

## Implementing Performance Management Systems in Organisations

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### Abstract

A performance management system, when implemented well, can contribute significantly to an organization's overall performance. However, there is limited literature in this context, and the present paper explores the current available sources of information on issues in implementing an effective performance management system. There are a significant number of studies discussing impact of certain variables like clarifying mission, vision and goal setting, performance based rewards arrangement and performance based training and development and review in individual and organizational level. This paper helps to clarify the concept of effective implementation of performance management systems to practitioners and attempts to identify further gaps in the literature, for future researchers interested in the area.

Keywords: - Performance Management, feedback, Performance Based Compensation, Setting Goal.

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### 1. Introduction:-

To begin with, it helps to understand what performance management is. Is it simply a differential pay system, and an objective –setting methodology or an appraisal process, or is it about performance career management? An actual and real performance management system should comprise all of the above. A successful performance management will give the means for evaluating and improving both individual and organization performance against pre-defined business strategies and objectives. In literature, there are various models and theories of performance management. Each conceptions of performance management system have its importance as a system for managing organizational performance, managing employee performance, and for integrating the management of organizational and employee performance. Performance management involves many stages of scrutiny, and is clearly linked to the evaluation HRM as well as performance management. Many terms refer to performance management initiatives in organizations, for example, performance based mission and goals, performance based reward system, planning, performance review and appraisal and training and development, and management by objectives (Heinrich, 2002).

Performance Management system is deliberated as the core of any “people management” issue in the organization (Cardy, 2004). It encompasses the entire relationship of the organization with its

employees. Performance Management is the method of generating a work atmosphere where people are encouraged to perform to their chock-full potential and rewarded for their effectiveness. Performance Management is a nonstop process of identifying, assessing, measuring, and developing the performance of individuals and teams and aligning performance with the strategic goals of the organization. Performance management programmes arguably benefit both their organisations and their employees, and can provide proper individual feedback and collated organisational data which can be used for HR planning and programme evaluation purposes (Nankervis, a. R. 2006). Basically performance management system has two components.

**Nonstop Process:** Performance management is enduring process work in the organization and involves a never-ending process of setting organization's goals and objectives, observing performance, and giving and receiving on-going development and feedback.

**Alignment with Strategic Vision:** Performance management requires that managers/ supervisors ensure that employee's activities and outputs are congruent with organizational goals and objectives.

The performance management system as are cognizable and identifiable theme for academic study and research arguably began in the late 1980s (Kaplan, R. S., & Norton, D. P. 2001; Aguinis, 2009). Ever since, much research has been carried out and industrial initiatives have been undertaken in several fields: logistics management, marketing, human resources management and operations management among the others (Busi, M., & Bititci, U. S., 2006; Aguinis & Pierce, 2008)

## **2. Objective:-**

The main objective of this paper is to methodically analyze existing knowledge gaps in order to develop a better understanding of the implementing of performance management system's process. Literature from studies on how practices of employee management have evolved and the effectiveness of current performance management strategies were examined and discuss.

## **3. Research methodology**

Research in the field of performance management is increasingly being characterized by an applied focus and the growth in academic and corporate interest in performance management has mirrored the development of actual performance management practice. Practical and action research and people performance based study strategies seem to be the most appropriate and most widely used approaches in strategic human resource management research, facilitating reduce the gap between theory and practice. The growing highlighting in the field of performance management is posing numerous challenges on the way to do research. The strength point of practical research is that it combines existing knowledge from previous research with experience from the organization(s) involved. Researchers must have or build an a priori extensive knowledge ground to support thorough understanding of the research problem and its implications in its context (Nankervis, a. R. 2006).

Writing a literature review is often considered to be one of the most difficult tasks a student will undertake and is often the most significant part of the academic contribution of essays and theses (Gabbott, M. 2004). As proposed by (Rowley and Slack 2004), we decided to use professional and academic practitioner journal articles (like Sage publication, Taylor& Francis , Emerald Publication, Human Resource Management Review etc. )and project reports to design the literature review, selecting up-to-date themes and identifying recent developments then we decided to use the outcomes of this first

analysis as a guideline for the interdisciplinary review of up-to-date literature and Methodological & Scientific articles in scholarly and research journals.

