(Working Paper)

Performance Management:- A Conceptual Overview

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This paper highlights the need and importance of managing employee's performance in organisations. It describes performance appraisal, performance management, appraisal methods and performance management practices. Subsequently, it discusses factors that lead to problems and outlines critical condition necessary in successful designing and implementation of performance management systems.

Employees are the building blocks in the organisations. What they do on the job affects to what extent organisational goals are achieved. Since employees with requisite competencies are the assets of the organisation, it becomes imperative that organisations groom competent employees, motivate and retain them. In competitive business environment, organisations, therefore, seek to evaluate and measure employee performance either as individuals or in teams, on a regular basis, to ascertain whether employees have given their best on a given job and take appropriate actions in terms of training and development, incentives and rewards to sustain their continued high performance. Organisations and practitioners are trying with unique ways of handling performance in the best possible manner. However, one best way to do this has remained elusive.

Measuring and evaluating employee's performance is an ancient concept. In a study of managing performance through ages, Mills states that it was practiced as early as 3rd century AD by the emperors of Wei Dynasty through Imperial Raters (2004: 2). In business, formal observations of work has been recorded in early 1800s in New Larnak in Scotland where Robert Owen, a cotton mill owner hung a coloured wood over the machines to indicate supervisors assessment of previous days conduct (Prowse, 2009). Since then the practice of performance management has continuously evolved over the years and grown in complexity. But despite its popularity there appears to be no

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common definition on the processes. There are number of terms/terminologies applied in the context of performance management like performance assessment, performance evaluation, performance appraisal and performance management of which the last two are popularly used. Often these terms are used synonymously. However, there are clear distinctions in between these.

Performance Appraisal: Aswathappa defines performance appraisal as "an objective assessment of an individual's performance against well defined benchmarks" (2008: 239). According to Yee and Chen, performance appraisal.. " is a process which involves creating work standards, evaluate employees actual performance relative to those work standards and giving feedback to employee so as to motivate him or her to improve the job performance or to eliminate performance deficiency" (Yee, C.C. and Chen, Y.Y., 2009). In the views of other writers (Armstrong, 2006:500) and (Agarwala, 2007:435-437) it is a formal assessment and rating (scoring) of individuals by their managers. Rao distinguishes appraisal system as an annual exercise focussing on performance appraisal and generation of ratings with emphasis on relative evaluation of individual linked to rewards and recognition designed and monitored by HR Department (2004: 214). Going by these, performance appraisal mostly review past behaviour and reflect on the past performance. It provides opportunity for the supervisor and the subordinate to sit together and discuss past performance, and at best provide opportunity to discuss development and other support required from the manger. However, there is more to securing performance excellence. In addition to performance evaluation and rating, it would also require behaviour modifications through appropriate rewards, capability development through training and development interventions and other HR actions like job rotation, transfers etc to enable employees to do well. CIPD, summing up these views, aptly states performance appraisal as an important part of performance management and as one of the range of tools that can be used in managing performance (CIPD, Performance Appraisal, 2010).

What is appraised, how it is appraised and why it is appraised are critical questions. Lack of clear focus and understanding in these critical areas, without proper linkages

with other processes, could make the entire appraisal a bureaucratic formality and in the words of Armstrong and Murlis (1998) "a dishonest annual ritual". It therefore, could be seen as a top down assessment, backward looking, concentrating on what had gone wrong, and not linking with the needs of the business.

