

# Evolution of Performance Management System: A Review of Literature

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*Abstract* : Employee contribution and its assessment are important for effective management of any organisation. Both have to be looked holistically and it is captured in a Performance Management System. Assessment alone is incomplete to build an effective organisation. Hence, it is essential for organisations to have a Performance Management System that enables employees and organisation to remain clear about mutual expectations. A sound Performance Management System objectively identifies the expectations of the organisation, assesses the employee's performance with respect it and identifies the gaps that need to be managed. It sets a standard for each of the expected deliverables. Assessment of an employee's performance is done against such set standards. Since expectations are aligned with the mission and vision of the organisation, performance management system supports in monitoring the direction of employees' contribution in realising them.

Performance assessment is as old as organised activities of human being. It has evolved in concept and application. This paper analyses the history of performance assessment and its transition towards a holistic performance management system from ancient times to 21<sup>st</sup> Century.

## I. INTRODUCTION

An organization's long-term success in meeting its strategic objectives rests with its ability to manage employee performance and ensure that performance measures are consistent with organization's need (Mello, 2013). Hence, focus on performance and its assessment are as old as mankind. Historically, organizations adopted performance appraisal in a formal manner and then moved towards performance management considering holistic picture of the organisation and its context. Considering its importance for survival and growth of the organisation, there are numerous studies on performance appraisal and management. The purpose of this paper is to study the evolution of this important management function in realising the individual and/or organizational efficiency and effectiveness.

The paper is divided into three sections. Second section indicates the meaning of Performance, Performance Appraisal and Performance Management System, and the rationale for such a system. Third section describes the evolution of Performance Assessment and Performance Management System.

## II. MEANING OF PERFORMANCE, PERFORMANCE APPRAISAL AND PERFORMANCE MANAGEMENT SYSTEM (PMS)

According to Oxford dictionary, Performance of an individual refers to carrying out or completion of an action. Performance Appraisal means assessment of an individual's action with respect to its quality and/or values. Performance Management is a process that consolidates goal setting, performance appraisal and development of an individual in the system and also the system as a whole. The aim is to ensure that the employee's performance is in alignment and supporting the organization's vision and mission. It applies to all the organizations and includes periodic activities to establish organizational goals, evaluate and monitor progress toward the goals, and make modifications or adjustments to achieve those goals. Those periodic activities are much of what managers inherently do in their respective organizations.

Appraisals are judgement of the characteristics, traits and performance of others. On the basis of these judgements, we assess the worth or value of others, and identify what is good and bad. In Industry, performance appraisal is a systematic evaluation of personnel by supervisors or others familiar with their performance because employers are interested in knowing about employee performance (Monappa and Saiyadain, 2011).

Traditional performance appraisal simply involves evaluative supervisory comments on past performance. Such a process does not involve any kind of management, per se, as the only performance that can be managed is present and future performance. Performance appraisal involves hierarchical, downward communication from supervisor to subordinate concerning the value the supervisor places on the subordinate's performance (Mello, 2013).

Performance management is the continuous process of identifying, measuring, and developing the performance of individuals and teams and aligning their performance with organisation's goals. In comparing performance management and performance appraisal, "the distinction is the contrast between a year-end event – the completion of the appraisal – and a process that starts the year with performance planning and is integral to the way people are managed throughout the year (Dessler and Varkkey, 2011).

Basically, performance management is beyond performance appraisal, and does not just deal with how employees perform at the end of the year; it takes care of the employees throughout the year and also the learning and development part of the each employee for the future. Performance management ensures that the employees' goals are aligned to organisation's goals. It also modifies itself based on the employee performance at every stage so that employees are in track and deliver to their potential. It also helps employees improve their potential and productivity. Key distinction between Performance Appraisal and Performance Management are indicated in Table 1.

**Table 1 Performance Management versus Performance Appraisal**

	<b>Performance Management</b>	<b>Performance Appraisal</b>
Time period	Past, present and future	Past
Focus	Link employee work activities to specific business objectives and strategy	Create records; document performance problems
Nature of communication	Two-way	One-sided, downward, directive; "rebuttal" sometimes allowed
Employee role	Active participant	Passive
Formality	Informal, verbal	High formality, written forms with signatures
Timing	Spontaneous & ad hoc needed	As prescribed (annual)
Basis of relationship	Collegiality	Power
Role of supervisor	Coach, motivator, partner	Authority figure
Outcomes	Participation; enhanced, targeted performance; improved relationships	Compensation decision; task directives

**Source: Mello, 2013**

#### **IMPORTANCE OF PERFORMANCE APPRAISAL AND PERFORMANCE MANAGEMENT**

Traditionally, most employers base pay and promotional decision on the employee's appraisal. Secondly, the appraisal lets the boss and subordinate develop a plan for correcting any deficiencies, and to reinforce the activities the subordinate does right. Third, appraisals provide an opportunity to review the employee's career plans in light of his or her exhibited strengths and weaknesses. Fourth, appraisals play an integral role in the employer's performance management process. Fifth, in Indian firms where HR information systems are not well evolved, the reports of appraisals serve as the source of most of the current employee information (Dessler and Varkkey, 2011).

