

CHAPTER 2

LITERATURE REVIEW

INTRODUCTION

This chapter presents a literature review on the subject of performance management. Which will identify the inception of performance management whilst pondering into some past researches on the mentioned subject. In addition, it will provide the definition and also identify the objectives of performance management in general. This chapter also looks into the existing models of performance management as highlighted by past researches. Finally, the chapter will highlight factors affecting and other shortcomings of performance management.

2.1 DEFINITION OF PERFORMANCE MANAGEMENT

It is of paramount important to actually begin this literature review by listing some of the definitions of performance management as describe by different academicians, writers and practitioners. The finding will provide the foundation for the continuance of this review.

Before indulging further it is natural to identify what the new edition Oxford dictionary defines the subject which encompasses the word performance as 'an act of carrying out an action' and management is define as 'managing or being

managed'. Performance management (Dalziel, 1992) is a term that is widely used to describe a process for establishing shared understanding about what is to be achieved and of managing people in a way that increases the probability that it will be achieved. Another meaning of performance management (Swan, 1991) is established to be more than assessing an employee's performance at regular intervals. It basically unites a number of related tasks, which includes monitoring, coaching, giving feedback, gathering information and assessing an employee's work. It is getting clearer now that in performance management there are a number of activities involved in the proper process apart from the annual appraisal.

In the book 'Paying for Performance' (K Rajkumar, 1996) explained that a performance management system is a broad process, which includes performance appraisal that an organization uses to plan, direct, control and improve the performance of an employee. He further elaborates that performance appraisal is the core of the overall system. (Walmsley, 1998) has explained that the term performance management is often used to describe a revamped appraisal system. He further elaborates that the performance management is to be viewed in a much larger and comprehensive context of continuous improvement in business performance. Holistically, it demonstrates interrelated nature of the individual aspects of performance management culminating the setting of objectives for individuals to achieve and the subsequent support of resources for the individuals to meet those objectives. Finally, the Human Resources Ministry of Malaysia (2002) has defined

performance management as a systematic process by which an organization involves its employees, as individuals and members of a group, in improving organizational effectiveness in the accomplishment of organization mission and goals. It further reiterates the process as a whole involves planning work and setting expectations, continually monitoring performance, developing the capacity to perform, periodically rating performance in a summary fashion and rewarding good performance accordingly.

Connock (HR Vision, 1991) states that it was in the late 1980s when the emphasis was moved from performance appraisal to performance management. The appraisal only emphasizes on setting clear measurable objectives and evaluating past performances whilst under performance management there are dual emphasis which is setting key accountabilities, objectives, measures, priorities, time scale for the following review period and appraising performance at the end of the period. The four reasons for the shift as highlighted by Connock are (1) the emphasis on competitive pressures meaning that if organization do not improve they will not survive, (2) the realization that corporate missions and strategic objectives can be more effectively implemented by linking them to individual objectives, (3) the focus on quality in many companies means that quality standards have to be set or refined and this has been fed through to the performance management processes and finally, (4) performance-related pay. Therefore if performance management is to be used effectively, 'clear objectives, measures and time scales are necessary from which judgments about the individual's contribution can be made.

2.2 OBJECTIVES OF PERFORMANCE MANAGEMENT

The performance management system promotes self-improvement at individual and organizational level. In the North Carolina, state personnel manual 1991 clearly elaborates that the objectives of performance management are to ensure that employee are aware of what is expected of them. The employee's are provided with continuous feedback about their performance and given the opportunities for training and development. Finally, it is to reward the employee in a fair and equitable manner. It followed on to explain that the performance management process involves planning, managing and appraising. The manual further enhances that the performance management is an integral part of the total management of an organization. Information obtained through the process about individual employees or from specific units of the organization shall be a consideration for making other personal management decision. AS far as the organization is concerned the information obtained from performance appraisals must influence selections, staffing, discipline and training and also development.

The performance management system objectives are to maximize individuals' performance and potential with a view to attaining the organizational goals and enhancing overall effectiveness and productivity. Therefore it aims to help achieve departmental objectives through the staff, to evaluate performance and improve communication between managers and staff on managing performance and lastly to provide avenue for development. The HR Department

of the University North Carolina, US explain that the objectives ensure the awareness of individual principal job functions whilst understanding the level of performance expected. The staffs receive timely feedback about their performance; have opportunities for education, training and development and also receive performance ratings cum rewards in a fair and consistent manner. Meanwhile the Monash University, Australia, administrators reinforce that the objectives of the performance management system adopted is expected to ensure staff understand the goals of the University as a whole apart from the faculty/Divisional specific goals, set the staff own work goals and ensure it is interrelated to the University goals, identify staffs development/career goals and how to pursue through development strategies, assess staffs performance against the goals of the past cycle with sufficient information feedback to understand the performance, celebrate the achievement, maintain or improve performance in the future.

