Performance Management System: A Conceptual Framework

Parveen Ahmed Alam
Research Scholar, Department of Commerce
University of Calcutta
Faculty-HR, Army Institute of Management, Kolkata
e-mail : ahmedparveen2003@yahoo.com

Sudipti Banerjea
Professor, Department of Commerce
University of Calcutta
e-mail : sudiptiban@yahoo.com

Abstract: In this paper an attempt has been made to provide a conceptual framework through reviewing the relevant literature with reference to Performance Management System (PMS)—its genesis and process; its linkage with Human Resource Systems, the impact it has in the business arena as well as the modern trends in PMS. Attempt has also been made to touch upon the, how-so-ever limited, literature in this field focusing on the Indian scenario.

Key-words: Performance appraisal, management target setting, HRD rewards.

1. Introduction

The process of globalisation and liberalization ushered in a new world leading to an 'unequal competition' between 'giant MNCs' and Indian enterprises fuelled by the former's technological advancement and reduction in labour force. To remain competitive, restructuring and downsizing had become the buzzwords in the corridors of the Indian firms. Challenges of developing and managing human performance assumed great importance to achieve competitive advantage. It had become increasingly clear that sustained effectiveness of organisations depended in large measures on their ability to manage performance and develop capacities of their human resources to take on the challenges brought about by the new economic environment. *Mendonca and Kanungo (1990)* stressed that a country's development hinges on organisations' effective management of their human resources. This highlights the managers' responsibility to manage the performance of their subordinates, consistent with the job objectives and the overall goals of the organisation. Therefore, Performance Management (PM) is considered as an opportunity for managers and their subordinates to be engaged in a partnership of purpose, direction and effort as they strive to fulfil both personal and organisational objectives. In a study conducted by *Logenecker and Fink (1999)*, the practice of employing a value-added performance evaluation process was cited as one of the top ten vehicles for creating competitive advantage.

2. Methodology

The study is based on *secondary* data only.

The secondary data regarding the topic has been collected after intensive reading of published

literature on the subject–both from e-journals available on the internet through various search engines and also from reputed journals and books.

3. Performance Management system (PMS) : The Genesis

The genesis of reviewing performance is traced back to AD 221-265 in the Wei dynasty of China who had an 'Imperial rater' to evaluate the performance of the official family *(Koontz 1971)*. The first formal monitoring system evolved out of the work of Fredrick Taylor before World War I followed by rating of officers in the armed forces of US in 1920s. 1950s saw the advent of merit rating that was later rechristened *Performance Appraisal*. 1960s to 1970s saw the coming of *Management by Objectives (MBO), Critical Incident Technique and Behaviorally Anchored Rating Scales (BARS)*. *Bernardin and Klatt (1985)* noted that small firms tended to rely heavily on trait-based approaches, while larger firms relied on a combination of trait, behavioral, and results-based techniques. In another study, *Locher and Teel (1988)* identified graphic rating scales (57.1%), the open-ended essay (21.3%), and MBO (18.1%) as the most popular performance appraisal techniques. Unlike *Taylor and Zawacki (1984)*, *Locher and Teel (1988)* identified a trend towards the use of MBO as a popular technique. *Coens and Jenkins (2000)* defined Performance Appraisal as "the process of evaluating or judging the way in which someone is functioning" and "the purpose of evaluating an employee must be useful and must have purpose". However, available literature has stressed on the fact that Performance Management "is *not* Performance Appraisal" *(Chaudhuri, 2002)*.

Performance Appraisal–A Criticism

Performance appraisals have not succeeded in India and the world over. A recent survey conducted in the US indicated that 80% of the organisations are dissatisfied with performance appraisals. In spite of this dissatisfaction, no organisation is willing to do away with them. Some organisations sought to modify the system of assessment and devised different formats for different occupations including use of quantitative measures. In spite of all efforts, disappointment is uniform across the population. *Deming (1982)* stated that performance appraisal system is devastating to individuals and destructive to organisations, appraisal rating system nourishes short-term performance, annihilates long-term planning, builds fear, demolishes team work, nourishes rivalry and politics. It leaves people bitter, crushed, bruised, battered, desolate, despondent, dejected, feeling inferior, some even depressed and unable to comprehend why they are inferior. *Coens and Jenkins (2000)* suggested that performance appraisals should be abolished and suggested alternatives such as coaching and feedback that makes a difference. *McGregor's (1957)* classic article gave the following breakdown that adequately covered the basic aims of Performance Appraisal.

