

- It must be constructive, so it serves the development of the person being assessed.

- It is descriptive, so we have to avoid judgment and interpretation, and there is no place for insult. Criticism is always expressed objectively!
- It has to be specific, if we generalize and express ourselves in general, the person concerned does not know how to change.

(Kucsma, 2018.)

## 2.4. Outcomes of performance management

Performance management does not exist by itself, its process has several important outputs. The most important are:

***Wage incentive*** based on five important things:

- Position
- Knowledge, competencies
- Seniority
- Working hours
- Performance

### ***Workforce development***

Although it is a basic fact that the definition of workforce development needs is based on job position requirements and personal competencies, performance appraisal may also reveal that the person being assessed may have deficiencies in terms of abilities, skills, competencies or behaviors.

### ***Career management***

One of the most important tasks of a manager is to recognize which of his or her employees are “sticking out” - in a positive sense - from the others. Who is capable of more than what they are doing, which colleague seems to be no longer satisfied with their job and who is looking for a new job to take up a higher position.

The manager carries out career management, he has to identify and develop the talents in time, outline the possible progress within the organization or if there is no opportunity to advance, inform the employee about it and give him or her a chance to build a career.

## **2.5. Importance of organizational culture in relation to performance management**

There is a great deal of agreement among researchers, professionals and company leaders regarding the relationship between organizational culture and performance. Previous research (Kotter – Heskett, 1992) has shown that organizations with a low performance culture have three basic characteristics:

1. Leaders are arrogant and make it clear that they have the right answer to everything.
2. Managers by their actions suggest that the group of owner, customers and employees is not equally important to them.
3. Managers do not replace their day-to-day managerial responsibilities with real leadership responsibilities. They require strong control and direction and are very resistant to change.

However, the activities of managers fundamentally determine the organizational atmosphere which has a fundamental impact on performance. The reason for this is that managers determine the role of each employee within the organization (goals, expectations, requirements) and most importantly they motivate employees.

*→ the quality of work gives rise to employee satisfaction → employee satisfaction results in employee loyalty → employee loyalty increases productivity → productivity increases the value of the service → increasing the value of the service results in customer satisfaction → customer satisfaction ensures customer loyalty → greater customer loyalty and results in growth.* (Dara, 2013.)

In summary, the introduction and operation of performance management consistently contributes to the more efficient operation of the company. It does this by enabling better performing, less loss-making workers to produce more added value with less effort thus better achieving the original goal, the profit-oriented operation of the business.

### **3. PRESENTATION OF THE COMPANY**

#### **3.1. Grand Tokaj Zrt.**

The company was founded by the Hungarian State in 1948 under the name of the National Company for Grapes and Fruit Production and has been state-owned since its establishment. Grand Tokaj Zrt. is the only state-owned winery and the largest one in the historical Tokaj-Hegyalja wine region, which is a UNESCO World Heritage Site from 2002. The company buys ~ 25-30% of the grapes produced in the wine region and gives approx. 30% of bottled wines sold.

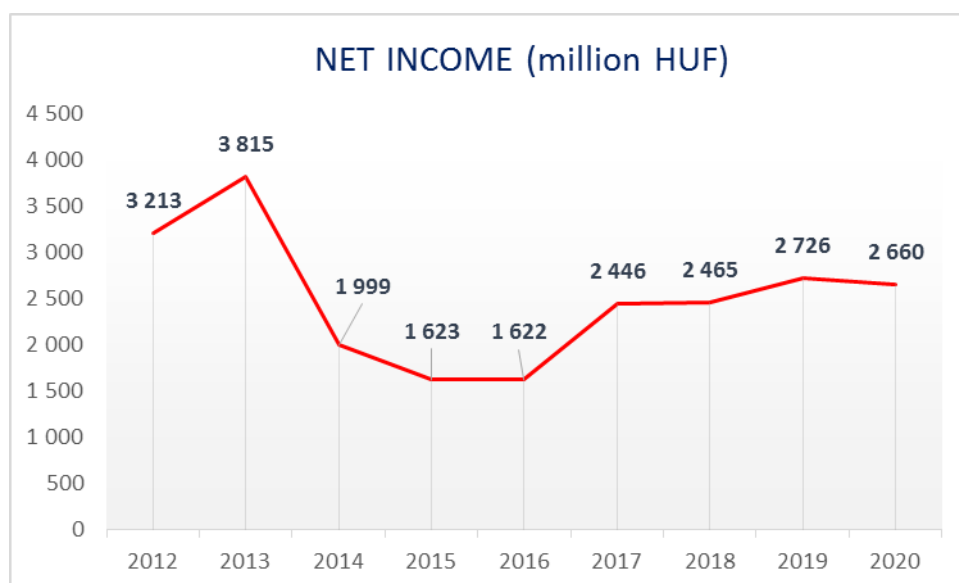
With 76 hectares of vineyards, the winery is a key player in the wine region. As an integrator of the region, it buys grapes from about 1,050 hectares of production area and nearly 1,000 small producers.

In 2013, a major operational transformation and comprehensive technological development began to produce internationally marketable, high-quality Tokaj wines.

Thanks to the developments, the winery is able to produce higher quality products from its own and purchased grapes. In 2014, the tank hall with a capacity of 66,000 hectoliters was handed over, which made the winery technologically suitable for the production of world-class wines. The bottler with a capacity of 10 million bottles / year has been completed and started operating. In the coming years, further developments will take place at the company's Tolcsva site and cellar in Szegi.

After stock closures and product recalls in 2014, sales virtually stopped, resuming only slowly, primarily in the lower-priced, semi-sweet, volume wines market. After the launched renewal - after several changes in senior management and economic direction - the company stabilized its operations by 2018. Although still a loss-making company in the short term, it has been on a growth trajectory since 2017. It produces a continuous growth of 15-20% per year in the sales of bottled wines, and has largely regained its lost market position in the shrinking wine market.

Table 1



Source: Balance sheet data - Net income of Grand Tokaj Zrt. (own construction)

Grand Tokaj Zrt. intends to operate on the domestic and international wine market, the most important task for achieving the goals is to renew the consumption of Tokaj wines and to win over young wine consumers. This can only be achieved with Tokaj Protected Origin (OEM) wines with excellent value for money, intended for everyday consumption and containing mainly natural residual sugar. Long-term success can be achieved by increasing the share of sales of Szamorodni and Aszú wines as high-coverage products which is possible through active and coordinated market building and consumer education along wine-region cooperation. In addition to a virtually full domestic market presence, the main sales goal is to be successful in export markets. Target markets include traditional Central and Eastern European countries and Russia, Germany, Scandinavia, the USA and China.

In order to ensure the long-term provision of high-quality grape raw material, Grand Tokaj's strategic task is to build and maintain a stable supplier circle by establishing long-term cooperation.

The wines of the Grand Tokaj winery, which represent a new spirit, are made under the supervision of Károly Áts, a winemaker known for his 100-point essence, who won the title of Wine Producer of the Year in 2012 and has been the company's chief winemaker since 2013.

