

A Commentary on Effectiveness of Performance Management

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Abstract:

Performance management is one of the most researched areas in the domain of human resource management. In spite of all the efforts made by the organizations, the effectiveness of performance management system remains a grey area. The research results are inconsistent as far as the critical success factors of PMS are concerned, and therefore cannot be generalized. The present review attempts to identify the critical success factors of effectiveness of performance management system and will report the inconsistencies in the performance management research results.

Key Words: Performance management, Effectiveness, critical success factors

Introduction:

Performance management is a comprehensive process undertaken by organizations worldwide to improve its employees' performance. In simple terms performance management includes everything that is done to enhance employees' performance. Performance appraisal is one of the key elements in this process and relates to measurement aspect of performance. It is so important that, often it is misunderstood for performance management and used interchangeably with performance management.

Performance management can be compared to the financial management of the organizations which is a continuous process to manage the finances of the organization whereas the annual audit which appraises the financial performance of the organization is an yearly (periodic) event, can be compared with the employee performance appraisal.

Performance appraisal has been one of the most discussed and studied HR functions world wide. In most of the organizations the performance appraisal is a fact of life which is difficult to handle yet unavoidable. In country like US over 80% of the organizations have performance management systems in place, in 90% of cases it does not satisfy the stake holders particularly the appraisees. Performance appraisals are considered to be one of the most difficult tasks in the managers' job (Feldman, 1981). Wide spread attention has been paid to the role played by performance management and it has been strongly suggested that an effective performance management can yield significant positive benefits to the organizations. (Cascio, 1982). While it has been well recognized that the performance management can almost make or break the organizations, the research in this area has not yielded consistent results in terms of identifying the factors of its effectiveness. While other HR functions can be

generalized and implemented across the organizations in same industry and even across the industries with certain limitations though, the performance management system has so far been recommended to be organization specific and there are few factors of performance management effectiveness which are common to the organizations operating in the same industry. The inconsistency in research results in performance management effectiveness may be due to lack of clear understanding about the critical success factors of performance management. These critical success factors may be related to either fulfillment of intended objectives or stake holder satisfaction or even enhanced employee performance.

The problems associated with appraisals have been well documented. However it continues to frustrate both academicians and researchers, particularly when it comes to the purposes served by appraisals. Different stake holders have different expectations and there is a lack of congruent and shared understanding among these groups. Lawler, Mohrman, and Resnick (1984) in their study, argued the need to better understand differences in managers and subordinates' perceptions of the appraisal process. They postulated that performance appraisal systems will be effective (i.e. accomplish the intended purpose) to the extent that managers and subordinates have a shared perception of the purpose and function served by appraisals and the extent to which the process satisfies the needs of both parties.

There are different approaches to look at effectiveness of performance management systems.

While some people consider the performance management effective if it serves the intended purpose, others take its acceptance as the criterion of effectiveness. There are variety of issues attached to acceptance of performance management system by the stake holders particularly appraisees which call for attention of managers responsible for designing and implementing these systems. These issues may be related to systemic errors, measurement errors or appraiser competence and training. The systemic errors may include inappropriate performance dimensions and a lack of good performance measurement scale with appropriate weightage or unsatisfactory feedback and appeal processes. Measurement errors may be rating bias or lack of appraiser training. Perceived fairness is one important issue which has a potential of determining the acceptance of performance management by appraisees (Diboye & DePont briand). The present review takes stock of development in performance management research for the period from 1972 to 2012 and deliberates into the relevant issues to develop a better understanding of the subject. However it does not cover all the literature published in this period.

Objectives:

The present study is a review of literature related to effectiveness of performance management systems (PMS) with following objectives:

1. To identify the critical success factors of effectiveness of PMS.

2. To report the extent of consistency in available literature on effectiveness of PMS

Method: The present review takes stock of the situation as far as effectiveness of PMS is concerned through review of available literature from 1972 to 2012. However the review has its own limitations in terms of accessibility to available literature. Research articles from various peer reviewed scholarly journals have been reviewed apart from referring some books on the subject matter. The review identifies two categories of critical success factors of effectiveness of PMS namely organizational factors and systemic Factors which are given in annexure 1 and 2 respectively.