1. Performance appraisal systems should generate information needed for short-and long-range administrative actions, such as salary decisions, promotions, and transfers (all short-range) or human resource planning and managerial succession (long-range).

2. Appraisal systems should let subordinates know where they stand, how well they are doing, and what changes in their behavior the superior wants.

3. Appraisal systems should provide a means for coaching and counselling subordinates in order to train and develop them to their full potential.

For an effective performance appraisal system to exist for any length of time, the organisational reward system must clearly tie subordinate development to positive outcomes for managers. *Nelson (1994)* stated, "Recognition of a job well done is the top motivator of employee performance". *McCarthy (2001)* promoted a program that stressed planned awards and employee recognition.

Regarding his experience of studying the Performance Appraisal system at L&T, *Rao (2004)* said, "Looking back, I now realize that we made one significant mistake and stuck with it for the last 30 years. This was to call the system a performance appraisal system and not a performance management system ... It is only in the last decade since the liberalization of the economy that we realized the big mistake we had been making all these years. ...The focus of the system is not on appraisal...(it) is on learning, development, and improvement. Hence, it should be called a performance development system. As development is too narrow and ...the term management includes development, it is now more appropriately referred to as performance management system."

The Work-Planning-and-Review method, developed by *Meyer et al (1965)* took care of the weaknesses of Performance Appraisal, by proposing

- More frequest discussion of performance and
- An emphais on mutual goal planning and problem solving, elimination of summary judgements and ratings and separate discussion of salary issues.

This emphasis on goal setting is considered to be the foundation of the development of PM concepts.

The term Performance Management System (PMS) was first used in 1976 by *Beer and Ruh* while referring to a system implemented by them at Corning Glass to "manage, measure, and improve the performance and potential for advancement". It included 3 sections:

1. An MBO segment which stressed planning and goal setting
2. A Performance Development and Review section for coaching the employees for effective performance and greater opportunity for promotion
3. Evaluation and Salary Review.

However, PMS did not become a recognized process until the latter half of 1980s.

Fletcher (1993) defined PMS as it being "associated with an approach to creating a shared vision of the purpose and aims of the organisation, helping each employee understand and recognize their part in contributing to them, and, in so doing, manage and enhance the performance of both individuals and the organisation". Earlier, *Brumbach (1988)* said that performance is achieved if it embraced both behavior and results. When one is managing the performance of teams and individuals, both inputs (behavior) and outputs (results) should be considered. Performance is about how things are done as well as what is done, covering competency levels and achievements as well as objective setting and review *(Hartle, 1995)*. *McConnell (2004)* stressed that Performance Management "is the art and science of dealing with employees in a manner intended to positively influence their thinking and behavior to achieve a desired level of performance. It is a vital management technique, which, when incorporated into a manager's everyday behavior, is invaluable in identifying, evaluating and correcting employee performance problems". *Mohrman and Mohrman*

(1995) emphasized the need "to tie all aspects of managing performance to business objectives and to regard the organisation as a nest of performing units." In other words, PMS is an integrated system of linking business objectives or goals with the Key Result Areas (KRAs) of managers. It strives to create a customer-serving, motivated, accountable, reliable, creative, dedicated, and happy workforce through a shared understanding of what is to be achieved and how it is to be achieved. In a nutshell, the goal of PMS is to help boost employee performance and, ultimately, the productivity of the business.

