

*Full Length Research Paper*

# Performance management systems: A comparative analysis

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Many organizations install Performance Management Systems (PMS) formally and informally in their organizations, with the motivation to achieve better organizational results. In practice, organizations have difficulty in implementing a performance management system because its different dimensions are not taken into considerations enough. This article describes the findings of a comparative analyses conducted between a standard performance management model and performance management systems as applied by Local Development Organization (LDO). Data was collected from 50 employees of the organization with a Cronbach Alpha (0.935). Results identified barriers to implementation of effective PMS, also recommendations and viable solutions are presented.

**Key words:** Performance, performance management system, human resource management.

## INTRODUCTION

Performance Management System (PMS) is defined as 'a strategic and integrated approach of conveying continued success to institutions by developing the people in a way that improves group and personal performance' (Armstrong and Baron, 1998). These systems provide a continuous and integrated approach for managing and rewarding performance. As already developed and implemented performance, related pay and appraisal systems were failing to deliver the results according to the expectations of management (Armstrong, 2001), an increasing number of profit and non-profit organization are turning towards PMS for their organizations in order to achieve better results and better psychosomatic outputs (Carpinetti et al. 2002; Chau, 2008; Lam, 2008; Lawrie et al., 2004; Luthans et al., 2008; Mwita, 2000; Reilly, 2003; Verbeeten, 2008; De-Waal, 2007). Despite being, an avant-garde approach there has been many difficulties in the proper implementation of the approach (De-Waal, 2007). PMS is impossible to be effective if focus is not given to performance driven behavior rigorously and managers acting as role models (De-Waal and Covert, 2007). The efficient implementation and

effectiveness of PMS depends upon the behavioral factors of the employees and manager, and as how the managers beguiled the employees towards PMS. This gives us an impression that there are a variety of behavioral, psychological, and managerial factors that are involved in the effectiveness and efficiency of a PMS.

This article illustrates a comparative analysis of a Standard PM Model and PMS being implemented in a nongovernment and nonprofit organization LDO. "Standard PMS Model" selected for this study is the model given by Armstrong (2001).

LDO has implemented PMS "Informally" in their organization. Implementation of PMS informally means that the practices and procedures being put into practice by LDO are similar to that of a PMS but not organized, integrated, properly planned and executed. A study was therefore initiated in LDO to identify the efficiency of their eccentric PMS and compare it to a PMS Model widely used and accepted in other organizations.

## THE PM MODEL

Beer and Ruh (1976) first coined the phrase performance management in 1976. This term was formally recognized as a distinctive approach in mid 1980s. The main reasons for the development of this system was that, the

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managers realized that a more continuous and integrated approach was needed to manage and reward performance. Moreover, already developed and implemented performance related pay and appraisal systems were failing to deliver the results according to the expectations of management (Armstrong, 2001). In order to deal effectively with the pressures and changes in the current environment, the organizations are seeking for effective management techniques (De-Waal, 2007). There is an increasing agreement that effective approaches to management are those that propose organizations with sustainable competitive edge (Lawler, 1998). Therefore, performance management can be one of the approaches to achieve better results. That is why an increasing number of profit and non-profit organizations are implementing a PMS in order to achieve better organizational results in a changing and dynamic environment of today's world (De-Waal, 2006).

Performance management is about managing the performance, whereas "Performance" According to Oxford English Dictionary, can be defined as "The accomplishment, execution, carrying out and working out of anything ordered or undertaken." Performance can be regarded as behavior, the way in which the organizations, teams, and individuals get work done (Armstrong, 2001). Brumbach (1988) gives a more inclusive observation of performance. According to him, Performance means both behavior and outcome; Behaviors emit from the performer and convert performance from thought to act. Ingram and McDonnell (1996) suggests Performance as, the result of achieving organizational objectives a yardstick of success.

PMS is as a strategic and organizational approach, which describes, evaluates, executes, and improves organizational performance constantly. It comprises of methodologies, framework, and indication that facilitate organization in the formulation of their strategy and make possible for employees to gain strategic insight, which permits them to face strategic assumptions, improve strategic thinking, and inform strategic decision-making and learning (Marr, 2006). It is seen as an integrated process in which manager work with their employees to set expectations, measure and review results, and reward performance, in order to improve employee performance, with the ultimate aim of affecting organizational success positively (Mondy et al., 2002). Simons (2000) describes PMS as 'the formal, information based routines and procedures which are used by managers to maintain or alter patterns in organizational activities'.

In this research a standard performance management system (Armstrong, 2006, 2003) is compared with the informal PMS as applied in LDO. The performance management system is shown in Figure 1. In this standard model there are five main components; Role definition, Performance agreement (Plan), Personal development planning (Act), Performance (Monitor) and Performance review (Review).