Performance Management: Performance management on the other hand is much more bigger process which links together many elements of successfully managing people in the organisations. Agarawala defines performance management as an, "integrated process that consolidates goal setting, employee development, performance appraisal and rewarding performance into a single system" (2007:434). She further opines that performance management includes practices where managers work with employees in setting goals, develop performance potential, appraise and reward performance to contribute to organisational success. In similar tone, Armstrong opines that it is " a continuous and much wider, more comprehensive and more natural process of management that clarifies mutual expectations, emphasises the support role of managers who are expected to act as coaches rather than judges, and focusses on the future" (2006:500). In view of Rao, it is a continuous process emphasising performance improvement of individuals, through performance planning, analysis, review, development and improvements, linked to performance improvements and through them to other HR decisions as and when necessary and owned by line managers(2004:214). Armstrong and Baron define it as a process which contributes to effective management of individuals and teams in order to achieve high levels of organisational performance. It is a strategic and integrated process and incorporates performance improvement, development and managing behaviour (CIPD, Performance Management: An Overview, 2010).

In view of these, performance management essentially could be seen as a continuous process of performance planning linked to business plans, setting performance standards, concurrent monitoring and evaluating performance (seeing whether performance is effective), developing performance potential, and measuring performance. It is futuristic in orientation and broader in scope and incorporates

performance appraisal, performance evaluation, performance assessment (collection of data on past and present performance and review) as integral parts of the process. The entire process is geared towards enabling employees, as individuals and as members of the teams to continuously excel in their performance rather than giving a cursory glance at what was achieved or not achieved during the lapsed period. It is aimed at crearting a culture of performance excellence by using the performance measures as the basis for incentives and rewards , motivate employees and retain them. The key ingredients in performance management system includes various processes that seek to integrate organisational goals with employee behaviour and outputs, developing performance potential and intrinsic as well as extrinsic rewards to align employees direction with the organisational direction. Recent survey of current trends and practices in performance management (CIPD, 2009) indicates a trend from a heavily bureaucratic procedure to a wider-reaching and inclusive process and primarily includes performance appraisal, objective setting, regular feedback, regular reviews and assessment of development needs as cornerstones of performance management.

Performance appraisal methods and systems

Performance is at the heart of appraisal as this is what an employee is normally evaluated, assessed and/or rated on. In the views of Rao, performance is what one is expected to deliver in a given role over a period of time and can be stated in terms of results or outputs, efforts, tasks and quality with specification of conditions under which it is to be delivered (2004:5). Agarwala identifies three types of performance dimensions- traits or characteristics of employees (attitude, creativity, attitude etc), specific job behaviours (developing others, customer service etc) and results or the outputs delivered (2007: 455). In a similar line Armstrong opines that when managing performance both inputs (behaviour) as well as outputs (results) needs to be considered (2006:506). Amidst such views, the quest is on for identifying and selecting the most common and critical aspects of job performance so that cost effective and useful appraisal systems can be built without having to segregate or identify separate sets of performance elements for each profession and job titles. One of such proposal is to

take the Human Factor Approach (HFA) in selecting job elements in performance appraisals (Ridley, 2007). The central argument of HFA is that humans perform the job elements to be rated not the professions or job titles and therefore, performance elements foreground should be what human can do/produce and their background should be professions, job titles and descriptions. The selection of performance elements should therefore, be guided by "what can human produce or do at work that is critical or important for maximising employee and, concomitantly, organisational performance". Taking this approach, there could be seven reasonably distinct HFA-generated job performance elements, Planning and Implementation, Problem Solving, Communication, technical products, professional relationships, professional development and supervision and management which could be classified and worded differently. HFA however is at the conceptual stage and lacks empirical support.

Organisations focus at different dimensions of performance and hence appraisal methods seem to vary amongst organisations. According to Robinson, some of the more popular approaches to appraisal include objective setting systems, behaviourally-anchored rating scales (BARS), simple rating systems, critical incident systems and blank sheet appraisal (2007:219-224). While objective setting systems are more concerned with outputs, BARS on the other hand focuses more on desired performance behaviours or competencies. Simple rating systems focus on quantity and quality of work and other criteria regarded as significant by organisations. Critical incidence system identifies most critical aspects of the job and records examples of how these were performed. Finally the blank sheet appraisal approach is an open approach without any structured guidelines or parameters where superior and subordinate decide to look at certain aspects of job and evaluate how it was done. Each of these approaches has their share of advantages and dis-advantages and none can be said to be superior or inferior.