### **3.2. Strategic directions of the Company**

The main strategic goals of Grand Tokaj are:

1. Market-based self-sustaining and profitable operation as the largest player in Tokaj
2. Maintain and develop a balanced partnership as an integrator with wine producers
3. Improving the prestige of Grand Tokaj, thus the Wine Region and Tokaj wines with protected origin

As a result of the implementation of the strategy, Grand Tokaj Zrt. May operate as a profitable winery in the future. At the end of the 5-year period, in 2024 the Company's sales revenue will be more than HUF 3.8 billion, and its pre-tax profit may amount to nearly HUF 200 million.

### **MISSION AND VISION**

#### **Corporate values**

- Commitment to the long-term interests of the Tokaj Wine Region instead of individual interests and profit maximization
- Making and selling only high quality wine
- High professional standards in all fields (viticulture, purchasing, winemaking, production, trade)

#### **The mission of the Company**

As the largest player in Tokaj, to increase the image of Tokaj wine by continuously renewing and developing the wine region, based on the existing, noble traditions.

#### **The vision of the Company**

Grand Tokaj is the largest and most recognized player in the Tokaj wine region, whose continuous profitable operation is ensured by well-identifiable, well-value bottled wines that form a unified product family and a stable professional partnership with grape growers based on a balanced basis.

## STRATEGIC GOAL FRAMEWORK

The strategy can only be completed by linking the goals. Grand Tokaj aims to achieve the following three main strategic goals, which can be achieved by implementing the sub-goals indicated in this strategy map:

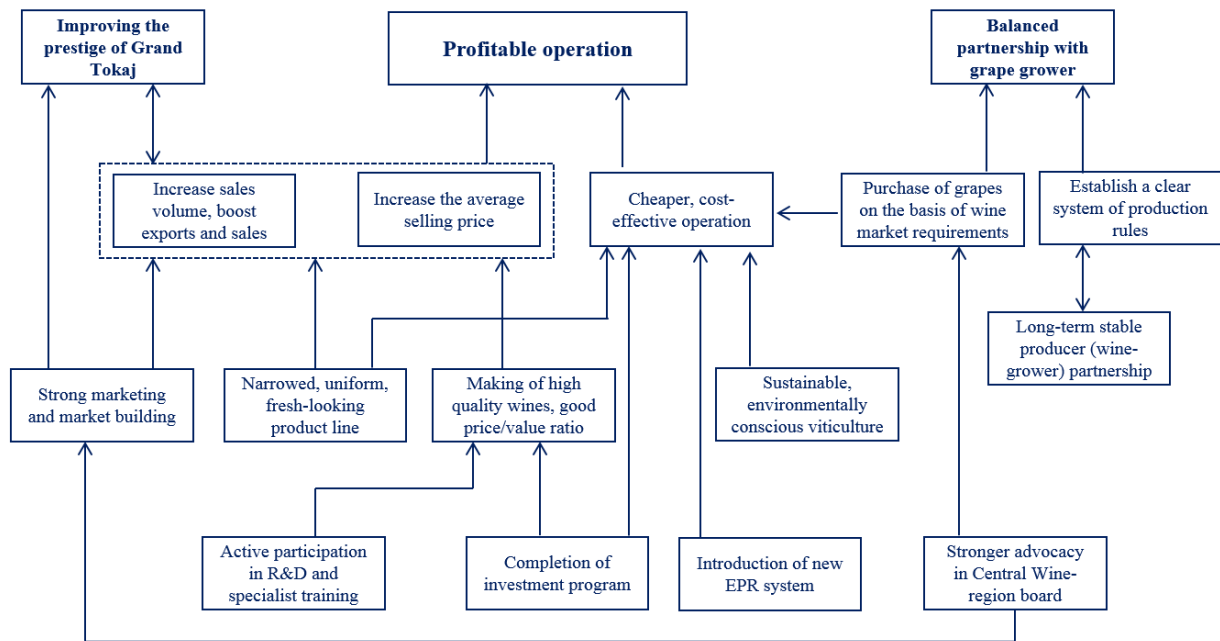


Figure 4: Strategy map of Grand Tokaj (own construction, Source: Strategy plan)

The strategic goals of Grand Tokaj Zrt. can be considered achieved by 2024 if the following fulfillment criteria are met.

Table 2

| Strategic goal                                                                 | Success Criterion - 2024                                                                                                                                               |
|--------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>1. Profitable operation</b>                                                 | Positive profit after tax, profit over HUF 100 million (according to the Company's calculations, 4% is the realistic expectation, which is expected to be met in 2028) |
| <b>2. Improving the prestige of Grand Tokaj</b>                                | → Questionnaire survey among traders<br>→ Number of international wine competition prizes<br>→ Semi-annual consumer education campaign                                 |
| <b>3. Production of high quality Tokaj wines with good price / value ratio</b> | → Turnover growth<br>→ Number of international wine competition prizes                                                                                                 |

|                                                                   |                                                                                                       |
|-------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|
| 4. Strong marketing, market building                              | → Marketing budget at least 5-6% of sales per year<br>→ Increase the number of foreign traders by 10% |
| 5. Increase sales volume, boost exports and local sales           | > 5 million l / year bottle sales, export rate > 60%                                                  |
| 6. Increase the average selling price                             | > net transfer price of 770 HUF / l bottled wine<br>tank wine sales rate <10%                         |
| 7. Cheaper, cost-effective operation                              | Increase coverage per 1 liter of wine sold<br>Increase sales revenue per employee                     |
| 8. Narrowed, uniform, fresh-looking product line                  | → Up to 20-item product range from volume wines<br>→ max. 10 types of bottles, redesigned labels      |
| 9. Sustainable, environmentally conscious farming and viticulture | Improving wastewater quality, compliance with prescribed limits, use of renewable energy              |
| 10. Purchase of grapes on the basis of wine market requirements   | Quantity of grapes purchased (kg) the planned bottled wine sales in year Y + 1 (l) x 1.4              |
| <b>11. Balanced partnership with grape grower</b>                 | → Satisfaction questionnaire<br>→ Increasing expert advice                                            |
| 12. Long-term stable producer partnership                         | At least 50% of the contracted producers have been partners for 3 years                               |
| 13. Completion of investment program                              | Completed by 2023: processing plant, finished goods warehouse, renewable energy                       |
| 14. Introduction and continuous updating of a new ERP system      | The useful operation of the system, which helps in efficient management                               |
| 15. Active participation in R&D and specialist training           | Relationship with several educational institutions, internship program                                |

*Source: Strategy plan of Grand Tokaj Zrt.*

### 3.4. Strategic awareness

„One of the most difficult things is to take a well-articulated executive plan and have the people sitting at their desks understand how they contribute to that plan. We need to educate all of our people to understand what they can do when they come to work every day to influence this company” (Gerry Isom, CEO of CIGNA Prop.)

This is a top-down communication. Without understanding vision and strategy, employees cannot adapt their work to contribute to effective strategy implementation.