In Role definition Purpose of the role, Key result areas that present the major responsibilities of the role holder in terms of output and Key competencies in terms of qualification, skills, or behavior required to perform the job are identified and established.

In the second stage of PMS, performance agreements or contracts are established. Expectations from human resources are ascertained, i.e. what an individual has to attain in the form of objectives, how their performance will be measured and competences needed to deliver the required consequences. Armstrong (2001) encompasses elements of performance agreements or contracts as a combination of objectives and standard of performance, Performance measures and indicators, competence assessment and core values or operational requirements.

The next stage of PMS is the personal development plan. At this stage actions are designed to develop individuals in order to broaden their knowledge and expertise, amplify their levels of proficiency and to advance their performance in particular area.

Once agreements are accomplished between the stakeholders, dynamics of the PMS have been identified and agreed upon with mutual consensus and consultations, training have been imparted to the concerned, and the required developmental activities identified than its time for the actual Performance of agreed upon jobs. Actions are taken in accordance with the practice of the performance agreement, and personal agreement plan as individuals keep on with their daily work and their intended learning activities; it also includes providing an uninterrupted feedback on performance, conducting informal performance reviews, updated objectives and dealing with performance problems and counseling (Armstrong, 2001).

According to Ingram and McDonnell (1996) measuring the performance of employees is a compulsory task as it allows a firm to have a record of current organizational activity in order to judge their progress and help refocus strategy. This information must always be compared against past performance and initial goals, as well as firms must also compare their performance with other compatible firms. Deciding about the criteria for performance measurement can be difficult, however Kaplan and Norton developed balanced scorecard in 1996, and suggested financial measures as well as operational measures. These may be sighted from four angles.

Customer viewpoint - measuring customer satisfaction by formal and informal methods.

Financial perspective - measurement of sales, profits and return on investment.

Innovation and learning perspective - activities like the recognizing new markets, staff development and upgrading the services.

Internal perspective - including those activities influence

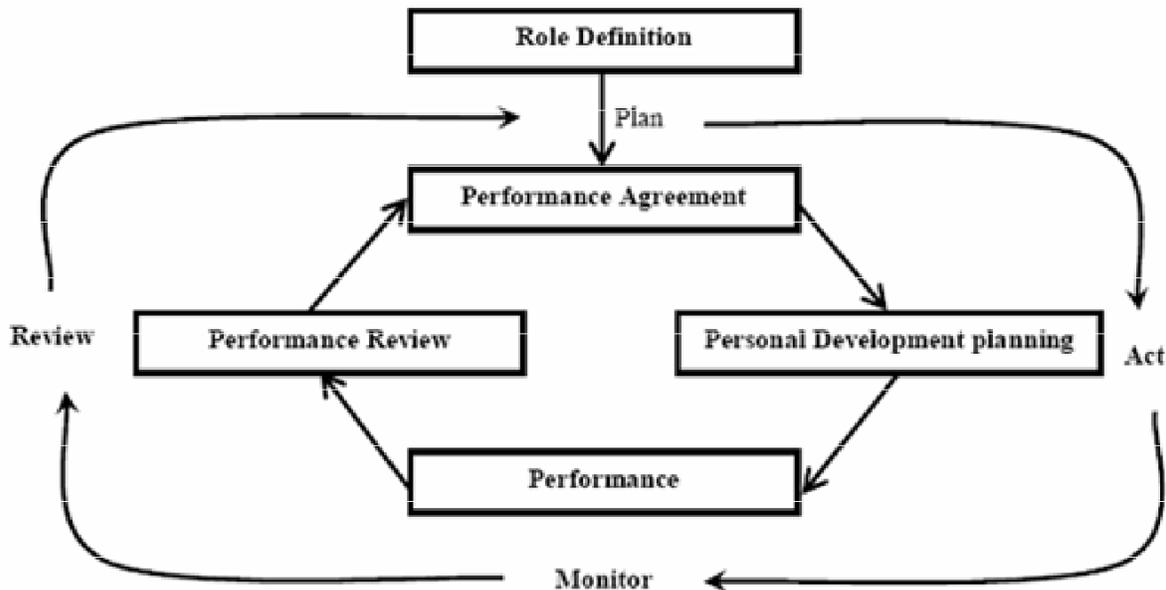


Figure 1. Performance management system (Armstrong, 2003, 2006).

customer satisfaction, for instance teamwork and employee development, in addition to internal measures of efficiency for example gross profit percentages (Ingram and McDonnell, 1996).

