

Analyze the Relationship between Performance Management systems with Employee Performance

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Abstract: The main aim of research article is to define performance management system, employee performance and employee performance measurement, and also analyze the relationship between performance management system with employee performance. This data was analyzed in order to test the impact of performance management system on employee performance. Continuous communication within organization and personnel development impact significantly and positively on employee performance. However, the results show that the performance management system has a positive but insignificant relationship with employee performance. Performance management system is worth doing for the organization focusing on the total quality management. It works effectively when all the elements (financial, customer, Employees etc) are considered with a balanced approach. Our paper in this context is just dealing with the human capital that what topics must be covered under umbrella of performance management system.

Keywords: Performance Management System, Appraisal Systems, Employee Performance, Organizational Objectives.

Introduction: - This study focuses on analyzing and exploring the impact of performance management system on employee performance. According to Chan and Lynn (1991), the organizational performance criteria should include profitability, productivity, marketing effectiveness, customer satisfaction, but also employee morale. In this perspective, employee performance is tightly related to organizational performance, effective and efficient employee performance will positively influence organizational performance. Organizations are seeking to develop, motivate and increase the performance of their employees in a variety of human resources applications (Gungor, 2011). Thus, performance management should be an important step in the organization's HRM system

and influences employee performance and then to organizational performance.

Performance management and appraisal systems have come to play an indispensable role in helping organizations to reach their goals of productivity (Stevens & Joyce, 2000). In fact, human resource management practices could influence the behaviors of individual employees. The impact of Human Resources (HR) practices on employees' commitment and performance depends on employees' perception and evaluation of these practices. According to Carter McNamara, (1997) Performance management is a complete process which throws light on the overall organization performance to the departments and at the employees' level. It also tends to focus on the process to provide a products or services in the organization. Before that Alfred D. Chandler, (1970) proposed the shift of Performance Management from organization structure to the employees for achieving better performance.

Performance Appraisal is Appraising the performance of individuals, groups and organizations IS a common practice of all societies. While in some instances these appraisals processes are structured and formally sanctioned, in other instances they are an informal and integral part of daily Activities. Thus teachers evaluate the performances of students, bankers evaluate the performance of creditors, parents evaluate the behavior of their children, and all of us, consciously or unconsciously evaluate our own actions from time to time.

Literature review: - Literature review about performance management system which made up of three stages: developing and planning performance, managing and reviewing performance and rewarding performance. Then, there will be an extensive literature review about employee performance and measurement, also the nature of

relationship between each stage in performance management system and employee performance.

Findings: Performance management is important for an organization, as it helps organizations ensuring employees are working hard to contribute to ach

ieving the organization's mission and objectives. Performance management sets expectations for employee performance and motivates employees to work hard in ways that is expected by the organization. Moreover, performance management system provides a completed and professional management process for organizations to assess the performance results of organizations and employees. Employee performance could be expected, assessed and encouraged. Macky and Johnson (2000) pressed that the importance of performance management system is on continuously improving organizational performance, and this is achieved by improved individual employee performance. Therefore, improving employee performance by using performance management system is a way to improve organizational performance.

Recommendations: -

As the performance management is a costly process and a lot of time and money involved in it so great care should be taken; only critical activities should measure which are necessary for achieving the organizational goals. However this does not mean that completely ignorance of non-critical and additional performance elements. These are the supporting elements which provide the strategic support and act as a catalyst for achieving organization objectives.

It could derive several recommendations for further research on the relationship between performance management system and employee performance. First of all, it has to be noted that further primary data collection method to collect raw data is needed. Therefore, researchers could build questions' contents and types according their research objectives. So, the feedbacks and answers from interviewees would be better reflecting the truth of relationship.