#### **4. Performance management system**

Performance management is a general term used to describe the continuous process of the identification of goals and objectives and provision of meaningful feedback as well as aligning individual goals and objectives to the strategic goals of an organization. Performance management system can also be designated as the process of creating a work environment or background in which people are enabled to perform to the best of their abilities. It involves a whole work system that begins when a job is defined as required and ends when an employee leaves the organization. Many scholars and promoters use the term ‘performance management’ as a substitution for the traditional appraisal system (Rao, T. V. 2008; Aguinis, 2009).

The origin of performance management can be traced to about six decades ago when there was the need to find the source of income justifications and a basis for determining employee wages and salaries based on performance (Ayiku, M. T. 2012). A classic example is given by (Aguinis & Piece ,2008) where managers use their ability to influence the behaviours and outcomes of their subordinates, for both tangible and intangible outcomes, like financial rewards and appreciation. This practice, however, did not go well with employees who were driven by learning and development to sharpen their skills, abilities and knowledge. This resulted in the need to put in place a firmer and more robust framework to alleviate the huge problem that the gap between the justification of pay and the development of skills and knowledge had generated. This resulted in a shift to a more comprehensive move towards management of employee performance, as understood in the late 1980’s in the Western and European countries (Ayiku, M. T. 2012). Existing Performance management Processes have become much more sophisticated, and have progressed to encompass variations on the usual line manager-employee appraisal to encompass areas such as competencies, 360 degree feedback (Rao, 2008), and development planning.

Authors	Performance management
Glendinning, 2002	The process through which companies ensure that employees are working towards organizational goals and a broad term that has come to stand for the set of practices which work is defined and reviewed, capabilities are developed, and rewards are distributed in organizations
Aguinis, 2009	The continuous process of the identification of goals and objectives and provision of meaningful feedback as well as aligning individual goals and objectives to the strategic goals of an organization.
Cardy, 2004	Performance management is a critical aspect of organizational effectiveness

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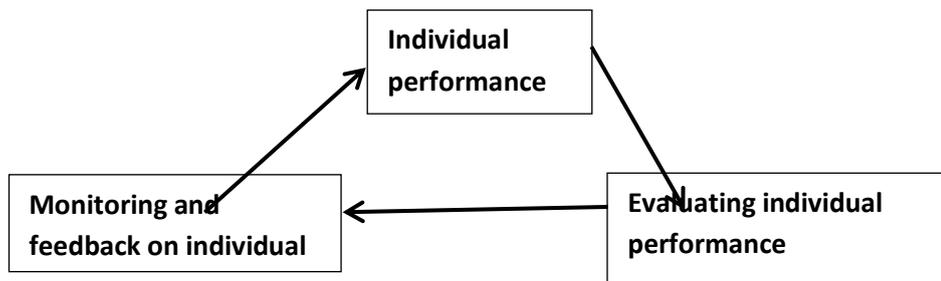
Pulakos, 2009	it is considered the “Achilles Heel” of managing human capital
Armstrong ,2000	The performance management process offers an opportunity for the integration of all HR strategies.
Verweire and Van Den Berghe (2004)	performance management is valuable only if the various components of the system are aligned
Borman & Motowildo, 1993	performance management, increased performance both task and contextual
Pulakos, E. D., Mueller-Hanson	Performance management is easy to describe but hard to operate and there is no such thing as “one best way” to carry it out.

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**5. Collected works criticism:**

Performance management has long been observed as one of the most critical areas of human resource development as well as human resource management (Cardy & Dobbins, 1994). The challenge is to be establishing an effective performance management system that eradicates the negative significances and generate the positive ones for individual and organization (Lawler, 1994,Nankervis, A. R., & Compton, R. L. 2006).

Thus, this analysis is to scan certain important issues of performance management system in shown in diagram, including defining performance management process such as employee or individual performance, evaluating and assessing employee performance and providing feedback and monitoring, to debate the problem in this performance management process and to developed the upcomingproposals for implementing effective performance management system for human resource development research scholar.



**The Performance Management Cycle**

Traditional performance management programs have become organization as hiding wallpaper. They exist in the background with little or no outlooks for impact. Yet despite its poor popularity, the concept of performance (at an individual and organizational level) is critical to business success for organization performance. It can’t just be ignored. The performance management process itself gets subjected to its own methods of setting criteria and rating performance against them – and fails.