A survey of performance appraisal systems in Singaporean companies (Mills, 2002) indicated that trait-based systems are still popularly used (35.5%), followed by performance management system (26.7 %) and hybrid systems (19.8 %). Half of the

companies with less than 200 employees used hybrid system, 46% of small and medium sized companies used performance management system while trait based system were found more likely in large and medium sized companies. It indicates that in practice, the choice of approach essentially depends on the objectives and organisations other contextual factors.

Depending on the choice of performance dimensions different methods are used for performance appraisal/rating. Agrawala states that trait-based methods use graphic rating scales, forced-choice methods, essay methods, ranking method and forced distribution method. Behaviour based methods use critical incidences, checklists, behaviourally-anchored rating scales and finally output or result based methods use productivity measures and management by objectives (2007:456-461).

Responsibility for performance evaluation

During the course of a job performance, employees interact with a number of other individuals in the organisation and outside organisations as well. Hence to get a comprehensive picture of performance, information and data related to an individual performance could be obtained from immediate supervisors/managers, subordinates, peers, and customers/clients served. Conventionally, evaluation was done by the supervisors and ratings given. This approach is critiqued as being one dimensional and perhaps biased. It is argued that the same performance could be viewed differently by a different supervisor and also viewed differently by the peers and subordinates. Hence with a view to seek as many perspectives as possible around the performance by obtaining feedback from all possible angles, a system of 360 degree feedback or multi-rater feedback came into practice in the 90s. This approach facilitated generation of performance data for the individual from different sources including self assessment of the individuals concerned both for evaluative as well as developmental purpose. Recent studies (Rao and Rao 2005: 99; Armstrong 2006:522-524; and Agarwala 2007:483) indicate that 360 degree appraisal or multi-source appraisal and feedback is mostly appropriate and hence used for developmental purposes rather than for evaluative purposes. Although it is often seen as a panacea representing best practice,

as with the conventional system, 360 degree feedback system also has limitations. It could create considerable anxiety in employees when appraisals are negative and give her a feeling that others are grouping against her. Further, different sources may have their own biases and evaluation could be subjective. While there are multiple sources from where the performance information could be generated, who to involve in performance evaluation depends largely on the objective of the system, performance dimensions chosen, time taken and the cost involved. Although a recent survey (CIPD 2005) found that 360 degree feedback method used only in 14% of the organisations, it is increasingly being recognised as a powerful feedback tool.

Problems in Performance Management

Despite positive benefits that could be availed through the system, there are certain factors that make the system problematic. According to Aggrawala, some of the factors leading to problems in performance managemnent are ambivalence on the part of both the appraiser and appraisee, problems in design and implementation and rater biases and errors (2007:464-65). In similar lines Robinson, based on the research findings of Armstrong and Baron, outlines that major criticisms have been focussed on misuse of authority by managers and problems of one person assessing performance of another in an objective manner. In addition other criticisms include misunderstanding over the purpose, conflicting objectives, lack of preparedness, overwhelming paperwork, decisions made prior to appraisal interview, rating biases particularly "halo and horns effect", lack of appraisee involvement , inadequate training and support for line managers and lack of follow up actions (2007:217).

Apparently such criticisms arise out of the organisational context where performance management system operates. In bureaucracies with centralised personnel functions concentrated in central personnel agencies, the line managers mostly do not see performance management of the employees as their responsibility. Since they are busy doing other things, the entire processes of performance planning including identification of targets and standards are not done. Hence, appraisal becomes an annual ritual to be compiled and recorded by HR unit and people scurry to fill the forms

at the end of the appraisal period. It is also seen that some complete the forms only when it is time for decision on promotion and other rewards which could be at the end of fourth or fifth year. Managers often play safe while rating and provide ratings that lie at the middle of the scale which does not hurt anyone at the surface. In such cases the developmental aspects are totally forgotten and the entire objective of PMS is defeated. Further, managers in bureaucracies often do neither have flexibility nor abundant incentives that can be given as a result of superior performance. This further reinforces the beliefs in the minds of employees that superior performance is not instrumental in materialising rewards. In such circumstances, the goal of PMS in creating high performing culture is defeated and lead both parties to disengage in the process and limits the entire exercise as a routine process and formality.