The communication should have the following objectives:

- Develop and understanding of the strategy throughout the organization
- Develop buy-in to support the organization's strategy
- Educate the employees about the measurement
- Provide feedback about the strategy

Although Grand Tokaj Zrt. has a five-year strategy, strategic awareness is far from the company. The strategy as a document is available to directors but it is not communicated to employees in any form. Undoubtedly, the company has undergone huge changes in recent years, it has not yet reached that level of corporate culture.

A fundamental problem is the poorness of the communication system with employees, the lack of it is clearly acknowledged by the management.

The introduction of the planned performance appraisal system will make this necessary in the future which I also consider to be an important and urgent task in my dissertation.

The process should contain the following steps:

1. Education → creating strategic awareness
2. Testing that employees understood the message → strategy mind share
3. Checking that employees believe the strategy is being followed → strategy loyalty
4. Determining how many are teaching others about it → strategy missionary

(Kaplan-Norton 2000)

### **3.5. The role of human capital in the implementation of the strategy**

The business strategy of Grand Tokaj Zrt. contains the following statements regarding the human resources policy:

- In recent years, the company has continuously strived to increase efficiency and rationalize its headcount. As a result it decreased from 120 employees in 2016 to 96 in 2020.
- From 2020 the headcount will decrease slightly every year, by 2024 the average number of employees is expected to be 86. The reduction of the number of employees is made possible by the implementation of the development and modernization program.

- In the regional labor market, the replacement of skilled labor is facing serious difficulties, replacement is only possible at significantly higher wage levels, therefore the Company strives to keep the number of employees in critical jobs unchanged.

Grand Tokaj Zrt. does not currently have a consolidated HR strategy, which will be an outstanding task in the coming years. An essential element of this is the introduction and operation of a performance appraisal system.

With the introduction of the performance appraisal system, the Grand Tokaj can achieve the following goals:

- an overview of past and current performance,
- clear definition of performance goals and job responsibilities,
- identification of training and development needs,
- career planning, support for professional development,
- placing salary increase, reward proposals and personnel decisions on an objective, rational basis.

The process of developing and operating the performance evaluation system is planned by the company as follows:

- 1/ development of adequate measuring instruments and standards,
- 2/ performance planning, objective (setting specific, measurable, achievable, relevant and time-bound objectives),
- 3/ communication of expectations,
- 4/ performance monitoring, measurement,
- 5/ evaluation,
- 6/ feedback, development.

The human capital - the value of human resources - is the sum of the knowledge, practical experience and skills of all available workforce, it is difficult to quantify but it is perhaps the most important part. It is a proven fact that individual talent, abilities, skills and expertise - and their well-managed co-operation - play a key role in gaining a competitive advantage, achieving business excellence, lasting success and last but not least implementing a business strategy.

Before increasing efficiency, we need to know and map the work performance of our staff. For this purpose a competency-based performance appraisal system is useful which can be

integrated into the system of human processes. Based on the competency map and with the help of performance evaluation, the strengths and weaknesses of our employees can be explored and thus developed in a selective way and on demand.

Grand Tokaj Zrt. currently has 96 employees, of which 50 are intellectual workers and 46 are physically employed. In terms of its organizational structure, it is divided into six departments:

- ❖ General Manager Office
- ❖ Department of Economics
- ❖ Sales and Marketing
- ❖ Winemaking
- ❖ Bottling plant and Maintenance
- ❖ Viticulture

Performance appraisal requires a different approach for white-collar and blue-collar workers. However, in all cases, we should strive for the system to be characterized by the followings:

- ✓ Easy to use: well-known, understood and accepted by everyone
- ✓ Uniform for the whole organization: comparable evaluations should be made on the basis of the same criteria at the same time
- ✓ Use clear goals that are aligned with the strategy
- ✓ Provide feedback to all stakeholders
- ✓ Recognize good / bad performance
- ✓ The system should support individual development
- ✓ Have simple and efficient IT support behind the system

A performance management system will be a motivational tool if measuring and evaluating performance is an essential part of every manager's daily activities.

It is important that the expectations of the employees are not only known, but measurable and transparent, because this way the fulfillment of the set goals can be a realistic expectation.

## **4. SUGGESTIONS FOR MEASUREMENT OF PERFORMANCE**

Performance appraisal and the incentive system are extremely closely linked. Depending on the performance appraisal, employees will receive salary increases and bonus payments. However, these incentives are not automatic, but require extra things to be done to achieve them, as well as contributing to the achievement of overall company goals.

It is important to emphasize that the performance requirements of managers and employees generally differ. This is because the manager can be expected to contribute more to the overall company goals.

### **4.1. Deriving goals from the strategy - Developing indicators**

The target setting and cascading process should guarantee:

- Alignment of targets of the entire audience → ensures the targets are aligned horizontally and vertically throughout the organization
- Objectiveness of targets → ensures the objectiveness of targets by methodically drilling down the Company targets through the whole organization
- Transparency of targets → process and tools provide transparency on the targets and performance of every employee part of the target audience
- Link with rewards
- Performance appraisal

#### **4.1.1. Target setting**

Target setting is the process of identifying and defining targets for the company as a whole, according to its short and long-term objectives.

The primary source of performance goals is the strategy and business plan. These are prepared by the members of management together, in case of business plan every year. The preparation of the strategic plan is also a joint work, the table below was compiled using the inputs provided by the heads of the departments, with the help of the CFO.

The primary and most important function of a KPI indicator system is to measure the achievement of corporate strategy objectives. It is not enough if the leaders and owners of the

organization determine the company's strategy and mission, the goals to be achieved, it is necessary to measure them. If we do not measure the achievement of goals, we will not be aware that the business is heading in the right direction and is doing so with the expected performance.

Performance indicators are accurate and objective measures of success that can provide direction for the future. The success of a business must be measured by objective methods. Key performance indicators show whether a particular business strategy has been successful or has just failed, what ideas need to be changed in the future and on which to build.

In the case of Grand Tokaj Zrt., we tried to create a balance between the indicators, although our goal is not to introduce BSC, we have developed the KPI system based on its principles.

In addition to financial indicators, customer perspectives, internal operational and learning-related indicators play an important role.

We can define a maximum of two or three indicators for each strategic goal, which in the case of Grand Tokaj Zrt. we have defined as follows:

Table 3

| Strategic goal                                                                | Indicators                                                          |                                                                                                                                                  |                 | Target values for indicators |            |            |            |           |
|-------------------------------------------------------------------------------|---------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|------------------------------|------------|------------|------------|-----------|
|                                                                               | KPI                                                                 | KPI definition                                                                                                                                   | Unit of measure | 2020                         | 2021       | 2022       | 2023       | 2024      |
| 1. Profitable operation                                                       | Profit after tax                                                    | Profit after tax according to the income statement>=                                                                                             | Mft             | -592,7                       | -350,5     | -240,3     | -56,4      | 99,7      |
| 2. Improving the prestige of Grand Tokaj and the wine region                  | Increase customer satisfaction                                      | Current year customer satisfaction% - Base year satisfaction%                                                                                    | %               | -                            | 2%         | 2%         | 2%         | 2%        |
|                                                                               | Number of awards won                                                | Number of prizes won at international wine competitions >=                                                                                       | pcs             | 2                            | 2          | 2          | 2          | 2         |
|                                                                               | Number of potential consumers reached through educational campaigns | Number of consumers reached by registration during educational campaigns launched on Facebook and Instagram platforms>=                          | pcs             | 30000                        | 33000      | 36300      | 39930      | 43923     |
| 3. Production of high quality Tokaj wines with good price/value ratio         | Sales growth (wine sales)                                           | Sales revenue for the current year / Sales revenue for 2019 * 100-100>=                                                                          | %               | -1,10%                       | 8,10%      | 18,00%     | 28,40%     | 38,50%    |
|                                                                               | Increase margin ratio (wine)                                        | ((Current year coverage amount / Current year sales revenue) * 100-100) - ((Base year coverage / base year sales revenue) * 100-100)             | %               | 1%                           | 1%         | 1%         | 1%         | 1%        |
| 4. Strong marketing and market building                                       | Minimal marketing spend as a percentage of sales                    | Marketing expenditure in the current year / Sales revenue in the current year * 100>=                                                            | %               | 5,00%                        | 5,00%      | 5,00%      | 5,00%      | 5,00%     |
|                                                                               | Increase in the number of foreign partners                          | Number of foreign partners in the current year / number of foreign partners in 2019>=                                                            | %               | 2%                           | 4%         | 6%         | 8%         | 10%       |
| 5. Increase sales volume, boost exports and local sales                       | Quantity of bottled wine sold                                       | Quantity of bottled wine sold>=                                                                                                                  | liter           | 3 946 726                    | 4 276 997  | 4 596 994  | 4 899 390  | 5 000 000 |
|                                                                               | Export share                                                        | Export sales revenue / Total sales revenue * 100>=                                                                                               | %               | 55%                          | 56%        | 58%        | 59%        | 60%       |
| 6. Increase the average sales price                                           | Average net transfer price of bottled wines                         | Turnover from bottle sales / volume of bottle sales in liters>=                                                                                  | Ft/liter        | 682,9                        | 688,9      | 700        | 714,6      | 729,4     |
|                                                                               |                                                                     |                                                                                                                                                  |                 |                              |            |            |            |           |
|                                                                               | Non-bottled wine sales ratio                                        | Volume of non-bottled wine sales in liters / Total wine sales in liters <=                                                                       | %               | 10%                          | 10%        | 10%        | 10%        | 10%       |
| 7. Cheaper, cost-effective operation                                          | Average margin per 1 liter of wine sold (Margin I)                  | Coverage of wine sold in the current year / volume of wine sold in the current year >=                                                           | Ft/liter        | 111                          | 147,6      | 157        | 167,5      | 178,4     |
|                                                                               | Sales per capita                                                    | Net sales for the current year / average statistical headcount for the current year >=                                                           | Ft/person       | 26 953                       | 31 013     | 34 976     | 39 341     | 43 908    |
| 8. Narrowed, uniform, fresh-looking product line                              | Number of bottle types sold                                         | Number of bottle types sold in the current year (0.5 and 0.25l version counts as 1)                                                              | db              | 15                           | 14         | 13         | 12         | 10        |
| 9. Sustainable, environmentally conscious farming and viticulture             | Chemical oxygen demand from wastewater                              | Annual average chemical oxygen demand of effluent <=                                                                                             | mg/l            | 150                          | 150        | 150        | 150        | 150       |
|                                                                               | Volume of renewable energy production                               | Amount of electricity produced from renewable energy sources in the current year                                                                 | KW              | -                            | -          | 120 000    | 120 000    | 120 000   |
| 10. Purchase of grapes on the basis of wine market requirements               | Quantity of wine stock                                              | Quantity of closing stock for the current year <=                                                                                                | liter           | 7 591 480                    | 7 514 483  | 7 117 489  | 7 118 099  | 7 051 368 |
| 11. Balanced partnership with producers                                       | Satisfaction of winegrowers                                         | Accurate% increase in producer satisfaction measured on the basis of questionnaires received compared to the base year data                      | %               | -                            | 1%         | 1%         | 1%         | 1%        |
| 12. Long-term stable producer partnership                                     | Producer loyalty                                                    | Number of producers contracted in the current year who have been partners for at least 3 years / Total contracted partners in the current year>= | %               | 50%                          | 50%        | 50%        | 50%        | 50%       |
| 13. Completion of investment program                                          | Target date for completion of the Processing Plant                  | Target date for completion of the Processing Plant                                                                                               | date            | 2021.12.31                   | 2021.12.31 | -          | -          | -         |
|                                                                               | Target date for the reconstruction of the finished goods warehouse  | Target date for the reconstruction of the finished goods warehouse                                                                               | date            | 2023.12.31                   | 2023.12.31 | 2023.12.31 | 2023.12.31 | -         |
|                                                                               | Target date for completion of the solar park                        | Target date for completion of the solar park                                                                                                     | date            | 2021.12.31                   | 2021.12.31 | -          | -          | -         |
| 14. Introduction and continuous updating of a new corporate governance system | MOZAIK introduction target date                                     | Live Start - The planned date of commissioning of each module                                                                                    | date            | 2021.01.01                   | -          | -          | -          | -         |
| 15. Active participation in R&D and specialist training                       | Number of concluded R&D/viticultural-winemaker training agreements  | Number of cooperation agreements with educational institutions                                                                                   | pcs             | -                            | 1          | 2          | 3          | 3         |

Source: Strategy plan of Grand Tokaj Zrt. (own construction)

The KPIs and values in the table allow the development of management objectives for the areas on an annual basis.  
The indicators assigned to strategic goals and its target values determine the performance requirements of managers.

**Sample for CEO objectives**

*Table 4*

| Level of objectives | Weight in full premium |       | Weight within the level | Available premium (Ft) | KPI                       | Definition                                                                                                                            | Target value | Partial completion                                              |
|---------------------|------------------------|-------|-------------------------|------------------------|---------------------------|---------------------------------------------------------------------------------------------------------------------------------------|--------------|-----------------------------------------------------------------|
| Economic goals      | 50%                    | I/1.  | 15%                     | 0                      | Net income                | Total actual net sales for the current year / Total planned net sales for the current year                                            | >=100%       | if >=90%, but <=95%, then 5%<br>if >=95%, but <=100%, then 10%  |
|                     |                        | I/2.  | 15%                     | 0                      | Export dynamics           | [Current year export sales / Base period export sales] / [Current year sales / Base period sales]                                     | >=102,6%     | if >=100%, but <=102,6%, then 10%                               |
|                     |                        | I/3.  | 20%                     | 0                      | EBITDA                    | Current year fact EBITDA / Current year planned EBITDA                                                                                | >=100%       | if >=90%, but <=95%, then 10%<br>if >=95%, but <=100%, then 15% |
|                     |                        |       | 50%                     | 0                      |                           |                                                                                                                                       |              |                                                                 |
| Professional goals  | 50%                    | II/1. | 15%                     | 0                      | Investment project I.     | ..... completion by..... at the latest, according to the agreed business plan                                                         | .....12.31.  | none                                                            |
|                     |                        | II/2. | 15%                     | 0                      | Strategic project I.      | Completion of the technological reconstruction of the processing plant by ..... at the latest according to the approved business plan | .....12.31.  | none                                                            |
|                     |                        | II/3. | 20%                     | 0                      | Headcount and salary plan | Adherence to the current year's headcount and salary plan                                                                             | <=100%       | 10% if one of the ingredients cannot be kept                    |
|                     |                        |       | 50%                     | 0                      |                           |                                                                                                                                       |              |                                                                 |

|                              |      |  |       |
|------------------------------|------|--|-------|
| Total                        | 100% |  | 1     |
| Premium (% of annual salary) |      |  | 50,0% |