The PMS Process

Bredrup and Bredrup (1995) saw PM as comprising three main processes–planning, improving and reviewing. These three processes could be applicable at all levels–organisation, business unit, department, team, individual, etc. *(Mabey and Salaman, 1995). Ainsworth and Smith (1993)* proposed a three-step cycle-performance planning; assessment of performance; and corrective and adaptive mutual action via mutual feedback discussions. *Guinn (1987)* proposed a three-step process-planning, managing and appraising. *Torrington and Hall (1995)* have also suggested three stages-planning, supporting and reviewing performance. The common thread here is that the manager and managed should have a shared view of what is expected of the employee which may be achieved through involvement and participation of a direct kind. Supporting performance is seen as a responsibility of the line manager who also has a particular part to play in reviewing performance. *Hartle (1995)* developed the 'mixed model' which stressed on planning, managing, reviewing and rewarding. Most organisations follow this 4-stage model now-a-days, which can be further detailed as : Setting Individual Business Roles and relating them to the job objectives of work groups and business through Performance Planning, Performance Measurement and Review, Rewards and Performance Development *(Armstrong and Baron, 2007)*.

4. PMS and its Linkage with HR Systems

Performance Management is an on-going process of identifying, measuring and developing human performance in organisations. The purpose is to measure progress, differentiate between levels of performance, pinpoint training needs, validate rewards and identify employees for promotion *(Grote, 1996)*. *Rao and Pareek (1998)* reiterated that PMSs are linked with training, promotions, salary and reward, administration and research and OD (Organisation Development). It is linked with reward administration in order to reward consistent good performance. According to *Roberts (2001)*, PM involves the setting of corporate, departmental, team and individual objectives; performance appraisal systems; appropriate reward strategies and schemes; training and development strategies and plans; feedback, communication and coaching; individual career planning; mechanisms for monitoring the effectiveness of PMS and interventions and even culture management. Thus, PM involves day-to-day management, as well as the support and development of people.

It is necessary that HR policies directed at PM be supported by effective systems. Conventionally, performance appraisal is viewed as the only component of PM. Such an approach fails to support human performance, and rather ends up inhibiting it. PM requires an interactive combination of HR

sub-systems, viz., selection, evaluation, feedback, development, reward and exit. *Margrave and Gorden (2001)* noted that important components of an evaluation process are clearly identified performance standards, a definition of production, and quantifiable measurements. They stressed that a well-written job description should be the first consideration in developing the process. Also noted was the importance in recognizing individual differences in similar jobs and considering these differences in job descriptions and the evaluation instruments.

The PM perspective stresses on the need to align HRM practices in such a way that they maximize current as well as future employee performance, which in turn, is expected to affect organizational performance *(Den Hartog, et al, 1994)*. Various PM Models like *Becker, Huselid, Pickus and Spratt, 1997; Guest, 1997;* etc., have shown that HRM practices are typically expected to increase employees' organizational commitment and motivation, which in turn, affects employee performance and ultimately organizational performance.

5. Impact of PMS

A study on the impact and trend of PM has shown that it is an important business system; it makes a difference in organisational performance; approaches to PM are changing; and senior managers must be attentive to the PMSs in their organisations. *Lingle and Schiemann (1996)* concluded that measurement-managed companies—especially those that measure employee performance—outperform those that downplay measurement. Successful industry leaders simply do a better job than non-leaders at measuring their workforce, which, the study said, is where real change is won or lost. A study by *Hewitt Associates* (1994) titled *The Impact of Performance Management on Organisational Success* substantiated that PMSs can have a significant impact on financial performance and productivity. The productivity of each and every employee influences the success of the company as a whole. However, it is difficult to quantify the worth of each employee unless a relevant Key Performance Indicator (KPI) is used which is in accordance with the goals and objectives set by the company *(Alam and Kaushik, 2008)*. *Sacht (2002)* found that best practice organisations see PM as a dynamic, on-going process that helps them achieve business goals and helps individuals focus on high-payoff activities that improve performance. The study also showed that PM is used to establish and reinforce the competencies for the development of performance. It was found during a survey that new employee training, in-house training and support for continuing education, each reduced the probability of employees being dissatisfied with the performance appraisal process *(Spears and Parker, 2002)*. *Gabris and Ihrke (2000)* concluded from the results of a survey that attitudes change from before to after implementation of PMSs.