Performance Management is the essence of managing and the primary platform for getting the desired results through employees at all levels in the organization. It is believed that the absence of such system, staff members are unclear as to the employer's expectations regarding performance objectives and targets which will ultimately lead to low productivity, costly mistakes, stress, demotivation and even conflict. Therefore, summarizing the above illustration on the objectives it can be stated that the performance management system is to serve as the core for the implementing organizational goals and strategies laterally and

horizontally through all levels. Relatively it aligns and integrates the objectives and key performance measures at all levels. The performance management system will also facilitate continuous performance improvement (TQM), organization development and cultural change. Similarly, it will achieve efficiency; ensure clarity with regards to work expectations and performance standards in order to reduce employees' stress, wastage and conflict. In tandem it will continually enhance employee competence by identifying output related training and development requirements whilst facilitate performance based pay and recognition to motivate the work force.

2.3 PERFORMANCE MANAGEMENT PROCESS

Taking cognizance of the definition and the broad objectives of performance management, it can be deliberated that the process of performance management encompasses the perspective of how people are managed and the elements that are included in it. As mentioned by (Danziel, 1992) the mention process embraces the following:

- Strategy and objectives,
- Job definition,
- Objective setting,
- Coaching and counseling,
- Skills training,

- Performance related pay,
- Training and development.

It further reiterate that the performance management process is more likely to be successful if it is operated as a single integrated process which includes performance planning which actually defines job responsibilities and setting performance expectations, goals or objectives setting at the beginning of the period. After performance planning is performance coaching that includes activities such as monitoring, feedback coaching and development. Finally, it is the performance review which is the formal annual appraisal conducted at all levels between managers and employees aimed to track and improve individual and corporate performance and also to provide information for one or more personnel functions. As an integrated process mention earlier, it will ensure that employees are aware of the expectations and contribution, establish the objective as required, receive guidance and coaching, understanding how performance is measured and kept tracked and given recognition and reward for achievements. The graphic explanation of the integrated process as elaborated at Figure below.