We believe there are three reasons almost all current performance management systems are broken: 1. People have changed, 2. Technology has changed, and 3. People's relationship with their technology has changed so there are the three reasons performance management will in upcoming time.

### **5.1 Individual performance:-**

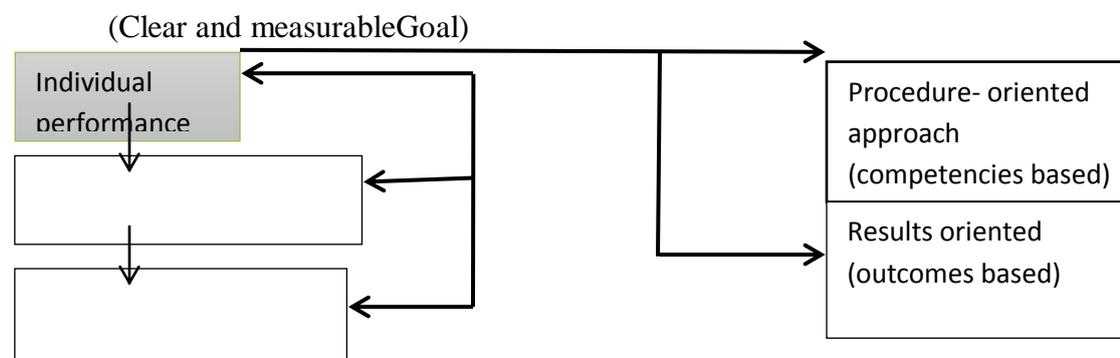
In this process of performance management system, identifying and assessing the performance as individual level measures required for appraisal determines performance standard as levels of performance that correspond to predestined level of individual and organization. From the Rater's point of observation, performance standards form the frame of reference within which to judge a rate's performance. In the process of performance management system, performance is normally represented as desired results, behaviors; attitudes mean focus on key result areas of individual assessment. Certain debate that performance has to do with the behaviors people exhibit in the course of generating results and with their basic competence or ability to perform platform on their job.

Verbeeten (2008) shows that the definition of clear and measurable goals is positively associated with quality performance as well as quantity performance based on organization's goal and objective. Goals are criterion for performance planning, appraisal, rewards and improvement. Without goals and objectives would be wasted on actives that's contributed very little to organization success and performance (Locke & Latham, 2002). In addition, the use of incentives is positively associated with quantity performance yet not related to quality performance. Bernardin and Beatty (1984) found that the performance as the record of outcomes produces on the specified job function, activity or behavior in a specified time period. They discuss that an assessment of an individual' competencies is not a measure of his/her performance and that a performance management system should focus on record of outcomes. Herman arguinis (2008) also discuss performance management system as an organization and individual basis.

There are two types of methodologies work in performance management system. First is procedure- oriented approach and the second is result oriented approach. The procedure oriented approach is concentration on the competencies as the knowledge; skills, attitudes, behavior etc. mean individual performance conclusions. This Competencies are defined gangs of knowledge, skill and abilities that show the capabilities the individual employee to performance specifics related to organizational outcomes and help in achieving the organizational targets or objective. Lawler (1994) discusses that competencies should monitor the very structure and performance based rewards system of organization of the future. In its place of this, competencies are supposed by some managers/supervisor to represent the voice of their strategic human resource plan sanctioning the organization it's strategic to match organizational needs. Competencies can be measured in two formulae, general and organic for the organization. Generic (non-specific) competencies is easy to imitate and thus does not provide a source of competitive advantage (Heneman & Ledford , 1998) and organic competencies derived the specific context of the individual, job and organization , to be useful as an indicator of performance and associated with organization strategy , value and business objective .As shown in Diagram,Result oriented approach is associated with organization outcomes and individual outcomes. (Heneman, R. L. ,2002) indicate that a performance as performance measures for performance management, outcomes

may measure performance relative to the organization’ financial goals, while competencies represents the means by which these are attainable.

After the above discussion, performance measures discussed on personality variables are more important in the performance management process and they do not consider other variables / explanations for achieving the organizational outcomes. Verbeeten (2008) focus on some performance management variables such as clear and measurable goal, feedback and monitoring, performance based rewards. In general the managers (top level) do not regard constraints on performance as very serious problems hindering the attainment of desired performance, where those performing the work constraints are a serious problem(London, M., Mone, E. M., & Scott, J. C. 2004).