Literature Review:

Mohammed A.H. (2012) while studying the efficacy of annual confidential report method of performance appraisal in public sector found that for the performance management to be effective, its validity, reliability and perceived fairness before and after rating are very important factors.

Tung et al (2011), in their study to identify the factors influencing the performance measurement system, found that use of multi dimensional performance measurement system is associated with two dimensions of effectiveness of PMS (performance and staff related outcomes). The results also revealed that the organizational factors like 'top management support' is found to be associated with performance related outcomes and 'training' was associated with the staff related outcomes.

To evaluate the effectiveness of a performance appraisal system, Agbola et al (2011) have identified five factors namely (a) The nature of performance appraisal system (b) How the performance appraisal process is implemented (c) The effectiveness of communication within the system (d) How the appraisal data is used and (e) Employee perception of fairness of the system.

By nature of appraisal system he meant the appraisal system being firmly based upon established policy agreements which define the roles, expectations and competencies required for effective performance. It will help in agreeing upon the objectives and methods of measuring the performance and assessing the level of competencies reached. Implementation of appraisal should ensure that the performance dimensions are clearly defined, the performance standards are disseminated and transparency is maintained throughout so as to minimize the subjectivity in appraisal.

Transparent and timely communication about performance expectations is a must for any performance management system to be effective. Similarly providing continuous feedback with a positive attitude is an integral part of communication.

Linking the performance appraisal results with appropriate rewards is another factor of effectiveness of performance management system and making the jobs as quantifiable as possible is important to reward the performance. The

performance data should also be used to identify the development needs of the employees.

As they say, being seen as honest is as important as being honest. Therefore it is important that the performance management system should not only be effective in terms of fairness and transparency apart from other parameters but it should look effective as well as perceived by the employees.

Biron et al(2011) using signaling theory to study the effectiveness of performance management in world's leading firms across the industries, concluded that the organizations, by sending the positive signals in terms of good organizational practices like 'top managements' support', 'communication about performance expectations', taking a broad view of performance management' which includes both strategic and tactical elements and 'training the appraisers' can improve the effectiveness of performance management. However the impact of the above factors vary in intensity. The major issues with performance management system remain related to its implementation than the content and processes.

Performance management effectiveness is found to be higher in private organizations if the system is open and more committed to employees, the conventional appraisal methods are more acceptable to employees rather than the multi source feedback system (Agrawal M., 2011)

Improving the effectiveness of performance management System has a sole objective of improving employee performance (Bob Lavigna, 2010). The efforts like training, efficient and effective design of appraisal tool and communication and feedback processes are one side of the storey while improving or enhancing employee satisfaction and engagement is the other side which leads to improved performance as it is very well accepted and acknowledged fact that engaged and satisfied employees would perform better and they would be ready to spend their 'discretionary energy' for the organization which is what is required and results into effective performance management

Ron Drew (2009) while working with his clients, emphasized on three shortcomings contributing to failure of performance solutions namely the framework used to view, analyze, and discuss performance is too narrow, performance solutions not addressing the ineffective habits of performers and the design step being often not properly defined or even ignored.

While he advocates the thought that the performance management system can be improved by taking care of the above short comings, he cautions on being idealistic and trying to solve all the performance problems which are practically not feasible neither can we foresee them all. Hence focusing on crucial twenty percent causes which may solve eighty percent of the performance problems is the middle path recommended.

Abu Mansor N.N. et al (2011) concluded in their study on effectiveness of PMS that while 'management commitment', 'performance oriented culture' and 'employee involvement' are the three factors which affect the effectiveness of PMS, the performance oriented culture is most important affecting the effectiveness of PMS to the maximum extent.

Jim Collins warns that 'People are the most Important asset of your organization' is misleading and it should be modified as 'only right people are the strategic assets of your organization' (in Crain David, 2009). The emphasis here is learning and development for the employees having right attitude and getting rid of the employees who do not fit into the bill, a strategy adopted by Wall Mart

Bonadio (2009) emphasized that the key to get maximum out of the work force performance management is to remain flexible and open to various possibilities that a systematic PMS can have in the organization. Calibrating performance rating errors across the organization, linking performance process to career development and learning management, enabling pay for performance to build a merit based culture, Driving continuous improvement by leveraging workforce analytics and configuring PMS rather than customizing can enhance its effectiveness.

