



# Performance Management System

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**Abstract**—In this era of utmost competition, one among the strategies to be a successful organization is to draw in potential candidates for any particular post and retain the key employees to have a better and highly motivated workforce. So what is the requirement of an organization and managers to attract, retain and motivate a talented workforce? Nowadays, In any industry whether small or big, human resource management not just play its traditional role as such but has expanded its dimensions to assess its employees' performance and manage it with a new system that has evolved due to new developments in the field of HRM known as Performance Management System (PMS). It elaborates how the organization aligns the performance management system with the organizational system and articulates the corporate business objectives to the individual goals. This paper deals with the effectiveness of PMS. The results of the study shows that a performance management system acts as a strategic tool and a strong foundation for the workers to realize their ambitions and organizations to achieve their key financial goals.

**Keywords**—Performance Management System, Human Resource Management

## I. INTRODUCTION

Performance has been the key focus of an achiever, but in this competitive scenario and era of the LPG Model, competitive advantage has become more critical for any organization. This has forced them to review and revise their old strategies and develop new and unique ways and means to enhance employee performance. A performance Management system is a solution to the respected scenario. Human Resource remains neglected in the traditional scheme of the management system, but it has gained its due share in Performance Management System, because of its infinite potential for managing and improving performance. It was realized that all other resources are equally available to all such competitors. HR is the only resource that, if made committed, can make a difference and help an organization to gain a competitive edge over others [1], [3], [4].

Many companies rely on the performance management system to remain ahead in the race. Because performance management system helps employees to know that what exactly is expected out of them and assure line managers

and strategic planners that employee behaviors will be aligned with the organization's goals. To create an effective Performance Management System, it is required that each employee should be fully aware of his role in the organization. By understanding what type of output is expected of them and what fundamental roles do they play in achieving the vision, mission, and strategy, the employees' contribution can be maximized. Under the global economic crisis, continuously improved performance has become a major challenge for every organization, in one way or the other [2], [5], [11].

## II. HISTORY OF PERFORMANCE MANAGEMENT

No one knows precisely when formal methods of reviewing performance were first introduced. According to Koontz (1971), the emperors of the Wei Dynasty (AD 221-265) in China had an 'Imperial Rater' whose task was to evaluate the performance of the official family. Centuries later, Ignatius Loyola (1491-1556) established a system for formal rating of the members of the Society of Jesus. According to Radnor and McGuire (2004), there has been a revolution in performance management and measurements over the past 20 years. Performance management systems are not new, and researchers have found a reference to performance management during the third century A.D. in China, which has been confirmed by Furnham (2004). He further indicates that in both America and Britain in the eighteenth and nineteenth centuries there was already evidence of early forms of performance management, whilst most Western armies did performance management in the last century. The literature further indicates that performance management during the industrial revolution was simple and crude. According to Furnham (2004), two-thirds of big companies had performance appraisal systems during the 1950s in America and the same happened in the 1960s in Europe. Companies were compelled to adopt some sort of system through legislation in Britain (1980s/1990s) and in America (1970s). He further notes that performance management systems were used to try to bring about change in the public service culture and ethos in the 1980s and 1990 [11],[13].

## III. OBJECTIVES OF THE STUDY

The objectives of this paper are to show:

- That individual training need could be identified through careful and result-oriented performance appraisal.
- That performance appraisal would not serve its purpose of improving performance if the appraisal performance is not communicated to him or her.
- The impact of the performance appraisal system on the performance of the respondents in terms of commitment, skills, and responsibilities.
- Gaps in the implementation of the appraisal system of the company.

#### IV. CURRENT SCENARIOS OF PERFORMANCE MANAGEMENT SYSTEM

Historically, the concept of performance management was limited only to determine the wages and salaries of their employees. Organizations traditionally used performance management to shape the behaviors of employees so that specific outcomes can be achieved. However, such a rewards-driven approach to performance management is not sustainable for most organizations. Moreover, traditional organizations have also started becoming knowledge-intensive for technology-intensive manufacturing processes. The focus of performance management has gradually shifted towards promoting the learning and development of the work environment. Such perceptive change in performance management was more evident in organizations worldwide from the 1980s. At this point in time, the organizational performance became a major challenge for achieving productivity and it became necessary to think in the direction of optimum utilization of human resources. In recent decades, however, the process of managing people has become more formalized and specialized. Many of the old performance appraisal methods have been absorbed into the concept of Performance Management is considered to be a comprehensive process of management. Performance Management developments in recent years are talent management, management by objectives, and continuous monitoring and review. Its development was accelerated by various factors.