Several studies examined attitudinal outcomes associated with goal-setting and performance management processes. Managers with a style that incorporates appraisal participation, goal setting, and feedback were viewed by employees as more effective counsellors and communicators of feedback, and as having a more favourable impact on employee motivation and productivity (Reed & Roberts, 1996, London, M., Mone, E. M., & Scott, J. C. 2004).

### Goal Setting and Participation

<u>Author</u>	<u>Findings</u>	<u>Application</u>
Locke & Latham (2002)	Participation in goal setting does not affect performance when goal difficulty is held constant.	Be sure the goals are challenging, whether individuals participate in setting their own goals or the goals are assigned
Latham & Saari (1979),	Setting specific, challenging goals results in higher performance than urging people to do their best	Be sure the goals are specific
Latham & Marshall (1982),		
Latham, Steele,		

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& Saari (1982)		
Latham (2002)	Feedback helps goal achievement.	Provide feedback to help employees calibrate their progress toward a goal.
Locke & Latham (2002)		
Ilgen, Fisher, & Taylor (1979) London (2003)	Feedback focuses attention on goals, helps discover errors, maintains goal direction, and provides information on the capabilities and effort needed for goal achievement	Provide feedback to enhance goal achievement
Latham, Erez, & Locke (1988)	Goals that are assigned without explanation lead to lower performance than goals that are set participative	Explain the reason for goals that are assigned

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(Sources form London, M., Mone, E. M., & Scott, J. C. 2004)

So, after the above discussion performance should be measured and define to emphasize both outcome and competency aspects of performance such as derived the financial goals and productivity as organization performance. Performance management must be comprised the individual performance and outcome as organization performance measures, trying with organization strategy, values, culture and needs for achieving organization targets with the variables of clear and measuring goal for organization and individual.

### **5.2 Evaluating performance:-**

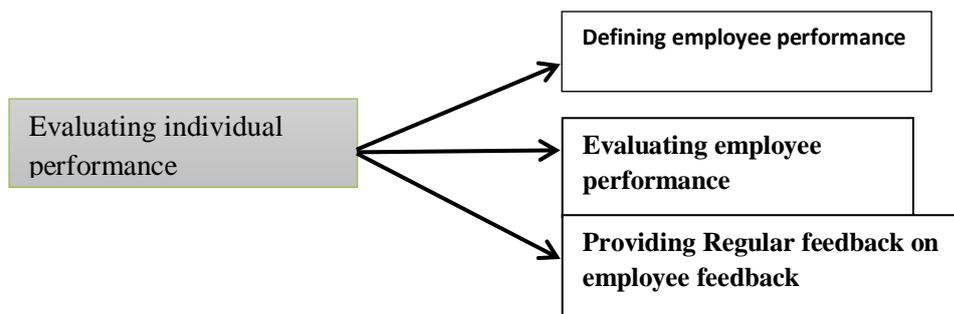
What developments, if any, does the organization and the company can follow for evaluating individual, group, and organizational performance? Are performance evaluations mainly objective, subjective or mixed and how important are formal and informal information and controls in these processes? (Ferreira, A., & Otley, D. 2009).

This is the second phase of performance management system. This is geared towards attainment of performance information that can be used for administrative and development purpose impact on human resource practices like promotion policy, transfer scheme last is a very important factor performance based rewards system (compensations) are likely to be more lenient and less accurate than those obtained for research, monitoring and feedback system (Rynes, S. L., Gerhart, B., & Parks, L. 2005, Weibel, A., Rost, K., & Osterloh, M., 2010). The issue of whether performance-related pay really improves efficiency and productivity is highly contested (Francois 2000; Moynihan 2007). Researchers stemming from standard economics and behavioural management theory argue that performance-related pay raises individual performance if it is correctly administrated. Therefore, these researchers and

investigators focus their efforts on discussing the technically correct implementation of performance-related pay such as how problems of measurability might overcome (for a thorough discussion about possible implementation problems. (Burgess and Ratto 2003, Weibel, A., Rost, K., & Osterloh, M., 2010)