**Sample for CFO objectives**

*Table 5*

| Level of objectives | Weight in full premium |       | Weight within the level | Available premium (Ft) | KPI                          | Definition                                                                           | Target value | Partial completion                                              |
|---------------------|------------------------|-------|-------------------------|------------------------|------------------------------|--------------------------------------------------------------------------------------|--------------|-----------------------------------------------------------------|
| Economic goals      | 50%                    | I/1.  | 15%                     | 0                      | Costs of Economic department | Igazgatóság tárgyévi tényleges költségei/tárgyévi tervezett költségei                | <=100%       | none                                                            |
|                     |                        | I/2.  | 15%                     | 0                      | Personnel expenses           | Personnel expenses for the current year / Planned personnel expenses                 | <=100%       | if >=100%, but <=103%, then 10%                                 |
|                     |                        | I/3.  | 20%                     | 0                      | EBITDA                       | Current year fact EBITDA / Current year planned EBITDA                               | >=100%       | if >=90%, but <=95%, then 10%<br>if >=95%, but <=100%, then 15% |
|                     |                        |       | 50%                     | 0                      |                              |                                                                                      |              |                                                                 |
| Professional goals  | 50%                    | II/1. | 15%                     | 0                      | Strategic project            | Successful launch of the selected ERP system from .....                              | .....12.31.  | none                                                            |
|                     |                        | II/2. | 15%                     | 0                      | Operational project          | ..... completion by..... at the latest, according to the agreed business plan        | .....12.31.  | none                                                            |
|                     |                        | II/3. | 20%                     | 0                      | Cash Flow                    | Current year fact closing cash position / current year planned closing cash position | >=100%       | if >=90%, but <=95%, then 10%<br>if >=95%, but <=100%, then 15% |
|                     |                        |       | 50%                     | 0                      |                              |                                                                                      |              |                                                                 |

|                              |      |  |       |
|------------------------------|------|--|-------|
| Total                        | 100% |  | 0     |
| Premium (% of annual salary) |      |  | 40,0% |

Source: own construction

Based on the above pattern, the objectives of senior managers can also be developed. For example, for the Chief Winemaker, the following KPIs are suggested:

→ Harvest costs:  $\text{Total harvest costs for the current year} / \text{Planned harvest costs for the current year}$

→ Winery general costs:  $\text{Total winery costs for the current year} / \text{Total planned wine costs for the current year}$

We can also formulate the implementation of investment and strategic projects as a professional goal, as well as a professional goal specifically for winery, e.g. total oenological losses or variable oenological costs per liter of wine.

In followings I derive the performance requirements for sales managers of Grand Tokaj for the strategic purpose “Increasing sales volume, boosting exports and local sales” shown in point 5. Every individual within the target audience receives:

→ 3 corporate targets which are *common* to all individuals to guarantee solidarity

→ 3 individual targets which are *explicit individual contributions*.

### **1. Corporate goals: Weight within all goals is 30%**

#### **✓ Fulfillment of the sales revenue plan from the sale of bottled products**

*Calculation:*  $\text{current year total sales} / \text{current year planned total sales}$ . The weight within the corporate goals is 50%.

*Overfulfilment:* 50% if the target value is exceeded by at least 5% and 100% if the target value is exceeded by at least 10%.

#### **✓ Export dynamics**

*Calculation:*  $\{\text{current year wine sales revenue} / \text{base period export wine sales revenue}\} / \{\text{current year company level wine sales revenue} / \text{current year company level planned wine sales revenue}\}$ . The weight within the corporate targets is 20%.

*Overfulfilment:* none

#### **✓ Fulfillment of the sales revenue plan from the sale of bottled products for domestic or export purposes**

*Calculation:*  $\text{total domestic} / \text{export bottle sales for the current year} / \text{planned domestic} / \text{export bottle sales for the current year}$ ). The weight within the corporate targets is 40%.

*Overfulfilment:* 50% if the target value is exceeded by at least 5% and 100% if the target value is exceeded by at least 10%.

**2. Individual goals: where the evaluation is based on the sales indicators of the customers under their own direct management. The weight within all targets is 70%.**

✓ **Net income**

*Calculation:* total sales in the current year in own customers / total planned sales in the current year in own customers). The weight within individual goals is 40%.

*Overfulfilment:* 50% if the target value is exceeded by at least 5% and 100% if the target value is exceeded by at least 10%.

✓ **Net margin weight**

*Calculation:* total net margin of own client / total planned net margin of own client. The weight within individual goals is 20%.

*Overfulfilment:* none

✓ **Sales to new customers**

*Calculation:* total sales revenue from contracted new customers in the current year / total turnover for the current year for own customers. The weight within individual goals is 40%.

*Overfulfilment:* 50% if the target value is exceeded by at least 5% and 100% if the target value is exceeded by at least 10%.

In recent months, we have been thinking together with the controller colleagues and we suggest that the following KPIs should be considered for each division when developing the goal system for senior managers.

➤ **ECONOMIC INDICATORS**

- Net sales revenue
- Operating profit
- EBITDA
- Profit before tax
- Value of personnel expenses
- Value of investments
- Value of equity
- Net working capital value
- Net financial position
- Average headcount

- Closing staff
- EBITDA per capita

➤ **SALES INDICATORS**

- Monthly bottled wine stock
- Domestic sales volume (bottled)
- Revenue from domestic sales (bottled)
- Volume of foreign sales
- Foreign sales revenue
- Total sales volume (bottled)
- Revenue from total sales (bottled)
- Domestic sales volume (non-bottled)
- Domestic sales revenue (non-bottled)
- Average price of all sales (bottled)
- Average margin of all sales (bottled)
- Marketing spending as a proportion of sales revenue
- Export share
- Ratio of non-bottled wine sales

➤ **WINERY AND BOTTLING PLANT**

- Closing stock (non-bottled)
- Bottled production
- Bottling cost per bottle
- Cost of bottling material per bottle
- Cost of packaging material per bottle
- Bottling cost per bottle (without depreciation)
- Maintenance cost per bottle
- Electricity cost per bottle

The incentive system and annual performance targets for senior management should be aligned with long-term goals, while the goals for lower leaders should be linked to field plans and operational tasks. Non-executive employees can be evaluated in a different way.

#### 4.1.2. Target cascading

Target cascading is the process of breaking up the company targets into entity targets and defining individual targets for employees.