#### V. RESEARCHES IN THE FIELD OF PERFORMANCE MANAGEMENT SYSTEM

Various researches have been conducted in the field of the performance management system.

Johnson and Kaplan (1987) elaborated that there is a necessity to have a new management approach to manage the performance of organizations as the traditional ways have lost their importance and relevancy. Therefore, Performance Management System was developed for managing the performance within the organizations. The PMS must be able to produce relevant, specific, and timely information for planning and decision-making purposes [7], [8].

According to the study conducted by Hewitt Associates (1994), the impact of performance management on organizational success substantiates that a performance

management system can have a significant impact on the financial performance and productivity of an organization. The study used the BCG Matrix to track the financial performance of 437 publicly held U.S. companies. The results of the study showed that the companies with performance programs have stronger stock market performance, higher profits, a greater stock value, and better cash flows than companies without performance management. Productivity in firms that are not using performance management is far below the industry average, while productivity in firms using performance management is on par with the industry average. This shows that the companies with performance management significantly improved their financial performance and productivity after implementing performance management [3], [5], [6].

Simons (2000) states that a PMS cannot be effectively designed and implemented without considering human behavior. Holloway et al. (1995) also emphasized that the successful implementation of a PMS depends on understanding the behavioral factors of performance management. It is considered that behavior and culture need to be incorporated into the design and implementation to get an effective PMS.

According to Roberts (2001), performance management involves steps which are generally as follows:-

1. Setting up of various objectives like organizational, individuals, etc, the use of performance appraisal systems,
2. Appropriate reward strategies and schemes;
3. Training and development strategies and plans
4. Feedback, communication, and coaching;
5. Individual career planning; mechanisms for monitoring the effectiveness of performance management system; and Interventions and even culture management.

- Armstrong and Baron (2004) emphasized that Performance Management is a tool to ensure that the managers are managing effectively. This means (1) that they ensure the people or teams they manage to know and understand what is expected of them, (2) have the skills and ability to deliver on these expectations, (3) are supported by the organization to develop the capacity to meet these expectations are given feedback on their performance, and (4) have the opportunity to discuss and contribute to individual and team aims and objectives.
- Watkins (2007) says that most public sector business organizations like those in the Delta State of Nigeria have not given adequate attention to performance management review as a tool for improving performance even when recent studies suggest that performance management is essential for improving organizational performance in both public & private sectors.
- According to Du Plessis (2007), the implementation of performance management systems encounters resistance at various points throughout the organization. But to overcome the resistance, one has to focus on the implementation of its sub-projects which includes the cultural and environmental issues in concern so that PMS can be carefully implemented.

- Sole (2009) explained that there are two factors that can influence performance management systems in a public organization. Those are internal factors and external factors. Internal factors include internal management commitment, internal resources, performance-oriented culture, leadership employee engagement, and maturity of PMS. External factors include elected officials, citizens, legal requirements, and labor unions. In particular, employees view that performance-monitoring systems are such a system that is intended to force them to work harder, and managers see such systems as efforts to put increased pressure on them to produce added results. All these elements sustain the role of a performance-oriented culture as a factor influencing the implementation of performance measurement and management systems in public organizations. In terms of time limitation and cost, the important variables for the implementation of PMS are the internal factors.

## VI. FINDINGS

The dominant findings indicate that there are enterprises that are generally less likely to adopt formal PMS practices, including goal setting, assessing performance, and performance evaluation practices. Similarly, they usually pursue traditional means of basic Human Resource functions such as employee recruitment, selection, training, and compensation, etc. However, it has also been analyzed that employees do not have a clear understanding of what performance management system aim to achieve a similarly large number of employees believe that performance management is not associated with organizational objectives as it has no functionality in employee's career planning or development. It has also been identified, organizations have realized the significance of adopting strategic HR practices for gaining a competitive edge over the competitors. A well-designed effective performance management system can play a vital role in aligning the actions of the employees in an organization for recognizing the crucial corporate goals. Performance management is a useful tool for aligning all the major organizational functions and sub-functions so that the focus is directed towards the attainment of the organizational goal. By clearly explaining both the individual and team responsibilities in the form of Key Responsibility Areas (KRAs) as well as by creating an understanding of shared responsibilities, a good performance management system smoothen the progress and development of employees.