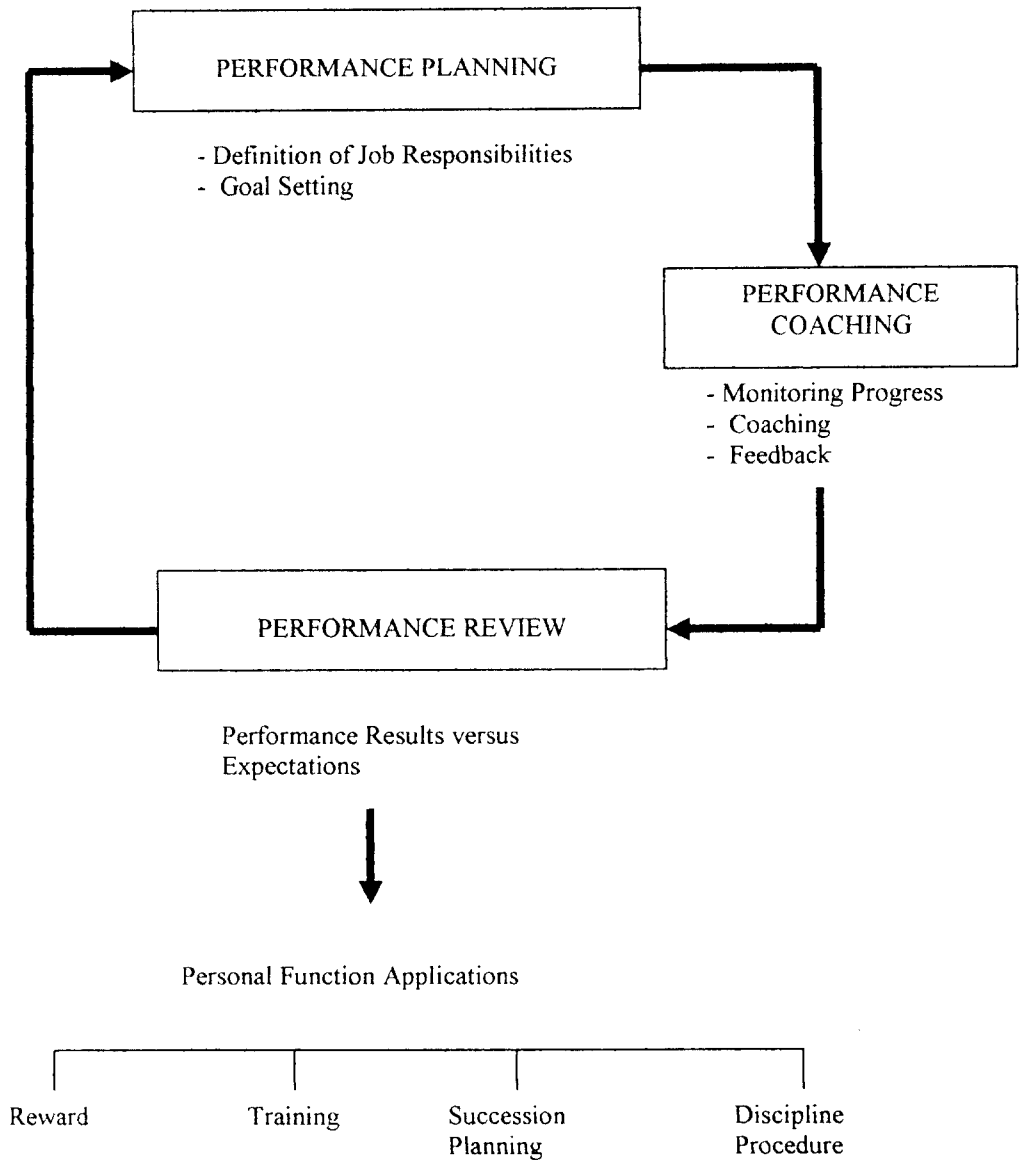


Figure 2.1 Performance Management Model (Danziel, 1992)

Wayne F Cascio in the book *Managing Human Resources* explains that the performance management process has three elements that is define

performance, facilitate performance and finally, encourage performance as shown below:

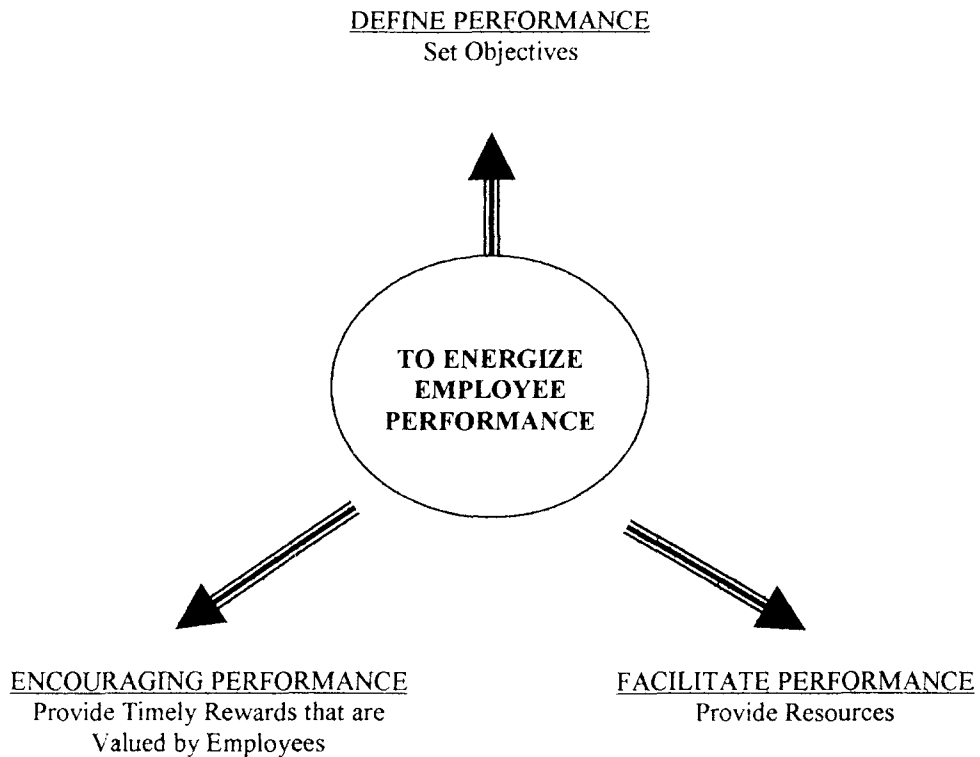


Figure 2.2 Performance Management Model (Cascio)

In define performance; basically it culminates three key essences that are goals, measures and assessment. Goal setting has clear direction, leads to high level of performance, which improves productivity. The ability to measure the goals that have to be achieved is of paramount importance and assessment is carried out through employee appraisal. Therefore, a well-defined performance will incorporate goal setting, measuring accomplishment and provide regular assessment of progress. This will enable the employees to expect no surprises and regular appraisals. The process then continues with facilitating performance.