6. Indian Scenario

The socio-cultural context of India strongly influences its HRM policies and practices in general *(Budhwar and Sparrow, 1998)*. Indian society values strong family ties and extended family relationships, hence, there is a strong emphasis on collectivism, i.e., family and group attainments take precedence over work outcomes *(Kanungo and Mendonca, 1994)*. Therefore, nepotism is common both at the lowest and highest levels *(Sinha, 1990)* and, at times, selection, promotions and transfers are based on ascribed status, and social and political connections *(Sharma, 1984)*. Thus, it becomes

very difficult for non-family members to advance into upper management positions, particularly in private businesses. People orientation is paternalistic and consideration for social relationships and contacts overrides principles and rules *(Kanungo and Jaeger, 1990)*. Employees' orientation is more towards personalized relationships than towards performance *(Kanungo and Mendonca, 1994)*. Further, Indian work culture is characterized by the principle of "particularism" and "stability" *(Sharma, 1984)*, such as life long jobs, experience based career system and job tenure based compensation packages.

Lack of objective PM practices in India has allowed Indian managers to over- and under-control employees *(Lindsay* and *Petrick, 1997)*. There have been no major breakthrough in Indian potential appraisal and potential development practices; reward administration and promotion decisions are traditional; Counselling and OD are being increasingly used but qualitative improvements are needed to feel the impact *(Rao* and *Abraham, 1986)*. Need for effective performance counseling, with focus on employee skill development that will improve current performance and enhance career opportunities, has been felt *(Sanyal* and *Alam, 2008)*. The prevailing absence of the mutual influence in India, especially managerial receptiveness to employee feedback, leads to resistance to the implementation of effective PMS *(Kanungo* and *Misra, 1988)*. It can be taken care of by increasing employee involvement *(Amba-Rao, 2000)*. PM in India has been a contentious issue, yet it is fundamental to other HRM activities that involve developmental (e.g., coaching and training) and evaluative (e.g., pay and promotion) aspects *(Mendonca* and *Kanungo, 1990)*. *T V Rao (2008)* suggested the following changes in order to improve PMS as a system :

* Change from 'Appraisal' to 'Management' and focus on "Contributions and Improvement"
* Recognize the comprehensiveness of PMS as a system
* Recognize the complexities of the multi-dimensional PMS
* Allocate adequate time and legislate the same and if required plan it into the company calendar
* Take HR managers out of PMS, decentralize and shift PMS to Performance Managers developed from line jobs
* Make PMS a part of the budgeting process and integrate with other systems of the company
* Create a new Index—"Performance Index"—for each employee and make it quarterly and annual
* Use technology to support the work
* Implement PMS rigorously and give it the seriousness it deserves.

7. Modern Trends

Since PMSs involve a considerable amount of paperwork, writing and exchange of documents, e-PMS has become the rage of the day. In fact, evaluations of automated PMSs show that they are viewed positively by managers and employees, decrease workload, ensure widespread access to PM tools and provide a standardized, structured approach to collecting and storing performance data *(Kandula, 2005)*.

8. Conclusion

The review of literature shows that Performance Management evolved gradually to overcome the weaknesses of Performance Appraisal. A PMS provides a rational framework for establishing goals, objectives, and performance measures as well as basis for making employment-related decisions (pay increases, promotions, etc.). If managed correctly, an employee should never be surprised regarding where he stands, the expectations of him, and how he is doing towards attaining goals. A PMS is effective in establishing a dialogue and forum between the manager and the employee concerning goals *(Glendinning, 2002)*. The benefits of an effectively implemented and monitored PMS are :

- Improved work performance *(Allan, 1994)*
- Employees with potential for advancement are identified *(Allan, 1994)*
- Planning for future HR needs is augmented *(Longenecker and Fink, 1999)*
- Business objectives are realized
- Improved morale
- Improved customer satisfaction
- A clear linkage between pay and performance is achieved *(Anonymous, 1998)*
- A competitive advantage is obtained *(Randall and Hayes, 1995)*
- Improved quality of supervision *(Markowich, 1994)*

To be effective, PMS requires a supportive organisational culture, performance management must be made the focal point of human resource management and link it to organisational goals.

In conclusion, it can be said that "Any failure by organizations to adopt effective performance management systems is costly, in terms of: lost opportunities; unfocused activity; loss of motivation and morale, [and] surrender to mediocrity. Lack of performance management negates the vision a business has for the future, and leaves the organization's major resource without focused commitment to the achievement of the organization's business strategies" *(Anonymous, 1996)*.

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