- **Entity targets** are directly cascaded down from the Company targets
  - The Company targets are split over the different entities
  - The entities will split their targets into targets for the sub-entities (if part of the target audience), and so forth
- **Individual targets** are set by the direct supervisor in collaboration with the dotted line supervisor

Performance appraisal is the assessment and evaluation of the performance of the employees working in the organization for a given period. Its purpose is to evaluate the activities, work, relationships of colleagues and to promote development. Performance appraisal as a tool for motivation can be used well

- to determine wages,
- to determine future potentials and developments,
- for the examination and analysis of performances.

However, performance measurement must be preceded by job specifications, where we specify the following:

1. **Job objective:** A brief summary of why the job exists and how it contributes to organizational goals.
2. **Main responsibilities:** 6-8 main areas of responsibility, expected results (outputs) from the job holder. Management responsibilities are summarized in one point.
3. **Performance indicators:** The quality performance indicators defined by area of responsibility are intended to provide the job holder with an accurate understanding of when he or she is performing well in the tasks assigned to him or her.
4. **Requirements:** The managerial and professional knowledge, experience, knowledge and skills required to fill the position.

The KPI objectives of physical winery employees are indicators to which they directly contribute, e.g.

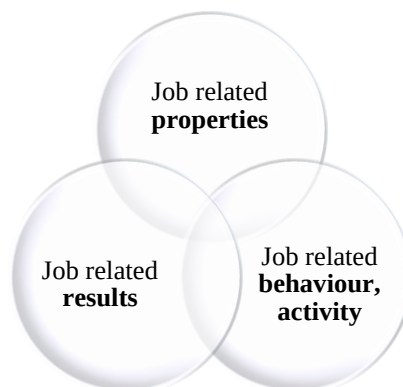
- Waste number
- Bottling loss (bottle, label, stopper, screw cap, etc.)
- Bottling cost per bottle
- Packaging material cost per bottle

However, the evaluation of subordinate employees can be done by other methods.

In practice, the simplest way to evaluate employees is for the manager to gather the aspects, put them on paper, and perform the evaluation. He gives the same list of questions to the employee, who also does how he sees himself. This method can be extended by reviewing, evaluating, and comparing the results of the same questionnaire by some colleagues and subordinates at the same level.

When the written evaluation is complete, the manager and subordinate sit down to discuss. This is the most important point of employee evaluation is to know what we are talking about, to know how the other sees it. Here we can talk about progress and development.

So we value the person, the process and quality of work and the results achieved. This makes the system complex.



*Figure 5: Dimensions of employee performance appraisal (Source: Veresné, 2011)*

### 4.1.3. Evaluation

In the followings, I would like to present a sample of individual competence assessment form.

Table 7

|                                                                | 5 | 4 | 3 | 2 | 1 |
|----------------------------------------------------------------|---|---|---|---|---|
| <b>I. Properties</b>                                           |   |   |   |   |   |
| Does the qualification meet the requirements of the job?       |   |   |   |   |   |
| Does the overall work ethic meet organizational expectations?  |   |   |   |   |   |
| Is he/she willing to improve him/herself?                      |   |   |   |   |   |
| Does he develop his expertise himself?                         |   |   |   |   |   |
| Does he know the exact tasks of his job?                       |   |   |   |   |   |
| Does he know exactly the expectations in his job?              |   |   |   |   |   |
| Is he usually able to solve the tasks on his own?              |   |   |   |   |   |
| If he gets a task, can his manager trust him to complete it?   |   |   |   |   |   |
| If he gets an extra task, can he solve it too?                 |   |   |   |   |   |
| Can he focus well on his work (scattering!)?                   |   |   |   |   |   |
| Can he clearly explain the expectations to the employees?      |   |   |   |   |   |
| Is he able to evolve with new things, new procedures?          |   |   |   |   |   |
| In case of a complex task, does he see it and the solution?    |   |   |   |   |   |
| Is he open to new IT solutions?                                |   |   |   |   |   |
| Does he encourage (persuade) his co-workers to love the news?  |   |   |   |   |   |
| Can he work in a team?                                         |   |   |   |   |   |
| Is he able to represent his own interests?                     |   |   |   |   |   |
| Can he represent the interests of his organization?            |   |   |   |   |   |
| Does he appear exactly at work?                                |   |   |   |   |   |
| <b>II. Behavior</b>                                            |   |   |   |   |   |
| Can he behavior be an example to others?                       |   |   |   |   |   |
| Does he keep his promises?                                     |   |   |   |   |   |
| Is what he says can be trusted uncontrollably?                 |   |   |   |   |   |
| Does he speak to his co-workers with respect and correct tone? |   |   |   |   |   |
| Is he patient in conflict situations?                          |   |   |   |   |   |
| Relationships with co-workers?                                 |   |   |   |   |   |
| His relationship with his manager?                             |   |   |   |   |   |
| Relationship with subordinates?                                |   |   |   |   |   |
| Can he find the right solution in a conflict situation?        |   |   |   |   |   |
| In case of a problem, does he report it immediately?           |   |   |   |   |   |
| In case of a problem, does he express his criticism?           |   |   |   |   |   |
| Is he tolerant of hid problematic co-workers?                  |   |   |   |   |   |
| Can he help his co-workers when they need them?                |   |   |   |   |   |
| In case of a problem, can he decide for himself?               |   |   |   |   |   |
| Is he missing unreasonably?                                    |   |   |   |   |   |
| Does he participate in joint programs outside working hours?   |   |   |   |   |   |
| <b>III. Results</b>                                            |   |   |   |   |   |
| Does he follow the general requirements for his job?           |   |   |   |   |   |

|                                                                                      |  |  |  |  |  |
|--------------------------------------------------------------------------------------|--|--|--|--|--|
| Does he perform the necessary administrative tasks precisely?                        |  |  |  |  |  |
| Can he judge when he can cross the prescription limits?                              |  |  |  |  |  |
| Can he do his job on his own?                                                        |  |  |  |  |  |
| Does it fundamentally meet the performance expectations expected of his job?         |  |  |  |  |  |
| Can he provide more than the expectations set?                                       |  |  |  |  |  |
| Does he have measurable savings (in material, time)?                                 |  |  |  |  |  |
| Is he able to organize his own work?                                                 |  |  |  |  |  |
| Is he able to organize the work of others?                                           |  |  |  |  |  |
| Is he able to pass on his knowledge to his co-workers?                               |  |  |  |  |  |
| Does he feel the organizational (common) goals are his own?                          |  |  |  |  |  |
| Does he perform the issued tasks exactly?                                            |  |  |  |  |  |
| Does he complete the assigned tasks on time?                                         |  |  |  |  |  |
| Does he perform his duties in good quality?                                          |  |  |  |  |  |
| Is the amount of waste generated during his work adequate?                           |  |  |  |  |  |
| Does he hand over his daily work so that others can continue it without any problem? |  |  |  |  |  |
| In case of a problem, can he suggest a solution on his own?                          |  |  |  |  |  |
| If a technical problem occurs, can he resolve it?                                    |  |  |  |  |  |
| Does he take full responsibility for his work?                                       |  |  |  |  |  |
| Does he admit his mistakes?                                                          |  |  |  |  |  |
| Can he fix his mistakes himself?                                                     |  |  |  |  |  |

(Evaluation: 5-excellent; 4-good; 3-medium; 2-weak; 1-bad)

*Source: Fábán,2008.*

The following aspects will be assessed during the evaluation:

### **General**

- Properties
- Behavior
- Results

### **Performance evaluation**

- Quality of work
- Job knowledge
- Personal qualities
- Cooperation
- Reliability
- Initiative

### **Skill assessment**

- Purposefulness
- Understanding
- Organization

- Decision
- Creativity

When the written evaluation is complete, the manager and subordinate sit down to discuss. This is the most important point of employee evaluation is to know what we are talking about, to know how the other sees it. Here we can talk about progress and development. During the discussion, the positives, the negatives and especially the discrepancies are discussed. It is advisable to conduct these discussions on a regular basis, periodically, according to the best practice method, annually.