Lastly, we have performance review in which a proper assessment and review of performance over a period takes place. This phase covers achievements, growth and difficulties requiring revision upon performance agreement and personal development plan. Companies across the world give immense interest in developing such strategies that progress them forward and enhance their output and competence. However, the time and the cost of assembling these strategies are insignificant unless they are persistently screened and reviewed (De-Waal, 2006).

Performance review provides a picture of past performance and enable to make plans for future, these reviews not only consider that what has happened in past performance year but also emphasize on why it happened, which make future planning more effective. This also helps to design further development and improvement plans for employees (Armstrong, 2003).

Performance reviews are not only 'top-down appraisals', nor like the interviews in which one party asks questions and other answers, instead they are like open meetings where both parties can exchange their views, which leads to consented conclusions. Armstrong (2001) advocates that performance reviews should be like purposeful conversations, which ends at the conclusions in which consent of both parties involve. After Performance reviews, following aspects of performance management have to be fulfilled:

**Measurement:** Evaluating the performance results against pre-established expectations.

**Feedback:** Providing people with information about their performance throughout the year.

**Positive reinforcement:** Recognizing and appreciating the good performance of employees to ensure its repetition. This requires constructive criticism, which leads to the way of improved performance rather than discouragement.

**Exchange of views:** Performance review meetings are open and frank, encourage all the involved parties to exchange their views, which results in better decisions for future, this also ensure involvement of all the parties in decision making which in turn lead to commitment of employees with the achievement of goals, established with their consent. Therefore, performance reviews are the form of dialogue not the top down appraisal or interview.

**Agreement on action plans:** This comprises the decisions at the beginning of next performance period, which determine that whether the objectives will be achieved by the individuals themselves or collaboratively by subordinate and managers.

#### Research at LDO

The organization LDO is a one of the large public interest (non-profit) organizations experiencing PM systems

**Table 1.** Breakdown of sample.

| Category     | No of respondents |
|--------------|-------------------|
| Managers     | 22                |
| Non-managers | 28                |
| Total        | 50                |

**Table 2.** Mean values dimensions wise.

|                                  | N  | Range | Minimum | Maximum | Mean  | Std. deviation |
|----------------------------------|----|-------|---------|---------|-------|----------------|
| Performance application          | 50 | 3.20  | 1.80    | 5.00    | 3.540 | 0.73318        |
| Roles definition                 | 50 | 2.75  | 1.75    | 4.50    | 3.335 | 0.72423        |
| Performance agreement            | 50 | 2.40  | 2.50    | 4.90    | 3.754 | 0.57186        |
| Performance development Planning | 50 | 3.33  | 1.67    | 5.00    | 3.420 | 0.85089        |
| Performance                      | 50 | 2.60  | 2.40    | 5.00    | 3.688 | 0.60631        |
| Performance review               | 50 | 3.55  | 1.36    | 4.91    | 3.591 | 0.75235        |

professionally at the workplace. Its Mission is to bring about policy and institutional changes by mobilizing deprived and marginalized communities with a view to creating an environment in which communities at the local level may be able to transform their lives through the equitable and sustainable use of resources. The total number of employees is approximately 200.

The main objectives of the research is to study and verify the performance management system currently under application in the organization and compare it with standard PM model, identify obstacles to implementation of effective PMS and with identification of deficiencies and incompetence, offer recommendations and viable solutions for effective PM system in the organization. Following hypothesis has been developed for this study:

**H<sub>0</sub>:** Standard performance management system is being implemented in LDO.

**H<sub>1</sub>:** Standard performance management system is not being implemented in LDO.

## RESEARCH METHODOLOGY

To evaluate the organization on the basis of standard performance management system as if performance management system is being implemented in LDO a questionnaire was developed to gather data from the organization (Go et al., 2007). The managers and non-managers of the organization rate the six dimensions of the Standard PMS on a scale of 1 - 5. The total number of questions in the questionnaire is 38. The Sample size of the study was 50 employees of LDO. These employees were chosen randomly from different departments of the organization. The breakdown is shown in Table 1. Reliability of the responses is checked by using Cronbach's Alpha reliability test with a value of Alpha for the study is 0.935, which according to Joseph and Rosemary (2003) considered as excellent. The data would be analyzed by Means, standard deviations, radar diagram and correlation.

## RESEARCH RESULTS AND ANALYSIS

Table 2 gives the average scores for each PMS dimension, for the current situation at LDO. It is observable that the standard deviation is relatively high and this can be explained that we are taking data from managerial as well as non-managerial staff so there may be a difference of responses between these two groups. As there are 50 respondents and out of these respondents 22 are managerial staff members and 28 are non-managerial staff members. Below is the table that would give a further breakdown of the responses of the managers and non-managers towards the different dimensions of performance management system in LDO.