There is a great degree of variation in the approaches, design and use of performance appraisal system and also in the formats. Three key approaches used in making performance appraisal include (Balasubramanian, 2002):

- **Traditional Approach:** This approach is highly systematic and takes into account the measurement of employee characteristics and/or their contribution or both. In this system all employees are rated in the same manner utilizing the same approach so that the rating of separate personal can be compared.
- **Casual Approach:** This approach is an unsystematic use and often haphazard appraisal system which was commonly used on the past, but now it has given a place to more formal methods, the main basis being seniority or quantitative measure of quantity and quality of output for rank and file personnel.
- **Behavioural or Modern Approach:** This approach is based upon mutual goal setting and appraisal of progress by both appraiser and appraisee. This lays emphasis on behavioural values of fundamental trust in goodness, capabilities, and responsibilities of human beings.

For enhancing individual and organizational efficiency and effectiveness along with appraisal, one need to consider feedback, employee learning and coaching, training needs and employee engagement, which are beyond just assessment of performance and come in the domain of performance management.

During last few years, most of the employers have moved towards Total Quality Management (TQM) philosophy advocated by Deming, Juran & Crosby, among others. Deming argued that an employee's performance is more a function of training, communication and supervision than of his or her own motivation. Performance appraisals tend to focus more on problems –

what's the employee doing wrong? Consistent with Deming philosophy, performance management puts the focus on continuous collegial feedback, and (when necessary) on changing training, incentives, procedures, etc. Secondly, traditional performance appraisals are often tense and counterproductive. Thirdly, from a study of about 1800 large companies, it was found that around 90% had strategic plans with strategic goals. However, only about one in eight achieved these strategic goals. It is not uncommon for many managers to formulate strategic plans without communicating the strategies to employees, not assigning each employee with clear goals and responsibilities and by not monitoring actual progress. Performance management aims to avoid such anomaly. Employees get goals that stem from the organisation's strategy. Then continuous performance reviews align the employees' or team's performance with those strategic goals (Dessler and Varkkey, 2011).

PMS is meant to guide employees through the key stages of the performance management process: Planning Performance, Managing Performance and Assessing Performance. The first stage in the cycle is to define the performance expectations from employees in alignment with organizational goals. Managing Performance is an on-going activity which involves managing employee performance throughout the year during Goal Setting, Mid-term Review and Final Appraisal stages. Assessing Performance is the final stage in Performance management cycle where the employees' performance for the year is assessed and feedback is provided. Performance would be assessed by conducting the Mid-term Review and Final Appraisal consisting of mid-term review, clarificatory discussion, normalizing ratings and sharing ratings and feedback.

Some of the Performance appraisal methods include Confidential Report, Rating Scales, Ranking System, Paired-Comparisons Methods, Forced-Choice Method, Critical Incident Method, Cost Accounting Method, Forced Distribution Method, etc.

### III. EVOLUTION OF PERFORMANCE ASSESSMENT

Performance assessment or appraisal of an individual is as old as mankind. The holy Bible has many examples where the evaluation of individual performance is an important issue. "The Lord has filled him (Bezalel) with the spirit of God, in wisdom and understanding, in knowledge and all manner of workmanship to design artistic works, to work in gold and silver and bronze, in carving word, and to work in all manner of artistic workmanship" (Exodus, 35, pp. 31-3). Moses selected the man who was known to be most skilled craftsman from the tribes of Israel to build and furnish the tabernacle of the Lord in approximately 1350 BC (Wiese and Buckley, 1998). Performance is highlighted in Quran: "ALLAH doth command that you render back your trusts to those whom they are due; and when ye judge between man and man that ye judge with justice: verily how excellent is the teaching which He giveth you! For Allah is He who heareth and seeth all things".(Quran, Surah 4: verse 58, p. 197).