The post-liberalization period has observed significant changes in the structure and functions of the organizations. The arrival of foreign and multinational organizations has given a cause to existing organizations to be more effective, competitive, and innovative in their approach. There arises a need to introduce a system of performance management during the period when the traditional performance appraisal mechanism started failing and its limitations were evolving up. The performance appraisal system which the organizations were using in the earlier period was lacking in objectivity as the criteria for measuring the performance was not clearly defined and the

focus was on traits rather than on behaviors or measurable targets.

## VII. PERFORMANCE APPRAISAL

Understanding the definition of performance appraisal would enable us to lay a solid foundation to capture what the concept of performance appraisal is all about. Alo (1999) defines performance appraisal as a process involving the deliberate stock-taking of the success, which an individual or organization has achieved in performing assigned tasks or meeting set goals over a period of time. It, therefore, shows that performance appraisal practices should be deliberate and not by accident. It calls for a serious approach to knowing how the individual is doing in performing his or her tasks. Atiomo (2000) agrees with Fajana (1997) that performance appraisal is a system that provides organizations with a means of identifying not only what people's performance levels are but which areas those levels need to be improved if maximum use is to be made of human resource. According to Atiomo, every organization should ensure that the individual is aware of what his functions and responsibilities are to make performance appraisal effective. Rao writes that performance appraisal is the process through which an organization takes stock of its manpower in terms of its present performance, the aptitude and interest of each person, his strengths and weaknesses, and his growth potential. The data emerging from such an exercise constitutes the primary database for individual development and should be communicated to the subordinate.



Fig. 2 Appraisal Process diagram

## ● SUGGESTIONS / RECOMMENDATIONS

1. A company must Adopt the 360 Degree Feedback system for Performance Appraisal - a 360-degree feedback system is a method of appraisal that is a full-circle, multi-source, and multi-rated system of obtaining information from peers, subordinates, and internal and external customers, about the employee's performance.
2. The company should reduce the Parameters of appraisals - The parameters, especially for appraising the higher-level personnel, (senior officers, deputy managers, managers, etc.) are many and need to be reduced in number. Otherwise, it becomes a long and cumbersome process for the appraiser.
3. Lengthy forms are done away with- Performance appraisal forms for senior officers and above are very



lengthy and should be modified and made shorter and simple.

4. Self-Appraisal - Self-appraisal could be introduced for employees at all levels. At present, the system of self-appraisal applies only to supervisory personnel and junior officer-to-officer level.
5. Proper communication of Appraisal report (Feedback) - The appraisal report should be properly communicated to the concerned employee. Good performance should be appreciated so that the employee is sufficiently motivated and happy. Also, shortfalls and weaknesses must be made known to the employees so that they can work on their weaknesses and perform better the next time around

### VIII. CONCLUSION

It can be said that the Performance Management System is the vital key in Human Resource Management (HRM). In other words, PMS is a crucial business driver that helps to achieve a business result. An efficient PMS can boost the firms to maximize performance. An effective system should be such that it can encourage an organizational climate of trust, autonomy, collaboration, communication, and teamwork, etc. An organization needs to have such a system that not only identifies and recognizes the top performers rather helps the employees and organization to achieve sustainable growth. Most of the modern-day organizations identify this need and are spending a huge amount of money to develop and implement an effective Performance Management System still a huge amount of variation can still be noticed in the employees' performance. To gain a competitive advantage, the organization's performance management system should be designed in such a way that it can connect the employees' performance expectations to that of the organization's goals. While concluding, it can be summarized that the performance management system is not only a means of knowing that if the employee's behavior is consistent, but also an important and strategic organizational tool to link the employee activities with the goals of the organization.

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