Performance management: - The study of performance management has been popular within human resource management study. I attempt to

define performance, as deploying and managing the components of the causal model that lead to the timely attainment of stated objectives within constraints specific to the firm and to the situation (Lebas, 1995). At an organizational level of analysis I assume that an organization that is performing well is one that is successfully attaining its objectives; in other words, one that is effectively implementing an appropriate strategy (Otley, 1999). The AMO-model 7 (Appelbaum et al., 2003) claims performance which is a function of employees' Ability, Motivation and Opportunity to participate. According to Otley (1999), a general performance management considers such problems: "What are the key objectives that are central to the organization's overall future success, and how does it go about evaluating its achievement for each of these objectives? What strategies and plans has the organization adopted and what are the processes and activities that it has decided will be required for it to successfully implement these? How does it assess and measure the performance of these activities? What level of performance does the organization need to achieve in each of the areas defined in the above two questions) and how does it go about setting appropriate performance targets for them? What rewards will managers (and other employees) gain by achieving these performance targets (or, conversely, what penalties will they suffer by failing to achieve them)? What are the information flows (feedback and feed-forward loops) that are necessary to enable the organization to learn from its experience) and to adapt its current behavior in the light of that experience?"(Otley, 1999:365,366). The similarities of general performance management and HR related performance management are the goal setting, planning, evaluation, feedback and rewarding activities. HR-performance management aims at developing potential capabilities of human resource. The performance management must be in line with the company's long-term policies (Kandula, 2006). Performance management involves managing employee efforts, based on measured performance outcomes. Therefore, determining what constitutes good performance and how the different aspects of high performance can be measured is critical to the design of an effective performance management process. And performance management effectiveness increases when there is ongoing feedback, behavior-based measures are used and

preset goals and trained raters are employed (Lawler, 2003).

Performance management system: - In different literature, there are various models of performance management. Each model has 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 multiple levels of analysis, and is clearly linked to the topics studied in strategic HRM as well as performance appraisal. Different terms refer to performance management initiatives in organizations, for example, performance-based budgeting, pay-for-performance, planning, programming and budgeting, and management by objectives (Heinrich, 2002). A performance management system, according to Rudman (2003), is increasingly seen as a means of integrating HRM activities with the business objectives of the organization, where management and HR activities are working together to influence individual and collective behavior to support the organization's strategy. Besides, he also stressed that the performance management system must fit with the organization's culture. Performance management system is a kind of completed and integrated cycle for performance management. The emphasis of performance management systems is on continuously improving organizational performance, and this is achieved through improved individual employee performance (Macky & Johnson, 2000). The main purpose of the performance management system is to ensure that:

1. The work performed by employees accomplishes the work of the company;
2. Employees have a clear understanding of the quality and quantity of work expected from them;
3. Employees receive ongoing information about how effectively they are performing relative to expectations;
4. Awards and salary increases based on employee performance are distributed accordingly;
5. Opportunities for employee development are identified; and
6. Employee performance that does not meet expectations is addressed

Developing a performance management system is essential for an organization. Developing a

performance management system, according to Schneier, Beatty and Baird (1987), is classified into a development, planning, managing, reviewing and rewarding phase.

Fletcher (1996) suggested that the main building blocks of a performance management system approach include: development of the organization's mission and objectives; enhancing communication within the organization so that employees are not only aware of the objectives and the business plan, but can contribute to their formulation; clarifying individual responsibilities and accountabilities; defining and measuring individual performance; implementing appropriate reward strategies, and developing staff to improve performance, and their career progression further in the future.

The stages of Performance Management System According to Schneier, Beatty and Baird (1987), a performance management system is classified into a development, planning, managing, reviewing and rewarding phase.



Phase1: Developing and planning performance

Planning is the first stage in the performance management system process cycle and offers the foundation for an effective process. Planning is a continuous process in performance management and should be executed with great care (Schneier et al., 1987). Planning helps to encourage commitment and understanding by linking the employees' work with the organization's goals and objectives (Schneier et al., 1987). It usually includes identifying key value drivers of stakeholders, for example, shareholders, customers and employees of

the organization. Similarly, according to Armstrong and Baron (2004), objectives or goals describe something to be accomplished by individuals, departments and organizations over a period of time. They can be expressed as targets to be met, for instance, sales, and tasks to be completed before the deadline.

Phase 2: Monitoring and coaching

Performance management should be a dynamic process. Progress on objectives must be monitored with continual appropriate feedback and discussion throughout the year. Feedback on performance can come from a variety of sources such as the work itself, the employee, the supervisor, clients, as well as other employees involved in the same work. Regular monitoring of activities is a systematic way to determine whether the plans and methods to achieve objectives are working as intended. Organizational changes (e.g., budgeting, business priorities) may occur that affect the employee's ability to achieve the original objectives, possibly resulting in a requirement to adjust the employee's performance plan. Schedule regular progress reviews to determine: Informal feedback is not necessarily planned, it is spontaneous, and occurs preferably right after the supervisor (or a colleague, a client) makes an observation. It is meant to reinforce desirable behaviors, and to modify unwanted behaviors or to provide pointers on how to improve performance.