Otley (1999) proposed an inductively generated framework for studying the operation of MCSs, drawing upon the extant body of knowledge in the field and on his research involvement. In essence, the framework highlights five central issues which he argues need to be considered as part of the process of developing a coherent structure for performance management systems. Simons (1995) proposed the levers of control (LOC) framework as a tool for the implementation and control of business strategies. According to Simons, the framework is an ‘action-oriented theory of control’ that resulted from over 10 years of work, including case studies and related discussions with senior executives and managers. Because appraisal-related interactions between supervisors and employees may influence more than task performance (Findley, Henry M.; Giles, William F.; Mossholder, Kevin W, 2000). And the expectancy theory supports performance management process designed to provide for intrinsic motivation by providing opportunity for growth and scope to use and develop abilities. Expectancy based motivational model for individual performance management was devised by (DeNisi & Pritchard 2006, Armstrong, 2010 p.39)

Bol, J. C. (2011) observes the determinants and performance effects of centrality bias and leniency bias and Found also indicate that performance evaluation biases affect not only current performance ratings, but also future employee performance based reward practices. Inconsistent with predictions based on the agency perspective, the results show that managers' performance evaluation biases are not necessarily detrimental to compensation contracting. Leniency bias is positively associated with future performance, which is consistent with the behavioural argument that bias can improve perceived fairness and, in turn, employee motivation. However, it is less clear what action of scholars should be taken to deal with the effect of differently intended performance evaluation in performance management process. Human resource practices may be set up to reward the raters for providing accurate rating to the rates, employee reactions should be carefully mentioned (London, Smither & Adsit 1997, Walker, A. G., & Smither, J. W., 1999; Levy, P. E., & Williams, J. R. 2004).



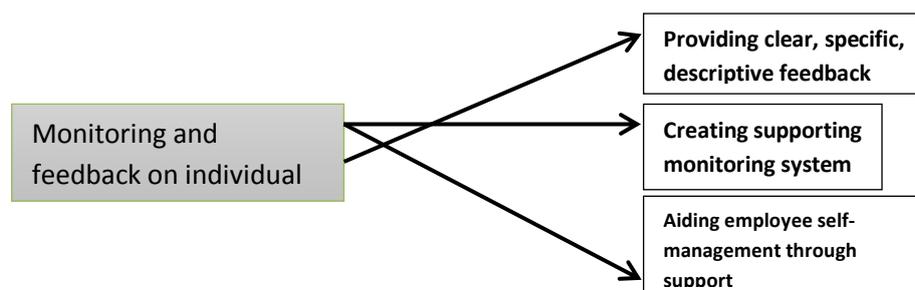
In this Diagram, clear defined that what should be included in the evaluation process for effective performance management system. In traditional performance evaluation, the 360 degree feedback system is designed by the evaluation of an individual’s performance by multiple raters like supervisors, peers, subordinated and customers that process was stereo typically is rated by others who interact with the individual, who are knowledge about the individual performance (Dalessio, 1998; Smither, J. W., London, M., & Reilly, R. R. 2005; Arguinis, H, 2008). Most of Scholars(Cardy &

Dobbins, 1994 ; Verbeeten 2008) declares that a changing approach may be necessary for various reasons, first, performance dissimilarity may be largely due to system factors beyond most individual’s control and his/her individual performance, such as the availability of resources, nature of supervision, variation in learning received and jobs requiring a high degree of autonomy. Second, of it is not impossible, target for raters to correctly distinguish individual causes of performance from system causes and the third, the supervisor as raters to have a large span of control and less directly busy in employee based activities. Finally, in the performance management system process, performance evaluation should be communicated critical organization behaviours and give value of the employee to move the organization forward and to change the culture. Thus reasons, lots of organization is required to improve and alternative ways of evaluating of employee / individual performance (Bae, E. K. 2006).

At last in discussion about performance evaluation phase, it is mandatory to adopt the correctly and fair performance tools for evaluation, as shown diagram C, first is monitoring and feedback system should be un-biased and second, set up the performance based rewards system for motivate the employee to perform better and achieve the organizational needs and last, implementing or conduct self-appraisal system and examine the disparity between raters and ratees assessment.

### **5.3 Feedback and monitoring individual performance:-**

This is the last process of performance management system and it is feedback to the individual and applicable decision-maker. The feedback and monitoring are playing an important role for motivational for rate-rater communications. In effect, providing people with feedback about their performance will have a positive effect on their future performance (Taylor& pierce, 1999, Van Dyne et al., 2000). Taylor and Pierce (1999) appraised the introduction of a performance management system by examining changes in employees’ satisfaction, ratings of cooperation with one’s supervisor, and organizational commitment. They found that worker satisfaction and cooperation ratings increased for low performers but declined for high performers after the initial rating and bonus distribution. Presumably, high performers were put off by the introduction of the system.



