International Research Journal of Marketing and Economics
ISSN: (2349-0314)
Impact Factor- 5.779, Volume 5, Issue 5, May 2018
Website- www.aarf.asia, **Email** : editor@aarf.asia , editoraarf@gmail.com

PERFORMANCE MANAGEMENT: A BRIEF INTRODUCTION

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ABSTRACT

Performance management deals with the challenge organisations face in defining, measuring, and stimulating employee performance with the ultimate goal of improving organisational performance. Thus, performance management involves multiple levels of analysis and is clearly linked to the topics studied in strategic human resource management (HRM) as well as performance appraisal. This paper presents a model for performance management combining insights from strategic HRM and work and organisational psychology. The model incorporates multi-level elements, and adds to previous models by explicitly incorporating employee perceptions, the role of direct supervisors, and possible reversed causality. Challenges for future research are also presented.

Key words: performance management, performance review, Appraisal

History and Evolution of Performance Management and Appraisal

Since the Industrial Revolution in the 18th Century, there has never been a shortage in interest from both researchers and practitioners in trying to improve the productivity of workers in organisations (Robbins and Coulter, 2002: 30). The ultimate goal has been to enhance the performance of individuals, thereby resulting in a boost in the overall performance of the organisation. It is now recognised that there are both intrinsic and extrinsic factors affecting the performance of individuals within organisations and there has been a marked shift

Performance management systems, in various forms, have been employed for nearly two millennia. In the third century AD, the Chinese were not only using performance appraisal systems but were critiquing each other's biases in their evaluations of their employees (Murphy and Cleveland, 4; Evans, 3). During the Industrial Revolution of the 18th century, factory managers became aware of the importance of their employees' performance on their production outputs (Grote and Grote, 3; Murphy and Cleveland, 4). The development of the philosophy of performance evaluation systems in America has been attributed to such researchers and philosophers as Peter Drucker and Douglas McGregor, who developed ideas of management by objectives (MBOs) and employee motivation (Evans, 4; Murphy and Cleveland, 3). Spreigel reported in 1962 that by the early 1960s more than 60% of American organizations had a performance appraisal system.The system's popularlity stemmed from the Army's implementation of a performance management system for its officers (Murphy and Cleveland, 3). Since then, researchers have continued to develop theories of how different performance evaluation methods can contribute to the success of the organization.