This is actually the responsibility of managers who will ensure the elimination of all hindrance to successful performance. This actually revolves around eradicating obstacles that can inhibit performance such as poorly maintained equipment, delays in receiving supplies and ineffective work method.

In addition to that, the next step will be to provide adequate resources to the employees so that it will pave the way for a good performance and appreciation from the employees. The final aspect of performance facilitation is the careful selection of employees. This will ensure the right man for the right job and avoid over staffing, excessive labor cost and reduction in productivity. The last area of performance management process is to encourage performance and once again it is the responsibility of the management to coordinate these requirements. It illustrates that to encourage performance; managers must provide a sufficient number of rewards that employee's value carried out in a timely and fair manner. The rewards that employees value must be obtained from what is important for the employee such as pay, benefits, free time or special privileges so that it makes the employees feel important and recognized. Providing the reward in a timely manner will have the potential to motivate high performance accordingly. The last aspect is ensuring fairness in selecting employees to receive rewards. Fairness depends on a comparison between the rewards a person receives for his/her contribution to the organization and the standard. In summarizing the process it involves define performance, facilitate performance and encourage performance.

William Gresse, a consultant with the Performance Associates Company in New Zealand, states that the performance management process involves four stages that is planning performance, managing performance, appraising performance and rewarding performance. In planning performance the activities involves includes formulating objectives, performance standards and targets for each employee by using some documents or form. Managing performance is observing, measuring, recording, feedback and coaching performance. Counseling is conducted for employees who do not perform or the behavior is not up to the standard or expectation of the management. Basically performance appraisal is conducted by using the forms/documents that facilitates the smooth flow of the appraising interviews. Rewarding performance is linking actual performance to appropriate rewards and pay that motivates and reinforces excellence in performance completes the illustrated cycle. William S Swan, 1991 highlighted that performance management continues throughout the appraisal period to another term and does not stop. He mentions that the process involves eight steps, that is performance plan and development plan agreed by both manager and employee, on going feedback, coaching, counseling and documentation are maintained for the next year. The third step is managers solicit employee self-evaluation and during step four the manager's will meet and discuss the self-evaluation with the employees. The next step the manager completes the portion of the appraisal format and subsequently step Six the manager will preview the appraisal with his superiors. Next step is the manager

and employee appraisal meeting. The final step the manager completes the appraisal discussion and form as shown below.