As shown in this diagram, feedback should aid self-management for an employee because keeps the employee’s work-related activities directed towards desired individual and organizational goals (Locke & Latham, 1990). Scholars ( Pettijohn, Pettijohn & d’Amico, 2001; Larsen & Thisted, 1999) demonstrated that clear, specific and descriptive feedback, compared to evaluating outcome feedback. Career opportunities system is becoming far more variables and unstructured in light of corporate downsizing and the implementation new technology ( Holt, Noe & Cvsnsugh, 1996) and the supporting feedback system an key role in exploring and promoting employee career development opportunities as well as their contributions to organization change efforts.

At the last, a feedback process should be a critical part of performance management system that impact on individual and organizational goal. It is thus important to establish and implement a feedback process that provides clear, specific and descriptive feedback and support the monitoring of individual performance.

**Summary of significant problems**

System element	Item problem summary
Input	
Environmental issues	Impact of high inflation on performance reward issues
	Productivity and quality not entrenched south African values
Strategy	Changes in corporate strategy not resulting in behavioral change
	Lack of integrated management
Culture management	Lack of trust and openness
	Insufficient line management support
	Managers lack effective people management support
	Often superior not au fait with day to day functions
Planning and design	
Assess organization's readiness prepares organization	The real goal of performance review and planning mistrusted.
	Achieve “mind shift” towards output and away from input
General implementation issues	Performance management not viewed as an open system
	Difficult to demonstrate direct investment return relationship
	Performance hasn't managed : emphasis on controlling
	The manager doesn't assess on performance management implementation
Process	
Clarify vision, mission and role responsibilities	Applying strategy in a work setting

(Goal setting planning )	
	The group moves in different directions
	Inadequate linking of individual /group/ team objectives
	Losing focus on cascading objectives
	Formulating meaningful objectives and performance objectives
	Complex objectives not supported by an action plan
Managing performance	Managers / supervisor inadequately trained in performance management
	Insufficient coaching and assistance given to employees
	Performance hasn't followed up productivity
Formal performance review	Viewed as administrative requirement
	Performance information insufficient
	Unclear perception of satisfactory performance
	Maintaining objectives
	Employee resisting “labelling”
Output	
Stabilization	Implementation mechanistic because of focus of the measurable
	Application hasn't monitored on on-going basis
	Long implementation process weakens enthusiasm
Linkages	Performance unproductive linking to:-
	Rewards system
	Manpower planning/ career management
	Organization planning and budgeting process
Serious problems related to rewards system	Equitable linking to salary / bonus system

	Rewarding group performance equitable
	Rewarding only superior performance
	Applying a forced distribution rating
	Person self-image affected by unfavorable rating
	Applying non-financial rewards inadequate

(Source form Spangenberg, H. 1994. )

## 6. Conclusion

A performance management system comprised of three steps: individual performance, evaluation and feedback on performance. For the results of this performance management to be maximized in the organization levels, those steps must help in achieving individual and organization goals.

Here, this study gives some suggestion for HRM scholars, first thing is to decide what aspects of employee performance should be represented in measures of the degree to which they contribute to organization objectives. The performance management system should be designed based on effective competencies based approach and process based approach helps to achieve organization ‘mission, value and objective mean should be clear and measuring goals.

The second is for evaluation of performance management process should be accurately and fairly for can be achieved through holding raters accountable for their rating and setting an effective performance based rewards system for motive the employees to run the systematic performance objectives. At last, feedback and monitoring performance play a key role in performance management system to improve job performance as well as to initiate further career development like training and development of employees. Supporting and effective feedback and monitoring system can create conditions that encourage employee to find their own direction as self-decision making (Caligiuri, P. M., & Day, D. V. 2000).

And at last, it does not matter that how much things change, two things are certain: employee wants to do a better and satisfactory job, and organizations need to help their workforce perform in a way that makes it more competitive. With a performance management system based on the principles, an organization and the company can certify it has the right people in the right place at the right time and to contribute the study for the consultant, the academician and organizations etc.

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