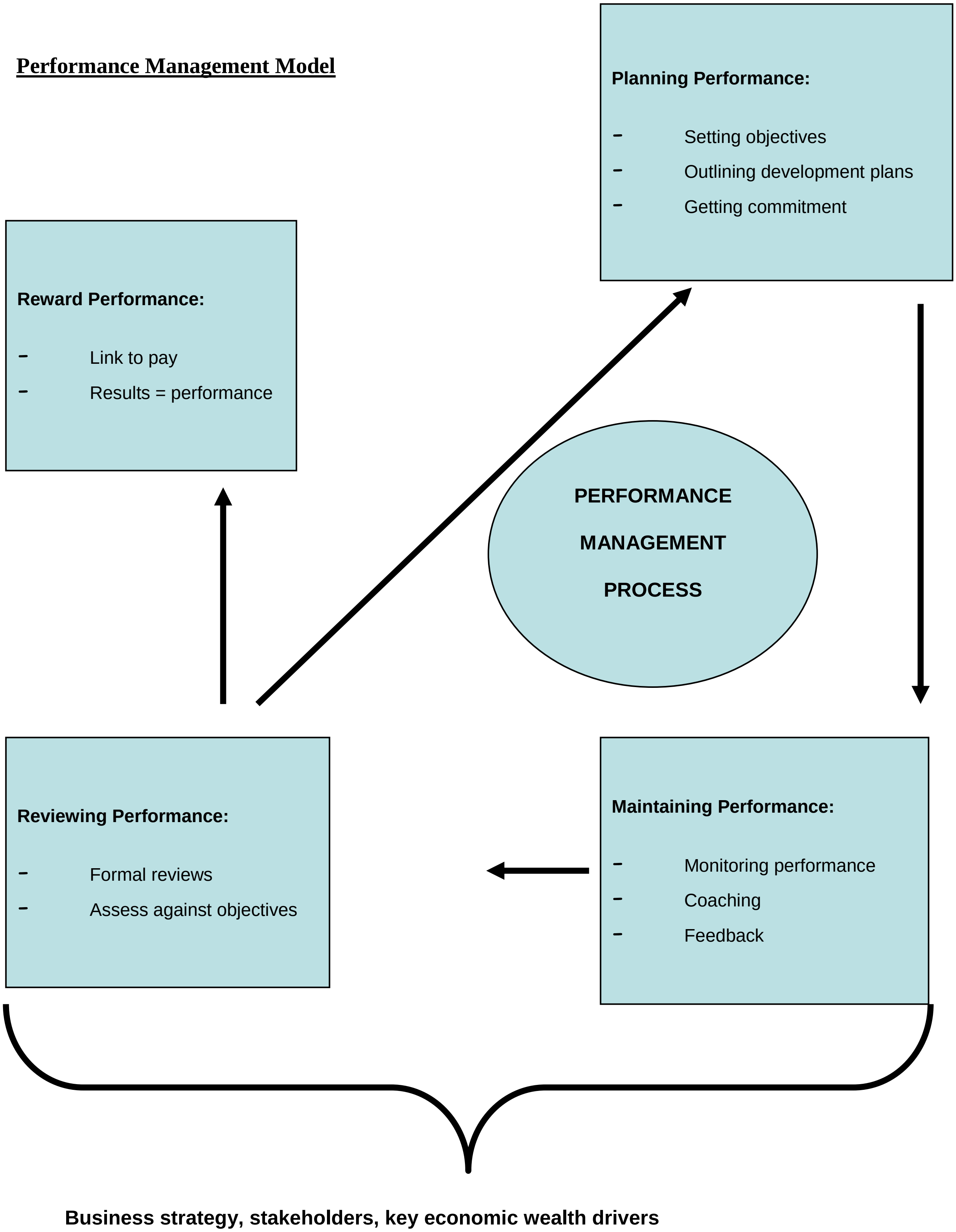
Differences between Performance Management and Performance Appraisal

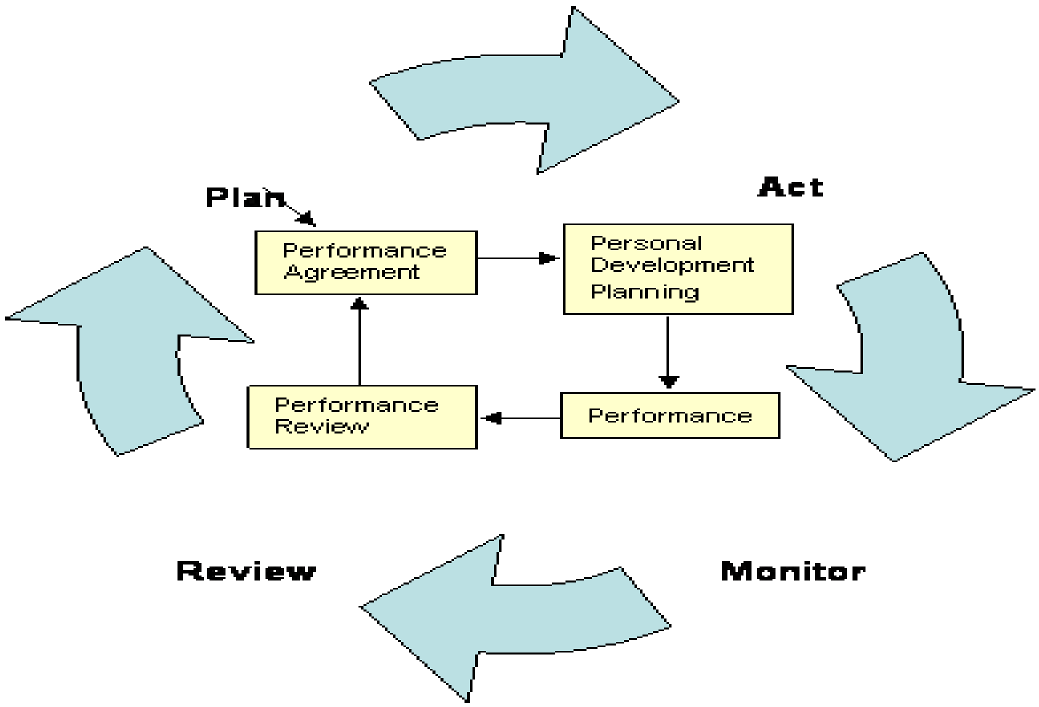
Employees, as well as supervisors, are often confused by the differences between performance management systems and performance appraisals. Performance appraisals, also called performance evaluations, are tools used to measure the effectiveness of an employee; most organizations conduct performance appraisals once a year during an annual evaluation process. A performance management system, however, is much more dynamic. It can use the performance evaluation tool but also incorporates other elements into the performance management cycle.