Phase 3: Managing and Reviewing performance

Managing performance is the second element of the performance management system cycle. This step distinguishes performance management as a process from performance appraisal as an activity (Schneier et al., 1987). According to Schneier et al. (1987), every employee is responsible for managing his or her own work performance. This involves: (1) maintaining a positive approach to work, (2) updating and revising initial objectives, performance standards and job competency areas as conditions change, (3) requesting feedback from a supervisor, (4) providing feedback to supervisor, (5) suggesting career development experiences, and (6) employees and supervisors working together, managing the performance management process. According to the view of Fletcher, in the second stage, enhancing communication within an organization is important for employees to be aware of objectives and contribute the future development.

Phase 4: Rewarding Performance

According to Schneier, Beatty and Baird (1987), the rewarding performance phase includes three activities: personnel development, linking to pay and identifying the Desired Performance Feedback mechanism Measurement Development - Vision - Mission - Strategy Actual Performance - Value Drivers 14 results or performance. In Rahdert's (1960) view, the function of personnel development is that the growth of people can be accelerated over and above that which would take place naturally and normally, and then maximum the employees' contribution to personal and group goals. Personnel development has some development principles. First one is personal involvement. All personnel development is basically self-development. Opportunity for development is valuable only if the individual capitalizes on it himself. In fact, the organization can and should offer encouragement and help, but development activities seem to be successful only to the degree that individuals become personally involved in them.

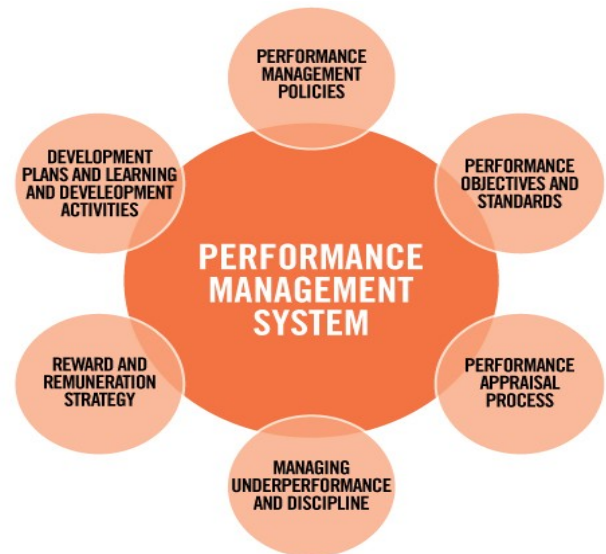
Employee performance:-

In the organizational context, performance is usually defined as the extent to which an organizational member contributes to achieving the goals of the organization. Employees are a primary source of competitive advantage in service-oriented organizations (Luthans and Stajkovic, 1999; Pfeffer, 1994). In addition, a commitment performance approach views employees as resources or assets, and values their voice. Employee performance plays an important role for organizational performance. Employee performance is originally what an employee does or does not do. Performance of employees could include: quantity of output, quality of output, timeliness of output, presence at work, cooperativeness (Güngör, 2011). Macky and Johnson pointed that improved individual employee performance could improve organizational performance as well.

Employee performance measurement: - The concepts of performance are studied through evaluation of overall performance and the management of the performance and the evaluation of performance is the process classifying certain outcomes within a definite timeframe (Coens & Jenkins, 2002). Moreover, the axiom, 'If you can't measure it, you can't manage it,' underpins the rationale for organization having a completed and comprehensive performance measurement system

such as the Balanced Scorecard or total quality performance management. This approach connects measures throughout an organization to translate high level objectives into lower level activities. Then, measures are imposed on individual employees to monitor their performance of these activities (Platts&Sobotka, 2010).