#### Ancient Times

Around 3000 BC, the ancient Egyptians had to "encourage" their workers to build the great pyramids – and, unwittingly, they utilized performance management systems to do so. Their system revolved around whipping those workers who did not perform as required, to achieve their goals. This worked effectively for them as evidenced by the splendid pyramids that they built. There is evidence that other ancient civilizations such as Rome and China also had performance management systems (Furnham, 2004).

#### Indus Valley (before 1500 BC)

While ancient Egypt and Mesopotamia relied heavily on slaves and forced labor, the Indus civilization appears to have relied more on craftsmen and trade. Standardized weights enabled traders to make fair trades. The weights may have been used by officials to levy taxes. The Indus people of Mohenja-Daro and Harappan had a system of measurements. They smelted, cast and used copper and bronze. Harappa kilns produced millions of bricks. The Indus people used the wheel for transportation. Their performance measurement criteria back then was the total production by each individual. Quality of the product also mattered. Potters producing better quality vessels and of better designs used to be appreciated.

The presence of a standardized weight and measurement system shows that the trade system was sophisticated, extensive and organized. Certain towns became known for specialized crafts: for example, Lothal for carnelian beads; Balakot for bangles, and the Rohri Hills for flint blades and tools. There is no so sign of great rulers, large palaces, grand monuments or elaborate tombs. Even so, some scholars believe Dholaviviva required a strong ruler to coerce workers to do all the work that was done there, and also for better monitoring and managing their performances (Hay, 2008).

However, this period produced many craftsmen having different skillset. The remains of the ancient Indian civilisation unearthed at Mohenjodaro, Harappa, Kaushambi and the various inscriptions found all over the country show that the development of goldsmithy, blacksmithy, carpentry, ivory- carving, ceramics industries and spinning and weaving of yarn and cloth was phenomenal in ancient India (Saran, 1957)

#### Vedic Period (1500-600 BC)

The Vedic period or Vedic age (c. 1500 – c. 600 BCE) is the period in the history of the Indian subcontinent intervening between the end of the urban Indus Valley Civilization, and a second urbanisation which began in c. 600 BCE. Monarchy was the normal form of Government. Kingship was hereditary. Nevertheless, there was a sort of hierarchy in some states, several



members of the royal family exercising the power in common. There were references of democratic form of government and the assembled people elected their chiefs.

The Aryans during Vedic period were not originally agriculturalists. They were pastoral nomads, involved in cattle-rearing, cattle herding, breeding and capturing. A cattle raid was a common form of aggression, a form of warfare. The Aryans were skilled in bronze metallurgy and weaponry and went to battle in highly effective two-wheeled chariots. Their clan structure, a patrilineal tribal structure, was an effective form for mobilization for combat, in that absence of complex structures of state organization (Thapar, 1984).

Apart from agriculture and animal husbandry, weaving was another important occupation. There were carpenters who built houses, chariots, and wagons and supplied household utensils and furniture. There were blacksmiths who supplied various necessities of life, from fine needles and razors to the sickles, ploughshares, spears and swords. The gold smiths made ornaments like earrings, bangles, necklaces, bands etc. The leather-workers made bowstrings and casks for holding liquor. The physicians (Bhishaj) cured diseases. The priests performed sacrifices, composed hymns, and taught them to the disciples (Civil Services Strategist, 2018). Individual had to be expertise in whatever they perform, which catered to their livelihood. The performance criteria back then was the expertise they had and livelihood they earn. Quality and cost was important factors even then.

350 BC to 350 AD

#### Chinese System

The courts of Imperial Dynasties in China, Han Dynasty and Qin Dynasty (221-206 BC) used to deploy people on the frontiers as soldiers. The courts used to move peasant farmers to new frontier settlements, along with government-owned slaves and convicts who performed hard labor. According to Wright (2002), the fate of many people depended on their performance at work. Skilled artisans and craftsmen were promoted and were given the work and status accordingly. Women were exempted from annual labor duties, often engaged in range of income-earning occupations aside from their domestic chores of cooking and cleaning.

The heads of provinces (local government), whose official title was changed from Inspector to Governor and vice versa several times during Han, were responsible for inspecting several commandery-level and kingdom-level administrations. On the basis of their reports, the officials in these local administrations would be promoted, demoted, dismissed or prosecuted by the imperial court.