Elements of Performance Management

Armstrong identifies the five elements of performance management as agreement (of employee, unit, and organizational goals), measurement, feedback, positive reinforcement and dialogue (3). These elements ensure that the performance management process is positive, successful and a spur to employee improvement. Key to the performance management process are continued feedback and assessment, depicted shown in the performance management cycle.

Performance Management Model





There are four main elements of the planning portion of the performance management cycle: role creation and development, objective planning, assessment and development planning. The first step, role creation and development, is important because an employee must understand his or her role in the organization before the performance of that role can be fairly assessed. By first defining the employee's goal, a supervisor can then align the employee's objectives with the organizational goals.

The Planning Phase is crucial - 80% of time and effort should be allocated to this phase. If the focus is on inappropriate aspects of the organisation (i.e. the goals do not contribute to long-term strategy achievement and stakeholder requirements), none of the subsequent phases will be worthwhile. If the focus is inappropriate, it often leads to demotivation, lack of credibility and failure of the business.

Planning typically should include the identifying Key Value Drivers of stakeholders (stakeholders typically are the shareholders, customers and employees of the organisation).

Once the key value drivers are identified (value drivers are the key aspects that create economic wealth for the key stakeholders, and can include profitability, quality service, training, etc), the following is required:
Performance Management will be effective when a cascading model is followed. Flowing from the strategy and key value drivers, the following can be defined:

- Defining Key Performance Areas (KPA's)
- Defining Objectives
- Defining Targets

Selecting and evaluating PMS

The following aspects should be considered when you evaluate a new Performance Management System:

- Level of employee participation and involvement?
- Is it competency-based? (Competencies refer to the required knowledge, skills and behaviors that are required to achieve objectives)
- Is it form-driven or REAL Performance Management? Form-driven performance focuses on the completion of the forms and not on the daily feedback and monitoring
- Is it linked to rewards AND development?
- Does it focus on both the "what" and the "how" of result achievement?
- Does the process incorporate training (both process and soft skills)?
- Is it generic, and can it be customized to your organisation'sneeds and culture?

Success factors in implementing Performance Management:

- Relevance

  Link to strategy, clear job goals, up-to-date job profiles
- Reliability

  Consistent measurement, rating errors
- Discriminability

  Ability to discriminate between good and poor performance
- Freedom from contamination

  External factors should not influence measurement (resources, line of sight)
- Practicality

  Easy to use, understandable, manageable administration
- Acceptability

  Perceived legitimacy, involvement
- Legal compliance

  Labour law compliance, Employment Equity Act, substantive and procedural fairness

Benefits of Performance Management

There is no law that requires employers to conduct performance reviews. However, there are very solid business reasons for conducting them, including:

- Performance reviews help document salary actions.
- They provide feedback to employees on their performance.
- Performance reviews help identify "good" and "bad" performers.
- They help document personnel decisions, such as promotions and discipline.
- They assist management in making a decision to retain or terminate.
- Performance reviews help identify training needs.
- They assist with personnel planning including staffing.