The relationship between Performance management systems between employee performances:-Developing and Planning--Mission and individual objectives the first stage of performance management system is developing and planning. In this stage, business needs to set up mission and objectives, and then clarify the individual responsibility and duty. A mission is an organization's character, identity, and reason for existence. It can be divided into four inter-relating parts: purpose, strategy, behavior standards and values. Purpose addresses why an organization is in being; strategy considers the nature of the business; behavior standards are the norms and rules of ' the way we do things around here '; values are the beliefs and moral principles that lie behind the behavior standards, beliefs that have normally been formulated within the organization by a founding dynasty or a dominant management 19 team (Campbell and Yeung, 1991). The organization still sets individual performance management targets which related both to operating-unit and wider organizational objectives (Bevan and Thompson, 1991). According to Costello (1994), performance management supports a company's or organization's overall business goals by linking the work of each individual employee or manager to the overall mission of the work unit. Individual targets or responsibilities could be the mechanism to enable the performance of individuals within the organization to be aligned with the mission statement and the way of adjusting performance requirements to meet new challenges which may arise.



What is Performance Appraisal?

Performance Appraisal is a method of evaluating the behavior of employees in the work spot, normally including both the quantitative and qualitative aspects of job performance. Performance here refers to the degree of accomplishment of the tasks that make up an individual's job. It indicates how well an individual is fulfilling the job demands. Often the term is confused with effort, but performance is always measured in terms of results and not efforts. A student, for e.g., may exert a great deal of effort while preparing for the examination but may manage to get a poor grade. In this case, the effort expended is high but performance is low. In order to find out whether an employee is worthy of continued employment or not, and so whether he should receive a bonus) a pay rise or promotion" his performance needs to be evaluated from time to time.

Written Example: a written example of Great Work provided an unfiltered view into the respondent's actual work performance. Two unbiased, independent researchers reviewed and post-coded each of the 980 responses and rated each on a 1-5 scale (1 being the lowest and 5 being the highest) for the degree to which the respondent's example of Great Work was "productive, innovative, and [made] a difference that people care about." The responses were highly indicative of the respondent's work performance.

Manager Review: the manager review score was valuable in providing a manager's assessment of

overall work performance. Respondents were asked, "On a scale of 1-7 where 1 means very poor and 7 means very excellent, how did your manager generally rate your job performance during your last employee review?"

Raises: respondents reported the number (up to five) of performance-based raises received over the course of the last two years. Performance-based raises ignore yearend and scheduled raises and therefore make for a strong indicator of work performance.

Pay Growth: annual pay growth was calculated using starting salary, current salary, and tenure, indicating pay growth as a percent of income. Respondents that reported year over year pay growth beyond the norm were likely recognized through bonuses and raises for performing beyond expectations.

Promotions: the number of performance-based promotions is a strong indicator of work performance, as the variable does not include promotions for tenure or vacancy, but only for work performance.

Job Satisfaction: overall job satisfaction is often a characteristic of those producing Great Work. We considered it important to add to the model because of its correlation with Great Work, but did not weight it heavily in our model relative to other variables.

Financial Impact: while great Work is likely to have a positive financial impact on the organization that is not always the case. We reduced the weight of this variable relative to other variables for that reason.

NECESSARY ELEMENTS OF PERFORMANCE MANAGEMENT SYSTEM:-

André A. de Waal; Vincent Coevert (2007), conducted a research for knowing the effect on the productivity of the newly implemented performance management system in two public and private banks. Results of the research was that in private sector it made a significant improvement while in public sector it did not play any significant role. The reason behind this duality of result was implementation of the system in both of the bank and the management Philosophy. In public bank management did not bother enough for the implementation of the newly developed system while in private bank the management tried to implement it with its real soul. So it is the management commitment towards the

implementation that how committed the managers are in order to performance management.

Performance management and getting the required behavior is one of the core issues which most of the organization fails to analyze in order to achieve the required goals, (Nicholas L. Weatherly; Richard W. Malott 2008). Organization behavior should be developed among the individual in such a way which is performance oriented and behavior should be analyze and then modified to develop the required behavior, (Hal J. Whiting; Theresa J.B. Kline; Lorne M. Sulsky 2008). The success of the system is correlated with employees' expectations if the employees expectations fulfill with the appraisal system, then there exists positive relationship and vice versa. The other thing which must be kept in mind while developing the goals, that it should be in accord with the employees and organization capability, (Gary P. Latham; Laura Borgogni; Laura Petitta 2008). Individual should be accountable in promoting of a performance management system which actually promote the quality culture.