The precise origin of performance appraisals is not known but the practice dates back to the third century when the emperors of the Wei Dynasty (221-265AD) rated the performance of the official family members (Banner & Cooke, 1984). Fairness of raters was questioned since the third century by the Chinese philosopher Sin Yu who reportedly criticised a rater employed by the Wei Dynasty: "the Imperial Rater of Nine Grade seldom rates men according to their merits, but always according to his likes and dislikes" (Patten, 1977). Such subjective method was superceded by the imperial examination system in the Sui Dynasty.

#### Indian System

Workers in the past, as today, were employed for wages and wages were central to the problems of industrial peace in ancient days as well. According to the ancient authorities wages were the consideration for the performance of a contract of service, entered into between an employer and a workman. Wages in fact depended on the bargaining capacities of both the employers and the workers. It appears that there was a sort of haggling between the workers and the employers for the fixation of wages. Wage rates were, thus, the result of a process of bargaining and time and work were the two major considerations in their determination, as is evident from the following quotation from Kautilya's Arthashastra. Besides, some standard methods of determining wages, standardised wage rates are also available in the ancient Indian scriptures. Thus, in case no remuneration was settled upon earlier for the performance of work, an agricultural labourer, a cowherd and a salesman could claim one-tenth of the produce, butter or goods respectively. It was, however, stated by Kautilya that remuneration to the skilled persons like doctors, pleaders, artisans, musicians etc. was to be given according to the rates prevailing at other places or as fixed by the experts.

Kautilya's Arthashastra mentions that the King assisted by his prime minister (mantri) and high priest used to examine the performance and character of ministers (amátya) for appointment in government departments by offering temptations. The king used to dismiss a priest who, when ordered, refuses to teach the Vedas to an outcaste person or to officiate in a sacrificial performance (apparently) undertaken by an outcaste person (ayájya). People who perform sacrifices (ritvik), spiritual guides, priests, and learned in the Vedas were being granted Brahmadaia lands yielding sufficient produce and also were exempted from taxes and fines (adandkaráni).

Manu mentions about the agreements for the performance of work and wages, but he did not lay down any specific rules for the fixation of wages as such. Some information regarding wages is, however, available from Manusmriti; for example Manu laid down that the master should give proper maintenance to a Shudra after taking into consideration his abilities, work and the number of people whom he had to support. Yajnavalkya also referred to the determination of wages by bargaining. He opined that a person who made a servant work for him, without settling his wages, ought to be punished and the servant be compensated by giving a tenth part of the proceeds of the trade. Like Kautilya and Yajnavalkya, Narad also laid emphasis on the payment of the

same wages and in the same manner to the workers which were mutually agreed upon at the outset. He perhaps, referred to the contract of service and the wages that came to be settled upon by the forces of demand and supply (or the bargaining capacities of the masters and the workmen). He was in line with Yajnavalkya in suggesting that in case wages were not fixed at the outset, the servant of a trader, a cowherd and an agricultural labourer could take a tenth part of the proceeds. Shukracharya was of the opinion that wages of a worker ought to be so fixed as to enable him to meet all his necessary expenses. He also sounded a note of warning that if a worker was not paid an adequate wage there was a likelihood of the worker getting frustrated and turning an enemy. They could become auxiliaries to others and opportunists and deserters.

To avoid the development of unfair or illegitimate relations with the women workers, Kautilya laid down that if any person paid wages to a woman worker without the performance of work (either on taking bribe or for any other reason) he was to be punished with the some fine.

In ancient history, there are many such Jurists who have described such performance related wage payment to labour. Almost all the above mentioned jurists did agree with each other that the payment of wages was to be made either daily, weekly, fortnightly, monthly, quarterly, six-monthly or yearly or on the completion of work or as agreed upon. Wages could, however, be withheld in certain cases, particularly in cases of improper or non-performance of work (Karan, 1957).

#### 16<sup>th</sup> and 17<sup>th</sup> Century

Ignatius Loyala established a system for formal rating of the members of the Jesuit Society (Whisler & Harper, 1962). Ignatius was a nobleman who had a military background. He formed the Society of Jesus, which was approved in 1540 by Pope Paul III. He wrote the Jesuit Constitution, adopted in 1553, which created a centralised organization and stressed acceptance of any mission to which the pope would call them. According to Pontes (2010), formal performance appraisal programs were not new. St. Ignatius of Loyola used a combined system of notes and reports of activities and potential of each of his Jesuits. In 1648, Dublin (Ireland) Evening Post has a system of evaluating legislators by using a rating scale based upon personal qualities (Hackett, 1928), as cited in (Wiese & Buckley, 1998).