In most cases, the benefits of a performance management system will include:

1.Consistency.

The selection of employees for promotion, transfer, or other action should be more consistent. The right person — or a right person — should be matched with the right job more often.

2.Motivation.

All the organization's employees (as well as supervisors and managers) should be more highly motivated. Objective performance appraisal will identify those who are outstanding, and management — applying promotion, transfer, and other policies — will reward them. Every employee will realize that the organization rewards achievement, and many will be encouraged to improve their performance.

3.Morale and retention.

More highly motivated employees are likely to be more loyal, as well, so that management will have better success retaining valuable employees even as the nation's workforce becomes more mobile. In addition, morale should improve, making the workplace more pleasant, and output per hour worked should increase, cutting labor costs.

4.Organizational impacts.

Those who do research on human behavior stress that individual employees will grow in maturity and responsibility if their efforts are accurately judged and rewarded. The organization should see daily benefits — including financial — from having more responsible people throughout. The employer with an accurate evaluation system may truly have a basis for saying that he has better employees than others in his field.

5.Training needs.

While accurate evaluation is most often recommended for its role in making "good employees better," it has a valuable remedial use as well. Evaluation can spot employees who need training — and not all of them will be recent hires. It is usually assumed that when an employee has completed the normal training sequence, he or she is trained. But that is not always the case.

6.Firing risks.

Finally, employees who are sufficiently weak that they should be dismissed can be spotted with more certainty under an evaluation system. Perhaps more important, management may be more willing to dismiss an inadequate employee if an objective evaluation system can be pointed to as identifying the inadequacy. The employee and the organization should benefit from an early end to a bad situation.

Problems with Performance Management

In performance management, employers provide continuous appraisal through feedback and re-alignment of goals based on performance. Unlike the annual evaluation process, most performance management systems are designed to meet the changing needs of both the organization and the employee. Armstrong identifies that performance assessment can include the following:

- discussing what the job holder has done and achieved;
- identifying any shortfalls in achieving objectives or meeting standards;
- establishing the reasons for any shortfalls, including changed circumstances;
- agreeing to any changes required to objectives and work plans in response to changed circumstances;
- agreeing to any actions required by the individual or the manager to improve performance (71-72).

The organizations that have chosen to use a performance management process have often done so because the annual evaluation process has failed to meet their appraisal needs. The constant communication loop of performance management enables organizations to meet both the goals of their organization and the development and feedback needs of their employees. In contrast, the annual evaluation process, which is retrospective in nature, provides no formal opportunity for employees to receive feedback about their performance, request development to increase their efficiency or ask for new goals during the year.

There are a number of challenges that can prove to be an obstacle to effective performance management. Obstacles can include but are not limited to:

- writing a poorly structured strategy,
- failure to communicate the strategy to stakeholders/staff,
- failure to achieve buy-in of the strategy,

- not measuring progress,
- not holding at least quarterly strategy review sessions,
- not taking the time to define success and celebrate it along the way,
- not adapting to changing circumstances,
- and not giving your team the necessary authority or tools to accomplish their jobs.

It's vitally important to steer the strategic planning process effectively to avoid those common pitfalls.

First of all, it's important to pick the right objectives and goals that will drive the results you seek. Defining those falls into the realm of creating an effective strategy. It's important to pick top priorities for your organization, and determine through goals and actions how you will support them. The goals themselves should be set up using the S.M.A.R.T. technique

Conclusion

Performance management, unlike traditional annual evaluation, provides employees with feedback throughout the year. The system allows constant re-evaluation of goals, progress and performance. This process requires more interaction between the supervisor and supervisee and encourages the professional development of the employee to meet the organization's changing needs. While this more dynamic evaluation process is time-consuming, the increased productivity levels resulting from performance management have proven to be valuable to many organizations.

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