Features of successful system

Successful and useful systems must avoid all the factors mentioned above that distracts it from its main course as intended. Some of the essential features that the system must embody are as following:

Performance development orientation: The moment performance development aspects are undervalued; the system becomes backward looking and ends up giving a performance score for what had happened in the past. Apparently it does not help employees just by telling them that they made mistakes in certain performance areas six months or a year back. It neither helps organisations in realising their performance goals. Identification of measurable performance targets, clear performance standards or behaviours and ongoing feedback along with other development intervention like coaching, training and other necessary support in doing the job well is of paramount importance.

Choice of performance criteria: Performance has varied dimensions. The choice of performance criteria have to be based on conscious decision and needs to be job related. Job analysis and responsibilities must be the basis and clear performance indicators have to be devised. It does not help an employee in non-supervisory position

to assess her supervisory competencies. Prior communication in choice of rating criteria and scales helps the system in minimising subjectivity.

Ease in implementation: Performance management systems could be overloaded with numerous templates and forms comprising numerous performance data and information to be collected from numerous stakeholders. When the system becomes overwhelmingly complicated and multi-faceted, the entire focus could be diverted in completing the exercise for the sake of it and the essence is easily lost. Employees and the managers must be able to understand the whole process and they should be able to implement the system in entirety with sufficient ease both in terms of their involvement as well as costs.

Management support: Managing performance of employees is essentially one of the functions of the managers. They should genuinely devote time and efforts in creating conducive environment, provide necessary support through coaching, mentoring and training so that employees can excel in whatever they do and provide timely feedback. Done fairly and transparently, such actions creates trust in the system as employees begin to see it more as developmental process rather than a fault finding endeavour. Each of the processes of performance planning, monitoring, evaluation and feedback are equally important and critical.

Link well with reward systems: Superior performance must be instrumental in securing appropriate rewards. When rewards are attached to performance, it becomes even more important that assessment and evaluation are done fairly and transparently. In contrast, when ratings are not based on the performance and non-performers just get by to the extent of being given similar rewards, the entire system looses the trust and confidence of the high performing employees. It can lead to a very demoralising state and defeats the entire purpose. Fair performance ratings based upon agreed criteria and rewards decisions based on superior performance alone reinforces the desired performance behaviour and eventually facilitates in creating an organisational culture of high performance.

Organisations have their own unique environments. PMS system design, therefore, depends on contextual factors. The likely variables according to Robinson are".. organisational culture, occupational composition of the workforce, organisational size and competitive pressure, the nature of product or service, customer expectations, technology, labour market pressures, general business plans with regard to expansion and contraction- and the pace and type of change required" (2007:218). In the words of Agarwala, "a performance appraisal no matter how well designed, will be unsuccessful if it does not fit with the prevailing culture of the organisation, lacks support from the top management, or if employees do not hold positive attitudes about the process and its effectiveness" (2008:469). In the views of CIPD, clarity on what is performance, engraving the system in the organisation culture, staying focussed in how individuals benefit and play their part in the process and understanding that it is tool for line managers is key to successful introduction and implementation of the performance management system.

While importance of managing performance has been accepted as crucial, studies indicate that there is no universal performance management model, (Jyothi and Venkatesh, 2006). The quest is to create a system that facilitates identification and evaluation of performance, provide necessary development interventions and incentives so that employees develop their skills and competencies, get motivated to excell in what they do and thereby contribute in achieving organisational goals.

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