The past part of the conversation may relate to wage increases. This way the employee can find out why he or she is getting this salary. In addition to being evaluative the conversation should also be a presentation for the future. In practice, this is done by identifying areas for development and goals for the employee, and the leader provides guidance and assistance on how to move forward in development (e.g., training).

With this evaluation, we can also achieve that the employee can classify himself in the real value system. We come across a lot of times when an employee underestimates or overestimates their performance. If there is no jointly formed organizational opinion in this, it can be very demotivating to the person. (Fábián,2008.)

Performance appraisal is successful and motivating for the employee if it is linked to some kind of incentive system.

### **The evaluation conversation provides an opportunity**

- the professional background, experience, career and mobility ideas of the subordinates; to discuss its strengths and opportunities for development
- by having more accurate information about subordinates and their ideas, to make more informed recommendations and decisions during the discussions
- evaluated staff to provide information to their managers, including their career ideas
- by discussing career development opportunities to increase and retain employee engagement

## **Personal development planning**

- Our employees must first want to learn and take personal responsibility, take individual initiatives for their development with the support of their immediate superior.
- Managers need to take an active and responsible approach to developing their subordinates:
  - Always focus on up to 1-2 priority areas and directions
  - The focus of development should be made clear:
    - current performance or long-term career
    - knowledge acquisition / skill development or attitude
    - managerial, methodological or functional learning
- The goal and the necessary steps must be defined; progress needs to be measured and monitored regularly
- Learning grows primarily through experience, complemented by the supervision of a manager and more experienced staff. (Training is not the first solution to fill the gaps.)
- Development is the responsibility of the supervisor.

### **4.1.4. Timeliness of performance management**

It is proposed to divide the annual performance and capability assessment into three parts:

#### ***January - February: "Goals"***

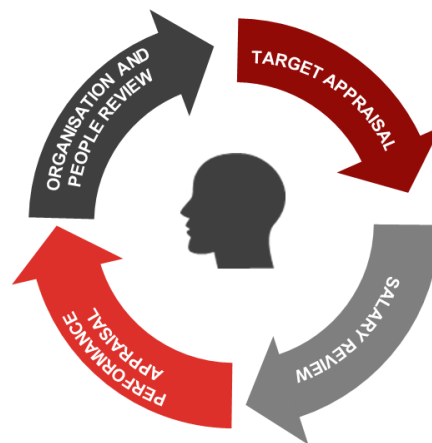
- Review of the fulfillment of last year's goals (at individual and company level)
- Setting goals for the next year (individual and corporate)
- Salary review, wage increase decisions

#### ***June - August: "Competence analysis"***

- Assessment of global competencies
- Assessment of job-specific competencies
- Identification of areas to be developed
- Definition of development plan (action plan)
- Mapping mobility and career ideas
- Determining personal potentials (is he/she in the right place in the organization?)
- Summarizing ability and skill analysis

***September - November: "Organizational and Personnel Overview"***

- Preparation of matrices, comparison of performance and skills - Review and categorization of employee performance and their additional potential
- Review of substitutability, mapping of aftergrowth possibilities
- Compilation of development plans (due to promotion or underperformance)



*Figure 6: Cycle of performance management (own construction)*

## SUMMARY

The success of an organization depends on several factors, but human capital is the most important factor in maintaining its competitiveness and the development of the company, as the optimal use and coordination of other resources also depends on them.

Employees need to receive regular and as objective feedback as possible on the quantity, quality and conduct of the work they have done, in order to confirm the effectiveness of their work. Performance appraisal is a very important event in the life of employees, when their work is appraised, goals for the next period are set, the issue of salary increase can be decided, further career opportunities can be discussed, and last but not least, this appraisal can serve as an employee satisfaction test. A well-thought-out performance appraisal can provide a foundation for the entire process of human resource management from selection through retention, career management, training and motivation to dismissal.

Performance appraisal is a versatile, complex system that plays a central role in the field of human resource management.

Nevertheless, it can provoke resentment among employees. For example, the introduction of a performance appraisal system will definitely bring about change in the organization, so it can provoke resistance from employees. The extent of this depends largely on how the system is designed, in particular employee involvement, the implementation process, communication and organizational culture, as well as how much change it requires in the daily lives of employees and how well it meets the expectations of those involved.

The relationship between actual performance and its evaluation may not be visible if it does not affect other areas of human resources, such as wage changes or training.

There are two important aspects to the assessment:

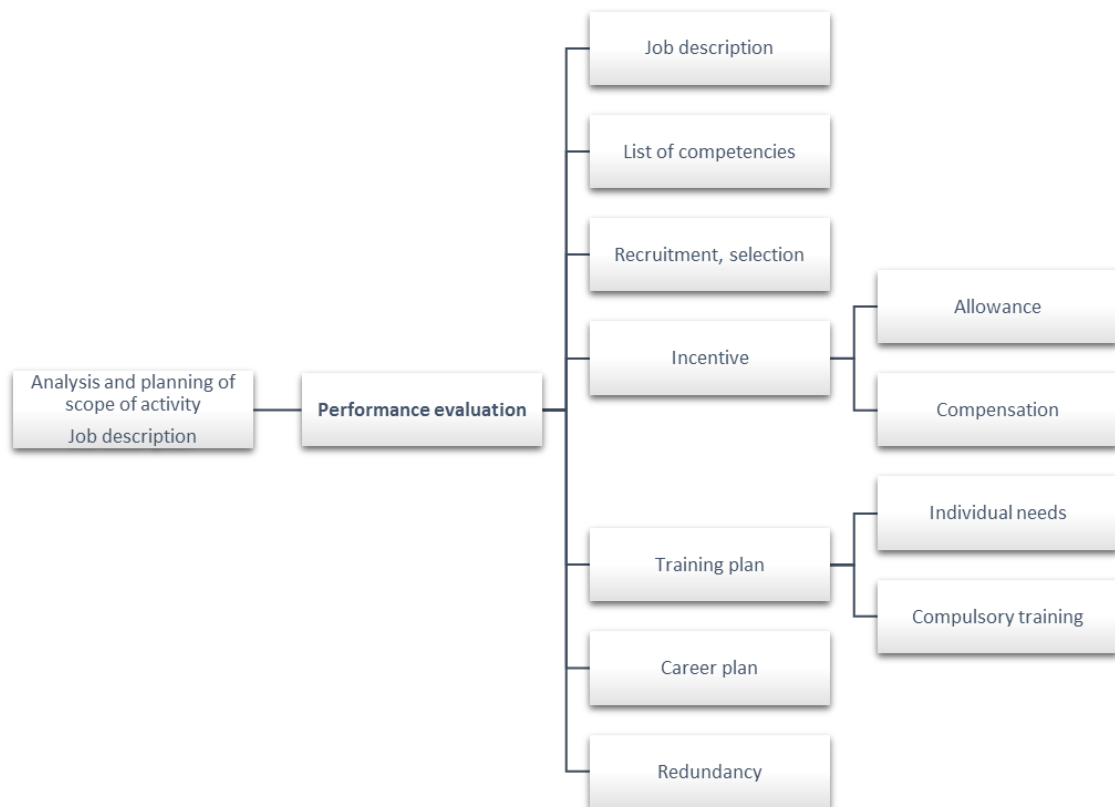
- provide user-friendly results for the organization and leaders;
- acceptable to those concerned.