#### 18<sup>th</sup> and 19<sup>th</sup> Century

In the 18<sup>th</sup>-19<sup>th</sup> centuries there were early forms of performance appraisal in Britain and USA, and most Western armies did appraisals in the 19<sup>th</sup> century (Furnham, 2004). In 1776 Adam Smith discussed the application of principle of specialization to manufacturing workers, its control and concept (Balasubramanian, 2002). With this, the monitoring of manufacturing workers' performance was easy and rewarded accordingly.

Performance management theory and practice in the United States started with the Industrial Revolution in the late 18th century. The earliest performance appraisal programs during the Industrial Revolution were relatively crude and simple. Workers were evaluated and paid primarily on the basis of quantity output -- the number of "pieces" they satisfactorily turned out. Frequently, management provided for bonuses and other tangible rewards to recognize employee contributions to the company (Pratt, 1991).

In 1800, James Watt introduced standards of operating procedures, specifications, work methods, incentive wages and even bonus based on performance at the time of Christmas. However, it was Robert Owen who recognized the need for personal practices in 1810. He was the first who assumed responsibilities for training of workers (Balasubramanian, 2002). Robert Owen initiated performance appraisals in companies in the early 1800s. Owen monitored performance at his cotton mills in Scotland through the use of "silent monitors." The monitors were coloured cubes of wood with different colours painted on each visible side. They were displayed above the workstation of each employee. At day-end, the colour of the visible side of the cube was associated with a rating to indicate performance. At the end of the day, the block was turned so that a particular colour, representing a grade (rating) of the employee's performance, was facing the aisle for everyone to see. White indicated "excellent", yellow indicated good, blue was used to indicate "indifferent" while black indicate "bad". Anecdotal evidence indicates that this practice had a facilitating influence on subsequent behaviour (George, 1972), as cited in (Banner & Cooke, 1984) and (Wiese & Buckley, 1998).

Performance appraisals were formally implemented in the United States military in 1813. This is generally looked upon as the start of formal performance appraisal in the United States. In contrast to "silent monitors" used by Owen, Army General Lewis Cass reported to the US War Department on individual ratings of officers using descriptions of each officer. He used phrases such as "a good natured man," "a knave despised by all", and so on in his descriptions of his officers. According to Banner et al., the military was in the forefront in developing performance appraisal techniques such as forced-choice, ranking and trait-rating scales (Banner & Cooke, 1984)

In the late nineteenth and early twentieth century, performance appraisals were used primarily by military and government organizations – due to their large size, hierarchical structure, geographic dispersal, and the necessity to promote the top performers to higher organizational levels. At this time, most private organizations used informal measures to evaluate individual performance and make subsequent administrative decisions (Wiese & Buckley, 1998).

In 1832 Charles Babbage introduced division of labour and cost accounting. In 1850 James Hill wrote about span of control, unity of command, control of labour, control of materials and wage incentives. In 1891 Fredrik Halsey introduced the Premium plan of wage payment which is accepted even today as an important method of payment by results (Balasubramanian, 2002). In the US federal government, first efforts to establish an employee performance evaluation and rating system were seen during the administration of President Tyler (1841-45). Other systems followed until the first uniform efficiency rating system was implemented under President Harrison (Comptroller General of the United States, 1978).

The Federal Civil Service of the United States began giving merit ratings, also known as efficiency ratings, in the late 1800s (Petrie, 1950) as cited in (Wiese & Buckley, 1998).

## 20<sup>th</sup> Century

Frederick Taylor believed that it is management's responsibility to devise the best method of performing work. In the first decade of the twentieth century he developed the concept of scientific management. This was based on the analysis of existing work methods through observation and measurement. From this, an improved method could be developed and implemented, and its results monitored through ongoing performance measurement.

The focus of scientific management was primarily on increasing the efficiency of individual workers. Taylor further stressed the importance of the individual worker by advocating the payment of individually based financial incentives to those workers who could increase their output as a result of the application of scientific management. This in turn required the measurement of the performance of individuals, especially their output (Radnor & Barnes, 2007).

In 1914, development of performance appraisals in United States industry began with early work in salesman selection by industrial psychologists at Carnegie-Mellon University, who used trait psychology to develop a man-to-man rating system. The army used this system during World War I to assess the officer performance. After the war, business leaders, impressed by the achievements of the army researchers, hired many of the men who had been associated with the work in man-to-man appraisals. Industry wanted to use the contributions of this new breed of psychologist (Scott, 1941) as cited in Wiese & Buckley (1998).