One of the ways to assess the effectiveness of PMS is to find out the role of outcomes of effective PMS and the factors that can harm the

effectiveness of PMS. Hafiz, Zaid and Zaheer (2009), in their study in public and private sector organizations found that the most significant outcomes of effective PMS include 'Employees knowing how they are performing' and 'Improvement in the accuracy of employee' while 'organizational politics affecting the performance of targeted employee', Doubts in the minds of employees about the after effects of appraisal, Appraisal focus on short term goals and subjectivity of appraisals are found to be the detriments of effective PMS.

Koen Dewettinck and Hans Van Disk (2009) applied the three motivation theories namely expectancy theory, goal - setting theory and control theory to understand the effect of characteristics of employee performance management system on its effectiveness concluded that while 'shaping and implementation' of performance management is very important for its effectiveness, 'perceived fairness' partially mediates between performance management system characteristics and its effectiveness

Wood and Marshall (2008) grouped the factors of effectiveness of performance appraisal into personal factors and organizational variables having an impact on self efficacy of the appraisers which ultimately makes the performance management effective. The effectiveness of PMS here is measured in terms of perceptions of appraisers and appraisees and their mutual on the same. The personal factors included 'The appraiser experience' and 'training' while the organizational variables included 'management concern',

'accountability', 'instrument adequacy', 'instrument sensitivity and importance of appraisal.

Volumes of literature is available on the mechanics of appraisal (Bretz et al.,1992,Fletcher ,2001,Murphy and Cleaveland ,1995) but not much is known about what makes a performance appraisal effective in its entirety (Wright, 2004,and wright and Lam,2002) .while certain characteristics of appraisal like objectivity, feedback, employee participation and involvement etc have remained constant, Wright and Frenka (2007) have identified some new constructs like 'sense of ownership', 'concern for control within appraisal system' and 'tailored to help individuals develop and learn' .

The effectiveness of performance management system is likely to be affected by both internal and external factors to the organization. While the external factors like '360 degree feedback' have significant influence on the effectiveness of PMS, the new technology company's PMS is found to be more effective as compared to the traditional Indian organizations (Srinivasa Rao A, 2007)

Chandra Shekhar S.F.(2007),while studying the perceived effectiveness of performance appraisal system in an engineering company , found that the perception of employees about effectiveness of PMS varies with their job levels and personal factors, though not significantly. Higher level employees (managers) are more likely to respond positively about

effectiveness of PMS of the organization than their counter parts at lower levels. The possible reason for this variation may be their depth of understanding of PMS and its consequences due to their higher qualifications and experience.

To realize the full gamut of capabilities and core competencies of employees is one of the major contemporary challenges for strategic human resource management. In order to achieve this, employee performance management system should not focus narrowly on task performance but it should emphasize employee development rather than control and should consider judgment from all sides about employee's actual and potential contributions in the performance domains of organization citizenship, emotions and ethics (Wong and Snell, 2003).

Questions that have yet to be pursued in the literature include: what leads to performance appraisal system effectiveness and how can performance appraisal system effectiveness be defined? How can organizations understand if their performance appraisal system is effectively producing their desired results? Research shows that the measures and systems we now have are not free from bias (Cleveland & Murphy, 1992; Dewberry, 2001; Scott & Einstein, 2001; and Lam & Schaubroeck, 1999 in Anderson, 2002),

Performance management system is a dynamic behavioral tool.It should be reviewed and updated whenever the organizations face new challenges, introduces intervention programs or

changes its strategy. The success factors for every organization are different. Therefore the performance management system should always be customized for each organization, keyed to its strategy. It should provide specific measures to achieve its objectives. The performance management is not about measuring performance. Rather it is about providing feedback to individuals for directing action. The resistance to change depends a lot on the organizational culture (Joyce T and Stivers B, 2000).