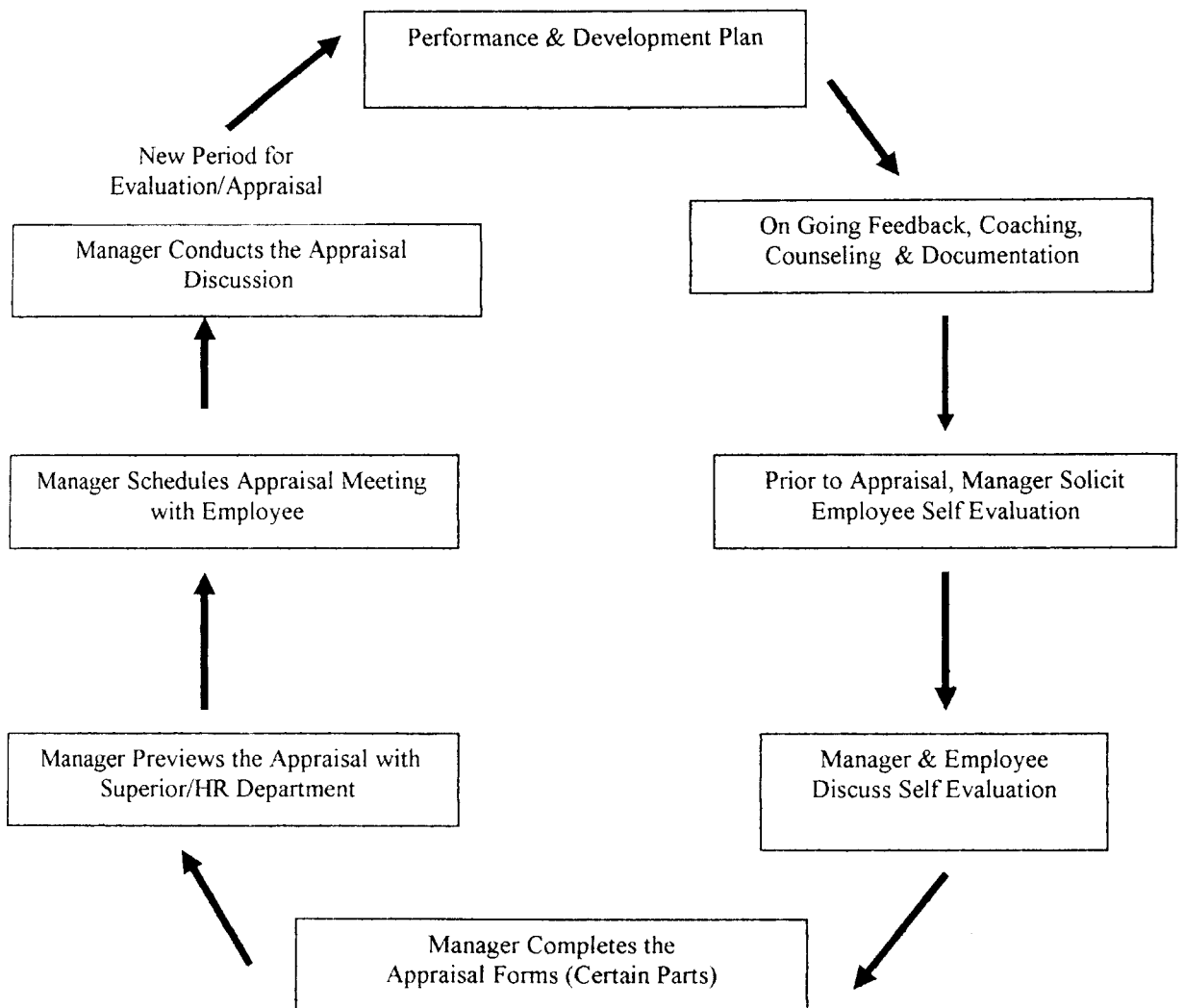


Figure 2.3 Performance Management Model (Swan, 1991)

The US Department for Personnel Management states that performance management involves individuals, members in a group and employees to improve organizational effectiveness in order to accomplish the goals. The performance management includes planning work and setting expectations,

continuous monitoring of performance, developing the capacity to perform, periodically rating performance and ultimately rewarding good performance. It further explains that in an effective organization, work is planned in advance by setting performance expectations and goals for all employees either group or individual and subsequently channels the efforts toward achieving the organizational goals. Employees must be involved in this process to assist them to understand and clearly define what, why and how it should be done. The activities include establishing the elements and standards of the performance appraisal plans. It must be flexible to accommodate changes so that employees can achieve the goals.

The subsequent step is monitoring all assignments, which means consistently measuring performance and providing feedbacks to employees on the progress. This includes regular progress reviews on performance against the standards so that opportunity to check employees meeting the standards. This will allow the identification of unacceptable performance during the appraisal period and steps taken to rectify such performance. Under developing, employees' needs are evaluated and addressed. Basically, it is increasing the capacity to perform through training, introduce new skills, higher level of responsibility and improving work processes. Providing employees with training and development opportunities encourages good performance and enhance competencies. This helps employees to keep abreast to technological advancement. The most important activity in rating is the ability to summarize

employees' performance. Comparing performance over time and amongst employees will assist in the ratings. A rating is done on employee against the goals via organization appraisal system. Rating is more pertinent for individual appraisal rather than group. The next step is the rewarding, which revolves around recognizing employees individually for their performance and acknowledging the contribution to the organization. Recognition is effective if it is timely and involves formal rewards such as cash, time off or other non-monetary items. Therefore, managing performance effectively will include good performance management and executing each component in the process well.

Another approach to performance management process is the model utilized by the HR Department, University of North Carolina for its employees which includes Work plan, Development plan, Work Planning Conference, Interim Performance Review and Annual Performance Review. In the Work plan, the steps are taken to identify the principal functions of each employee and establish specific performance expectations cum indicators. This plan will include regular, recurring and special projects developed for the employee but inline with the organizational goals and objectives. For employee's who have same position in the Department, the work plan may turn out to be similar. Next the Development plan is included in the Work plan, whereby it is activities designed to enhance employee's knowledge, skill and abilities needed to maintain or improve performance. The Development activities is planned and supported by the management. This plan must be stated even though such activities are not