Between 1918 – 1950, the widespread use of performance appraisal techniques with blue-collar employees didn't start until after World War I. Appraisal systems for measuring managerial and professional employee performance weren't used extensively until about 1955 (Pratt, 1991).

During 1924, Federal government added graphic rating scale to obtain quantitative measure for such ratings. It was composed on different elements with various descriptive points in which the supervisor checked the employee's abilities and traits on a rating scale. These checks were reviewed by the higher officials and later by a neutral board to produce a final rating. Since the boards could adjust ratings to conform to a predetermined pattern of distribution supervisors were unable to explain the rating or to work with employees to improve their performance and this obtains better rating. However, due to its unpopularity, the Federal Personnel Council revised the graphic rating system under the Uniform Efficiency Rating system in 1935 (Comptroller General of the United States, 1978).

Prior to World War II, performance appraisal systems tended to exclude top management, generally used graphic-rating scales and had just one or two forms for all employees regardless of the job performed or skills necessary (Spriegel, 1962). In the second decade of 20<sup>th</sup> century, Psychologists and Sociologist gave a new direction to management thought. More emphasis was given to group behaviour, human relations, morale and motivation. Increase attention was given to the man behind the machine, his behaviour, his observable and measurable traits (Balasubramanian, 2002).

These systems appraised individuals on the basis of previously established performance dimensions, using a standard, numerical scoring system. They focused on past actions instead of future goals and were always conducted by the supervisor with little input from the employee (Wiese & Buckley, 1998).

Historically, performance appraisals have been used for administrative purposes, such as retention, discharge, promotion, and salary administration decisions (Murphy & Cleveland, 1995). However, in this early era, with weak human resource management departments and a lack of understanding of performance appraisal systems, administrative decisions were often made independently of, and even ran counter to, performance appraisals (Whisler & Harper, 1962).

In addition to, and perhaps because of, supervisors who did not take performance appraisals seriously, the unions of this era advocated seniority-based decisions over performance-based decisions. Thus, a loose correlation between appraisal results and administrative decisions was permitted, which gave individual supervisors discretionary power in relation to human resource outcomes e.g. promotions, salary increases (Wiese & Buckley, 1998).



By the early 1950s, 61% of organizations regularly used performance appraisals, compared with only 15% immediately after World War II (Wiese & Buckley, 1998). By the 1950s in America and the 1960s in Europe, around a 50% to 75% of bigger companies had some performance appraisals process (Furnham, 2004).

Efficiency rating systems were used in several forms by US Federal agencies long before its Congress enacted the Performance Rating Act of 1950. The efficiency rating was based on several factors, such as attendance, application, habits, and ability. The system applied to all civilian personnel in the classified service, and their promotions and within-grade pay increased were based solely on the ratings (Comptroller General of the United States, 1978).

In 1957, performance appraisal emerged based on Management by Objectives. Employees were appraised on the basis of short-term goals, jointly set by the employee and the manager, rather than traits (McGregor, 1957). A shift in the purpose of performance appraisal system towards employee development and feedback came into force (Fedor, 1991) as cited by (Wiese & Buckley, 1998).

In the US, passage of the Civil Rights Act of 1964 and the 1966 and 1970 Equal Employment Opportunity Commission Guidelines for Regulation of Selection procedures created a need for improvement in organizational appraisal practices. These legal considerations exerted strong pressure on organizations to formalize, validate, and organize appraisal systems (Murphy & Cleveland, 1995).

In the US Federal government, over many years, the Congress and various Presidents and Commissions tried different performance evaluation and rating systems. Enactment of the Classification Act of 1923 overhauled the Federal pay system and the efficiency rating, which again tied into personnel actions (i) within grade salary advancement, (ii) retention in grade without advancement or reduction, (iii) reduction in pay within the grade, and (iv) immediate demotion or dismissal (Comptroller General of the United States, 1978).

In the 1970s in USA and the 1980s/1990s in Britain, it was government legislation concerning equal opportunity, civil rights, etc. which compelled organisations to adopt an objective Performance Management Systems (PMS) as a powerful tool for change in public sector culture and ethos (Furnham, 2004). As survey results showed (Murphy & Cleveland, 1995):

- Public sector organisations are more likely to have PMS than private sector organisations
- larger organisations are more likely to have PMS than smaller organisations
- middle managers are more likely to be formally appraised than senior managers
- human resources professionals are drivers of these systems in organisations.