Describing the same things by NonnaTurusbekova; MandaBroekhuis; Ben Emans; Eric Molleman (2007), describes the need of the quality management system in the organization to get the desire behaviors of workers because workers some time violate the rules and detract the quality processes.

The basic purpose of performance management system is to creating the alignment in between the organization objectives and its sub systems to achieve the organization objectives, Carter McNamara, (2008). In modern organization there should be a balanced performance management system to achieve the organization objectives. By strategically using the performance management system organizations can develop its performance standards, can develop the measures and then reports the finding for further improvement and in this a continuous process keep running (South Carolina, 2002). In TQM techniques Performance management system play an important role for developing as well as measuring and achieving the objectives.

The approaches like balance score card, metrics, indexes should be match with the system in the quality process to the organizations, (Stivers, Bonnie P. Stivers, Bonnie P; Joyce, Teresa Joyce; Teresa, 2000). A balance performance management system initiative was taken by Kaplan; Norton, (1992) to achieve the organization's vision

strategically. Balance score card focusing on the four business prospective i.e. financial, customer satisfaction, business process and the organization learning and innovative culture. A recent survey determined that the companies use an average of 13 management tools at the corporate level. These tools are intended to help measure or monitor the performance of an organization, and within this the most popular performance related tool was the Balanced Scorecard (Rigby and Bilbo bead 2005). In the absence of a basic strategic context, managers found it hard to agree on an appropriate set of measures of organizational performance (Ahn, 2001). Balance scorecard is the platform for measuring the organization performance having coordinating with financial and non-financial aspects of business (Irwin D, 2002).

Conclusion:-As the increase of concentration on administrative management during these years, HRM plays a more important role in managing an organization, such as the effects of HRM on innovation, 'new way of working principle' for working relations. Performance management system, as a field of study, is a popular topic in HRM over time. It is important for a company to plan, manage and reward the performance. In doing so, company's productivity would be developed and profit would be increased as well through supervising the whole process of performance management, such as building objectives, checking feedback and evaluating performance. On the other hand, employees are the resources and assets of an organization. Organizations need to figure out strategies for identifying, encouraging, measuring, evaluating, improving and rewarding employees' performance at work.

In the literature, labor productivity is the measurement of employee performance. That is quite needed when I analysis how performance management activities influence employee performance. To conclude, combining the literature review, prior research and ordered logit regression analysis results, there is a compared insignificant relationship between performance management system and employee performance. In addition, this study reveals that not all activities in performance management system influence employee performance positively. Therefore, managers and employees need to aware that the performance management activities need to be 48 revised when

they find employees is depression or unsatisfied. Furthermore, when the managers or professions set up objectives, they should consider the culture of the organization, the knowledge and skills of employees and other problems. As a result, the objectives could be more achievable and motivating employee better.

Then, managers or professions need to create a comprehensive model for financial appraisal to asses employees fairly and consequently to motivate better employee performance. It is obviously that performance management is useful and meaningful for an organization to improve employee and organizational performance. Consequently, this study adds to more empirical evidence that supports the opinion about the relationship between performance management system and employee performance. However, regarding the various limitation of this study, there is a need for further research in the area of performance management system and employee performance.

Moreover, future studies could focus on across national boarder research. This study is limited to the United Kingdom and the results might not suitable to be analyzed in other countries. In fact, the different country has its own special working situation, so if future study collects data from multiple nations, the empirical results would be various as well. However, it could be difficult to find a dataset that conclude cross national data.

Management system is not an easy task. There should be consensus among employees when goals are developed. Goals are such that which should be easily sub divided into different organization level. By using the balance card approach developed by Kaplan and Norton (1992) all the four prospective (Financial, Customers, Process and Organization culture) must be kept in mind. Management should be committed to develop the system and proper communication with the employees should be made. Clear Measures should be adopted and employees at all level must be aware with the adopted measures. Performance management is a continuous process; follow up should be given to the employees so that employees can come to know regarding their performance in the organization.

One of the factor that became very clear in the course of gathering information in the organization is that majority of the employees were well aware of the system of performance appraisal followed in the organization.

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