for immediate action. Therefore, the Work plan designed will be used as a guideline by both the employee and also the supervisor or evaluator. The next is the Working Planning Conference whereby the supervisor and employee will discuss about the contents of the Work plan, Development plan and other performance related concerns. This basically will be the start point for evaluation of the performance. It will be the channel used by both parties to communicate in order to achieve the organizational goals. The supervisor will be assessing the employee day to day and also during training, coaching, tracking actual performance and through this conference it will be further discussed. The supervisor must conduct the interim performance review and it will be the platform for both parties to discuss the progress toward achieving the performance standards as described in the Work plan. This review is recorded in the performance review form and all corrective measures are taken to assist the employee to overcome the weaknesses. This is where the development plan will be very useful to provide the avenue for employee betterment. Following this the next step will be the Annual performance review where supervisor once again will have to prepare this format (appraisal). The review form and the comparison between the stipulated principal functions standards and also the actual performance ratings will be thoroughly reviewed. All information gathered and sound judgment will be utilized to make the ratings and overall evaluation. Employee must be encouraged to respond to the supervisor's evaluation and state all comments in the form. The next level of management will endorse the document and a copy is to be returned to the employee. The process will be

completed here and the outcome from the discussion, reviews and achievement will be basis for the preparation of the subsequent Work plan and this process will go on as diagrammatically shown below.

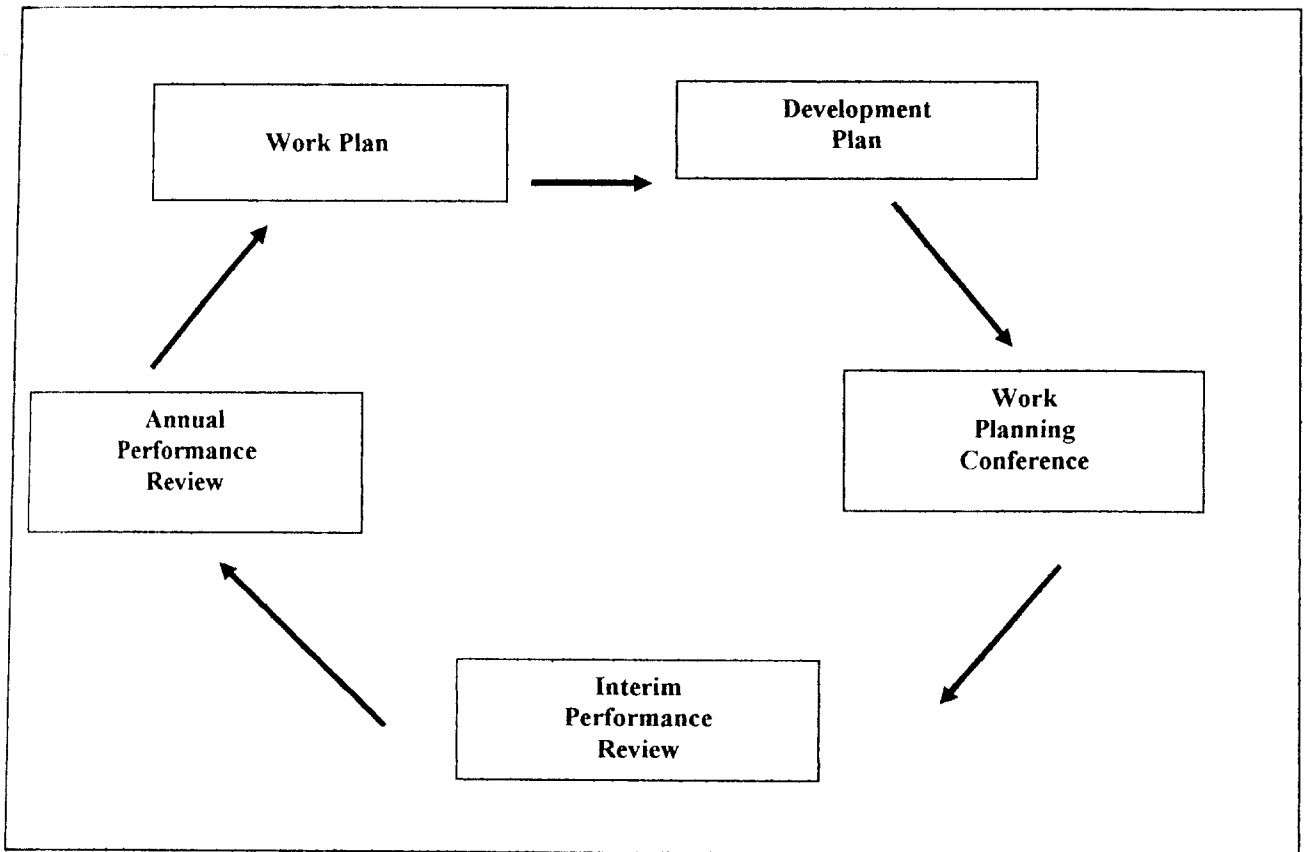


Figure 2.4 Performance Management Model used by HR Department, University of North Carolina