By the end of 20<sup>th</sup> century, performance appraisal appears to be nearly universal, and the apparent importance of performance appraisal as a tool for managing human resources has increased. Innovative use is now being made in some organizations of a self-appraisal system, especially for managers and higher-level professionals. Advocates of the self-appraisal approach say it has these advantages:

- It motivates the incumbent to take more responsibility for his own performance and growth;
- Appraisal can be performed as often as believed necessary throughout the year because it can be initiated by the person being assessed;
- It can be clearly focused on job behaviour, avoiding confusion with other issues such as compensation, promotion, lateral transfer, or training; and
- Performance ambiguity is decreased, creating the potential for more timely and specifically-focused job behavioural changes (Pratt, 1991).

The introduction and growth of strategic performance management systems such as the Balanced Scorecard that cut across organisational levels, linking strategic, operational and individual performance management in organisations. Individual performance management systems start to be aligned to corporate strategies, to create a clear line of sight. Individual objectives and performance measures are based on and continuously aligned with the organisational ones, to enable clear accountability at individual level towards the achievement of organisational goals (Brudan, 2009).

**Table 2 Performance Appraisal Approach and Measure in different timelines**

Time Frame	Approach	Measure
3 <sup>rd</sup> AD	Qualitative judgement on character	How
Pre 1800s	First examples of traits / competencies	How
1800s	Narrative report	What / How
1920s	Task based output e.g., 'piece work'	What
1950s	Trait-based, critical incident technique	How

1960s	Management by Objective	What
1970s	Assessment Centre	How
1980s	Hybrid	What / How
1990s	Performance Management	What / How
	Competency Development	How
	360 feedback / evaluation	How
	Balanced scorecard	What / How

Source: Mills, 2002

Performance appraisals are being used in almost all the organizations across the world in some form. The performance management system has been continuously evolving in every industry to cope up with current scenario, which enables individuals to work in alignment with organisational goal. In 21st century, performance management system has become an integral part of Employee Engagement. Hence, the organizations take their decisions on modifying the system as per their own context.

### PMS in 21<sup>st</sup> Century

The world is moving in such a pace like never before. Different kinds of organizations have to customize the Performance Management System in line with the need of the time. The system cannot be same for industry sector, for-profit/not-for-profit, private/public sector, community based/non-community based organizations. Organizations have been trying to implement in their respective ways to manage their system effectively.

Currently, leading Indian firms consider performance management to be a very important component of their Human Resource Management (HRM) framework. The nature and approach to PMS as adopted by different organizations vary depending on the type and size of the organisation i.e., whether it is public, private, national or a multi-national organisation. For example, one finds a very formal and structured appraisal system in IT and BPO companies. In recent years, improving effectiveness of the PMS and the appraisal processes has been among the prime action items for the HR function. In addition to the common application of PMS, such as goal setting, tracking performance, identifying performance gap areas, and rewarding employees, many organisations have used the system as a tool for organisational transformation (Dessler and Varrkey, 2011).

#### For Profit Organizations / Industry Sector

The nature of organizations and the structure of jobs are also changing rapidly, and many of these changes have implications for performance management. Two important changes occurring at the organizational level are: 1) the increasing "flattening" of many companies through the elimination of layers of management, and 2) the "rebuilding" process after major organizational restructuring, through which organizations report a new or renewed commitment to specific values, such as customer service. The first trend is relevant to performance evaluation because there are fewer people in management positions to evaluate performance, those managers who remain often have responsibility for a larger number employees and often have many other responsibilities, and within flatter organizations many employees have more discretion over the way they perform their jobs, which makes it harder for a manager to recognize performance issues and problems through observation. The second trend influences performance evaluation through the choice of factors or dimensions to be evaluated, and in some cases the choice of who participates in the evaluation. An organization that makes customer focus a primary value will certainly want to measure how well individuals and teams are delivering on that value, and they may want to go to the "horse's mouth" and ask the customer for feedback directly (May, 2018).

There is an increasing trend of corporate looking at alternative methods. Microsoft dropping its age-old practice of using a relative rating system made big news. The company has been criticised for holding on to a system that is believed to hamper creativity. Google too, dropped its complex matrix, got rid of the mandatory bell curve and went in for a simpler classification system. Adobe too shed the curve two years ago and opted for a target-achievement based model it calls "check-ins". "Forcing people into ranks is an idea whose time has gone. A target-achievement based model is the way forward, and I don't agree any more with the policy of force-fitting that several companies still follow" says TV Mohandas Pai, chairman of Manipal Global Education and former head of human resource & administration, Infosys.