Perceived use of performance appraisal (PA) results affects the effectiveness of performance management. Previous research in this regard have given mixed results. While some researches show that the employees feel satisfied with the evaluative use of PA results particularly when these are resulting into their salary hike or promotions, the other studies find increased level of employee satisfaction when the PA results are used for development purposes (Boswell and Boudreau, 2000)

Performance management is the application of performance feedback and other behavior modification techniques to shape behavior in desired directions. It includes coaching, mentoring, and feedback, positive reinforcement, role modeling, and counseling, recognition/rewards for top performance, incentives and performance appraisal. Unlike performance appraisal, however, which is episodic, effective performance management is ongoing and continuous (Joan Wagner Zanier, 1999)

The performance management can be compared with whatever is done to manage the finances of the organization throughout the year against the account audit which is episodic and one off incidence which is actually a beginning for improvement. Feedback given in time with an intention of modification of behavior of performer without hurting his / her self esteem can go a long way in improving the organizational performance.

An effective performance appraisal system should comprise of performance planning process, performance coaching process, performance review process and performance appraisal process (Ibrahim, Partini, 1998)

Effectiveness of performance management system should be ensured during its design, implementation and maintenance phases. To maintain effectiveness of PMS, usually three categories of activities are required namely controlling, monitoring and furnishing feedback to users of the system. Controlling PMS includes establishing rating periods, training raters and ratees about the organizational expectations and role of raters and ratees in PMS and properly linking the appraisal results to reward decisions. To monitor the performance management system one should ensure quality of performance standards, conduction of appraisal reviews more frequently, provide clarity about the use of appraisal results and tracking the raters to ensure quality of ratings. Inflation of ratings can be dealt with by continuously monitoring ratings, modifying rating techniques, simplifying rating categories and implementing forced distribution if

the situation so warrants (Martin David C.and Bartol K.M.,1998)

Allen Peter (1994), through research, experience and court rulings identified thirteen factors of effectiveness of performance appraisals. These factors included Objectivity, free of biases and custom-designed appraisal systems as major factors. In addition, procedures and administration should be uniform and the entire appraisal system should be easy to operate. It should also be economical and acceptable to users. Finally, the appraisal system should be well documented and should provide procedures for review or appeals.

Solomon R.J. (1990), described a detailed multi stage method to identify the job specific factors to make performance appraisal effective .Starting with job classification and duty items, he used factor analysis and expert judgment to reduce the job factors which were finally validated by appraisers.

Longenecker, Liverpool and Wilson (1988), argue that the perception of managers and subordinates about the roles and purpose served by performance management also vary and the appraisal will be considered effective to the extent that the managers and subordinates have a 'shared perception' about the purpose and function of appraisal and the degree to which it satisfies the needs of both the groups.

Kearney (1978) argued that performance management is effective if it results into performance improvement. To improve the employee performance, the employees as the most

important stake holders, should have required level of motivation, ability to perform (physiological, psychological and intellectual) and role clarity. But mere possession of motivation can not be a guarantee for improved performance as it is based on the assumption that motivated employee will perform better. Further, only having ability will be of no use if they do not get opportunity to perform. Similarly 'lack of understanding of performance expectations' will be a big hindrance to improve performance. In order to make the role clear the behavioural job descriptions used with behaviourally anchored rating scales can be a great help in improving the performance i.e. making the appraisal effective. Giving right and timely feedback about performance helps in improving the performance but it is based on two misleading assumptions: 1) That the employees want to know where they stand and 2) that employees will improve if they are told about their weakness.

The performance appraisal for managers should, apart from being bias free based on verifiable objectives, should include the managerial objectives i.e. the objectives to perform managerial functions of planning, organizing, directing and controlling etc. (Koontz, 1972)

Conclusion:

The effectiveness of performance management system (PMS) has been a critical issue for the organizations. Different researchers across the globe have tried to find the answer to the question 'what can make the PMS effective?' 'Or 'what are those factors which can make the PMS effective?'

in different ways and in different industries and organizations. There is no consistency in the available research which can enable to generalize the findings. The present review has fulfilled two objectives: one, it has reviewed various organizational and systemic critical success factors of effectiveness of PMS and two it has reported the inconsistency in research about effectiveness of PMS. It is noted that there are some critical success factors which have been reported by multiple researchers over long period and there are some factors which have been identified by individual researchers.

Scope for further research:

As stated above, different researchers have identified multiple critical success factors of PMS

both at organizational level and systemic level. Since these factors have been identified in bits and pieces, there is scope for further research to identify the critical success factors related to all the three elements of PMS namely 'input', processes' and 'outcomes'. Research can also be conducted to study the impact of critical success factors on effectiveness of PMS.

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