How useful an evaluation system is for an organization is best shown by the areas of use of the results. If the results are widely applicable, they are organically related to the basic functions of human resources, then the system can be considered useful and thus taken seriously.

A good starting point for performance appraisal is one of the basic defining elements of the organization, the scope of activity, and related to this the analysis and planning of the scope, as well as the job description made from it. The corporate competency list or competency dictionary, if used in the organization, can also be a starting point.

Depending on the process and complexity of the evaluation, its results can be used in several areas. During the evaluation discussion, managers have the opportunity to supplement the existing job description and competency list, to clarify the competence dictionary, as misunderstandings, different interpretations, or additions may be necessary based on the opinion of the employees. (Lepp, 2012.)

Additional applications are illustrated in the figure below.



*Figure 7: Connection of performance evaluation to other HR functions  
(own construction, Source: Lepp, 2012.)*

Performance appraisal can determine the necessary criteria for recruitment and selection, as well as competencies also in relation to job refinement. During the evaluation, the issue of salary increases, bonuses and other compensations for the next period may be decided.

The manager can assess and decide on the basis of the information whether his / her subordinate needs further training, compulsory or related competence development training, or the employee can indicate if he / she wants to train himself / herself.

Based on the organizational chart, a personalized career plan can be developed in consultation. It can also provide information for redundancies based on an annual or multi-year summary assessment, depending on company policy.

Performance appraisal plays a key role in human resource management functions and, when properly designed and documented, can provide a good foundation for achieving an organization's goals. Employees demand feedback on their work from the person who is competent for it, and they deserve to be honored by their managers with an honest, realistic assessment. An important issue for both parties is the use of the results of the performance appraisal, as this will make it acceptable and thus the employees will do so carefully.

## BIBLIOGRAPHY

- Kaplan, R.S. – Norton, D.P. (1996): The Balanced Scorecard – Translating Strategy Into Action, Harvard Business School Press Boston
- Kaplan, R.S. – Norton, D.P. (2000): The Strategy-Focused Organization – How Balanced Scorecard companies thrive in the new business environment, Harvard Business School Press Boston
- Kaplan, R.S. – Norton, D.P. (2004): Strategy Maps – Converting intangible assets into tangible outcomes, Harvard Business School Press Boston
- Niven, P.R. (2006): Balanced Scorecard Step-by-step: Maximizing Performance and Maintaining Results, John Wiley & Sons, Inc.
- Veresné dr. Somosi Mariann (2013): Teljesítményalapú szervezetátalakítás elmélete és módszertana, Miskolci Egyetemi Kiadó
- Veresné Somosi Mariann- Hoga Orsolya (2011) Teljesítménymenedzsment Nemzeti Tankönyv Kiadó, Budapest

### **Downloaded online materials:**

- Bitó, J. – Czerny J.: A Balanced Scorecard alkalmazása egy termelő vállalat létesítménygazdálkodási funkciójára, Vezetéstudomány, XLI. ÉVF. 2010/1.
- Bokor A., Szóts-Kováts K., Csillag S.: Emberi erőforrás menedzsment, 2014.
- Dara Péter: Teljesítménymenedzsment, 2013.
- [https://regi.tankonyvtar.hu/hu/tartalom/tamop412A/0007\\_e1\\_teljesitmenymenedzsment\\_scor\\_m/irodalomjegyzek\\_wcxAORtx2TcDwfah.html](https://regi.tankonyvtar.hu/hu/tartalom/tamop412A/0007_e1_teljesitmenymenedzsment_scor_m/irodalomjegyzek_wcxAORtx2TcDwfah.html)
- Fábián, E. (2008): Dolgozói kiértékelés (teljesítményértékelés), Magyar Grafika - <http://epa.oszk.hu>
- Gergely, É. (2012): Teljesítménymenedzsment vizsgálatok egyes profitorientált szervezetek és polgármesteri hivatalok humán erőforrás gazdálkodásában, Doktori (PhD) értekezés, Debrecen
- Gyökér, I. (2003): Teljesítménymenedzsment, Oktatási segédanyag, Budapesti Műszaki és Gazdaságtudományi Egyetem
- Gyökér, I. (2005): Emberi erőforrás menedzsment, Oktatási segédanyag
- Imre, T.: Balanced Scorecard: Hogyan lehet valóban kiegyensúlyozottá tenni?, Vezetéstudomány, XXXV. ÉVF. 2004/3.

Karoliny, Károlyné (2005): Teljesítményértékelés a HR munka koronagyémántja, [www.munkaugyiszemle.hu](http://www.munkaugyiszemle.hu)

Kozma, M. - Kazainé Ó. A. (2014): Üzleti teljesítménymérés a sportban, avagy miként segítheti a sportszervezetek vezetőit a Balanced Scorecard koncepció a stratégia szerinti működésben, Budapesti Corvinus Egyetem, Vállalatgazdaságtan Intézet, 156. sz. Műhelytanulmány

Kucsma, D. (2018): Teljesítménymenedzsment, Tréning anyag, Miskolci Egyetem Gazdaságtudományi Kar

Lepp, K.: A teljesítményértékelés kapcsolata a humán erőforrás menedzsment különböző területeivel

Marbasic, I. – Marimon, F. (2019): A Simplified Balanced ‘Balanced Scorecard’, EAMR European Accounting and Management Review, Vol. 5, Issue 2, Article 1.

Milicz, Á.: Stratégiai menedzsment és a Balanced Scorecard rendszer az Edinburgh-i Egyetemen, Felsőoktatási Műhely

M.S Concord Tanácsadó (2014): Teljesítménymenedzsment rendszer kialakítása, Kézikönyv

Simconsult: Teljesítménymenedzsment - Útmutató teljesítménymenedzsment rendszer kialakításához, Szakértői anyag

Simconsult: Ösztönző bérrendszer - Munkakör - besorolás - bér – teljesítmény, Szakértői anyag

Wimmer, Á. (2002): Üzleti teljesítménymérés, Műhelytanulmány, Budapesti Közgazdaságtudományi és Államigazgatási Egyetem