Accenture CEO Pierre Nanterme told, the professional services firm will implement "a more fluid system, in which employees receive timely feedback from their managers on an ongoing basis following assignments. "In technology, everything depends on innovation, and you need the brightest of minds to come together, she adds. "It is quite destructive to tell your team that one day they need to come together and innovate, and the next day, they get ranked against each other," says Donna Morris, senior vice president, people & places, Adobe. Mphasis's top management recognized that there was a need to overhaul its people practices, in



order to truly evolve. And the first thing it went in for was its performance management system. It now has a purely target-achievement based model. Mindtree adopted a "performance" curve.

Organization should adopt the practices that are consistent and best fit for the nature of the job performed by Organization and also the employees aligned to its mission and vision. It is very important to understand the employees' expectation, experience and perception about the performance management system in any organization. Performance Management System is very important for organization success or failure, if not short term but long term. If employees do not believe in the assessment system, then there is quite a chance that employee will not be much engaged and participative for this kind of process which presently is happening in many organizations.

"People do not have a problem with the bell curve, but rather, with the lack of transparency or understanding of the process. The bell curve is a well-accepted form of performance appraisal," he adds. At the Aditya Birla Group, the system has been modified and improved over the years, he says.

For Non-Profit Organizations / Non Governmental Organizations

Performance management in the non-profit sector has not been widely studied in comparison to performance measurement in the industry sector or the for profit organizations. Performance measurement is diversely defined in non-profit literature, similar to the diverse definition of the sector itself. Some of the definitions cited in the literature include project performance evaluation (Poister, 2003), evaluation of individual, group and organisation performance (Ferreira and Otley, 2009) and monitoring economy, efficiency, effectiveness and efficacy (Teelken, 2008; Fine and Snyder, 1999). Others include monitoring workload and productivity (Ammons 1996), outcome measurement (Wainwright, 2003; Benjamin and Misra, 2006; Moxham, 2009) and program evaluation (Miller, 2007; Carman, 2007; Zimmerman and Stevens, 2006) as cited by (Wadango, 2014).

The literature review reveals the existence of several frameworks like program-specific, multidimensional, or individual performance frameworks. Program-specific frameworks focus on the measurement of program inputs, outputs, impacts and outcomes while Multidimensional models measures diverse effectiveness and performance domains.

Community based organisations are NPOs organised and owned by the community, with limited funding and small-scale operations with an aim of providing social empowerment and promoting advocacy.

**Table 3 Trends in Performance Appraisal**

Item	Former Emphasis	Present Emphasis
Terminology	Merit Ranking	Employee Appraisal & Performance Management
Purpose	Determine qualification of wage increase, transfer, promotion, lay-off	Development of the individual, improved performance on the job; and to provide emotional security
Factors Rated	Heavy emphasis upon personal traits	Results, accomplishments, performance
Techniques	Rating scales with emphasis upon scales. Statistical manipulation of data for comparison purpose	Mutual goal-setting, critical incidents; group appraisal; performance standards; both quantitative and qualitative
Post Appraisal Review	Superior communicates his/her rating to employee and tries to sell his evaluation to him; seeks to have employee conform to his views	Superior simulates employee to analyse himself/herself and set own objectives in line with job requirements; superior is helper and counsellor

Source: Srinivas, 2009

### Concluding Remarks

For centuries, organizations survived quite well without formal performance appraisal systems, which beg the question "Why do formal performance appraisal systems exist?" As organizations evolve toward large organizations with professional management, a more formal performance appraisal system serves as an asset in administrative decision making. Regardless of the system in place, decisions must be made regarding who receives raises and promotions and who is terminated. These decisions are aided by a process that monitors and evaluates an employee's progress and allows for intra-organizational comparisons of individual performance. Thus, the answer is that formal systems simply have replaced informal ones. These formal performance

appraisal systems are not perfect and they continue to rely primarily upon human information processing and judgment – imperfect processes, at best (Wiese and Buckley 1998).

There could be few disadvantages, but there are also many advantages of having a formal PMS in any organization. The solution to improve the quality of both formal appraisal and informal performance management related feedback does not lie in trying to improve the technical elements of any given approach. Rather, it lies in helping managers to overcome the difficulties that they face when trying to articulate what they know and how they implement their knowledge and if their individual goals are in line with organisation's overall mission and vision. Performance Management should act as both performance assessment as well as coaching tool.

To work well, PMS needs to become a natural part of the way the organization and its managers operate, rather than a paper-based, bureaucratic system which is widely resented because it is seen as interrupting 'real' work.

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