In summarizing, it is undeniable that the performance management process that has been discussed has a lot of similarities. Although the process might be short version or the long version and with different terms but ultimately the purpose is still the same. It can be stated that the performance management process must have the establishment of goals and objectives for the employee direction for accomplishment. Subsequent the management provides the

resources and assistance for the employee to succeed which includes training to enhance skill, knowledge and most importantly keep the employee notified on the progress of attaining the goals. Forum of discussion is held during the process so that opportunity is given for the employee to improve his performance. Finally, all evaluation and annual performance gauging culminates in the preparation of the annual appraisal which will highlight all strength, weaknesses, contains information for recognition, training and development. Therefore the final elaborations will still hinges on the annual employee appraisal that becomes the core of the overall performance management system.

2.4 PERFORMANCE APPRAISAL – CORE OF THE PROCESS

It is again reiterate that appraisal plays an important function in the overall process of performance management. Wayne F Cascio depicts that the appraisal serves in two purpose which is to improve employees work performance by helping them realize and use their full potential to carry out the firm's goals whilst the second motive is to provide information to employees and managers for work related decisions. Wayne further reinforces that specifically the appraisal serves:

- * Appraisal provides legal and formal organizational justification for employees' decisions to promote outstanding performers, to weed low achievers, to train, transfer, discipline or justify merit increase. It can be

used for reduction of the work force/downsizing and a formal organizational reward cum punishment system.

* Appraisals are used as criteria in test validation. The test results are correlated with the appraisal results to evaluate the hypothesis that test scores predict job performance.

* Appraisals provide feedback to employees and serves as personal and career development.

* Appraisals can assist to establish objectives for training programs.

* Since Appraisal is a proper specification of performance level therefore it can help to diagnose organization problems. Identifying training needs, knowledge, skills, abilities and other characteristics considered for hiring. It also provides the basis between effective and ineffective performers.

(Walmsley, 1998) further explains that most effective appraisals meet all the needs of all parties in an organization. In addition to being the avenue for managers to assess, develop and motivate, appraisals are an opportunity for employees to pursue their own issues and concerns. The skills needed for conducting the appraisal include obtaining information, providing feedback, problem solving, motivating and facilitating.

According to Claire Wright in the book *Business Basic*, 1995 illustrates that the general purpose of performance appraisal is to improve the efficiency of the organization by ensuring that the employees within it are performing to the best of their ability and also developing their potential for improvement. The appraisal is used for reward review, which decides employees deserve bonus/pay increase, a review of past performance to identify problems and unutilized potential, planning training and development and finally identifying the potential to aid career planning. The emphasis must be toward setting goals and priorities of which performance would be assessed that is called performance management. Therefore it relates to the crux of performance management including planning, organizing, leading and controlling of performance.

In another view by (Swan, 1991) discussed that appraisal can only give a balance picture of performance if it addresses to the two important components of any job, which are behaviors and performance objectives. Behavior looks into how an employee does the job on an ongoing basis. What's the standard by which is measure their performance or better known as competencies. The standards are the same for employees in a similar given role. As for the performance objectives, it addresses the changing flexible aspect of job performance. These performance objectives have the additional advantage of assisting to use the appraisal as an active part of the overall process. It involves coordination of employee's responsibilities with the organizational plans for the

future by pondering into the achievement of the present year performance objectives. Therefore, once again it is highlighted that the overall process or performance management culminates with a good performance appraisal.

It is obvious that the performance management most activity in the process is the performance appraisal. Therefore, a well-designed appraisal system could encourage employees to achieve efficiency in work. Appraisal can also be used to motivate and improve performance. This is basically explaining to the individual the strength and pointing out the weaknesses that need to be rectified. The appraisal which is addressed presently has evolved from the traditionally, individual focused system to integrating both individual and organizational objectives. This will bring us back to the cyclic process of performance management. After having linked the appraisal and the overall process of performance management then it is not wrong to state that the effectiveness of the appraisal system will have a significant effect of the process. This could be a de-motivating factor for the organization as a whole especially involving the work force.

Performance management brings improved performance as a result of its benefits to the organization. Higher quality of work life through greater employee satisfaction is probably the major benefit that an effective performance management can bring. A good performance management system will certainly contribute to better control of the activities in the organization. It will provide good information about the performance and capabilities of its employee and

establishes a better avenue for human resources planning involving compensation, rewards, promotion and even remedial steps to elevate performance. The individual like the organization has goals, which are targeted to be attained through good performance. The attainment of its goals can be envisaged by the collaboration of both parties and monitored and also gauged using the appraisal system. Therefore once again it is clear that the performance appraisal will set as the foundation for an effective organization.

2.5 BENEFITS OF GOOD PERFORMANCE MANAGEMENT

Since the late 80s, organization emphasis has shifted to implement an effective performance management system so that the benefits can be reaped and always focused to assist the organization achieve continuous improvement and enhance effectiveness. The explanation provided all above illustrates that the employees are an important factor who need constant observation and commitment so that the accomplishment of the benefits such as increase motivation to enhance performance, increase self-esteem and the improvement of the communication between managers and employees. Many organizations have enunciated mission statements, strategies, core values that the management would like to communicate to its employees. Management incorporates these principles in the daily activities of its employees. Performance management can instill and cascade all these expectations down through the organization so that employees know their responsibilities and objectives in order

to fit into the overall picture. It is an accepted fact that the employees are the asset in any organization and will exert all efforts necessary to perform the job effectively and ensure the ultimate attainment of the firm's goals. Performance management (Fletcher, 1993) will be able to have an impact to motivate individuals to achieve their objectives and also increase their competency. Similarly, (Forsyth, 2000) iterates that performance in all aspects is inherently tied up with motivation. Performance is equals to ability plus knowledge multiply by motivational feelings.

A good performance management system will also help clarify the firm's core values, intentions that have the substance of quality, customer satisfaction, interpersonal communication amongst staffs and ethical behavior. The process makes it clear that every employee is accountable for the way things are done no matter which level they belong in the organization. A performance management system also helps the employee plan their future performance because it sets clear targets, objectives and eventually explains why it was not achieved in the past. The performance management system provides a clear mechanism for employees to be given development opportunities in the current job and preparing for future enhancement. In retrospect performance management basically provides a clear understanding of what is expected of the employee. As mention before performance management is a comprehensive process of planning, managing, reviewing performance. The employees will be more committed and will certainly increase productivity. The typical HR problems such

as absenteeism, firing and hiring, compensation and promotion can be anticipated, reduced or even eradicate. Organization maintained the effectiveness and efficiency to stay competitive and heavily invest money, efforts and spends adequate time to ensure continuous improvement.

2.6 SHORTCOMINGS IN PERFORMANCE MANAGEMENT

The process of performance management encompasses setting objectives, monitoring progress providing guidance and resources to the employee, conduct appraisal and its interview and also the recognition of employees who have excelled. This basically simplifies the process and taking cognizance of each phase there are related shortcomings that could have an effect on the overall process. The human factor involvement in all aspects of the process is all open to subjectivity and have the opportunity to influence the phases or steps as described above. This is because all action involves the communication between one human to another human. There is room for biases, unjust and the difficulty to maintain fairness showing typical human tendencies. One way to rectify this is by getting the managers to spend sufficient quality time with the staffs in the department. Create the two-way communication, which will be beneficial especially addressing the process of performance management. Both parties must discuss the goal or objective setting and ultimately settle for objectives that can be achieve realistically in tandem with overall organizational goals. The problem lies when unrealistic

expectations are focused and ultimately the employee is unsuccessful and is demotivated.

The other related shortcoming is the failure to train all personnel in the establishment on the performance management process. This involves the adaptation and utilization of the all aspects of the process. Training on the overall process will eradicate the lack of knowledge and skills of all supervisors and inculcate the sense of belonging and commitment of all parties. This will be the responsibility of the HR Department to ensure the implementation of the training prioritize for all levels of managers and also the work force. The training will also be inline with the actual process so that everyone will be knowledgeable and exposed (Swam, 1991).

The next area to ponder is to constantly validate or audit the adopted performance management process so that it could be continuously improved by modification or changing to a new process that is more viable, beneficial and keeping abreast with the modernization and advancement. The ultimate aim is to get a system that will allow the organization to be continuously improving its effectiveness. The performance appraisal (Oresick, 1988) as an activity in the overall process does have its own weaknesses that involves around the measurement and the standard problem (Bruns Jr, 1992). This must be carefully determined and must be rectified. Other problems related to appraisal as stated by (Bohlander, 2001) are lack of information about employees' actual

performance, unprepared to conduct interviews, no feedbacks, insufficient discussions on development and insufficient resources to reward performance. These weaknesses must be addressed and taken serious remedial actions in order to upgrade the validity and reliability of the performance appraisal.