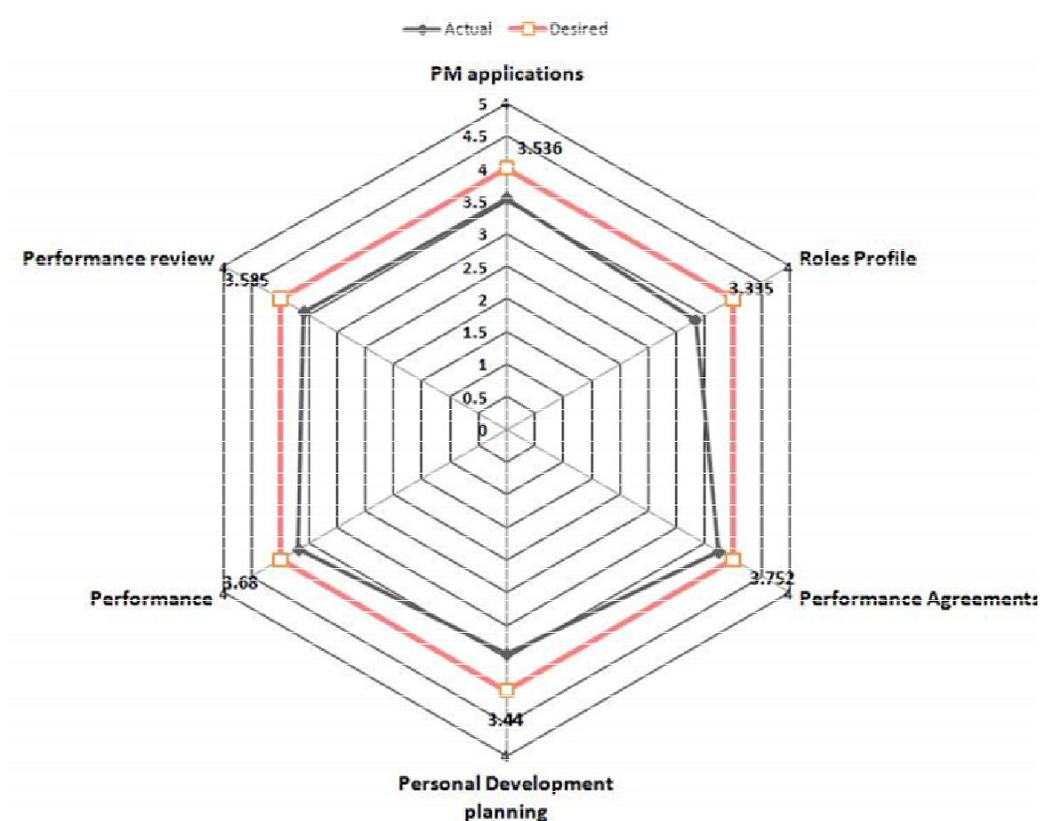
Table 3 clearly shows the differences in responses of the managers and non-managers regarding the Application of performance management system in the organization. The values of the managers are higher than the values of the non-managers demonstrate that the managers are more satisfied with the implementation of performance management system in the organization than the non-managers are.

This RADAR diagram is developed based on the means of responses for each dimension, showing the desired as well the current situation of PMS in LDO in Table 2. The data has been graphically represented through the RADAR diagram that would give a clear picture of the difference between the hypothesized level of performance and the actual level of performance (de Waal, 2006).

The 'ideal' or 'desired' level is 4 for each of the dimensions. The "dents" in the figure provides the information that which specific dimensions are needed to be addressed, in order to improve the organization's performance (Figure 2). It is observed that mean values of all dimensions performance application (3.53), roles definition (3.33), performance agreement (3.75),

**Table 3.** Breakdown of responses of managers and non-managers for different dimensions of performance management system.

| Dimension                     | Type of respondent | Mean value |
|-------------------------------|--------------------|------------|
| PM applications               | Manager            | 3.69       |
|                               | Non-Manager        | 3.42       |
| Roles profile                 | Manager            | 3.57       |
|                               | Non-Manager        | 3.14       |
| Performance agreement         | Manager            | 3.98       |
|                               | Non-Manager        | 3.57       |
| Personal development planning | Manager            | 3.80       |
|                               | Non-Manager        | 3.11       |
| Performance                   | Manager            | 3.72       |
|                               | Non-Manager        | 3.65       |
| Performance review            | Manager            | 3.64       |
|                               | Non-Manager        | 3.54       |



**Figure 2.** Radar diagram performance management system.

Performance Development Planning (3.44), Performance (3.68), and performance review (3.58) are below the Desired value 4.

The hypotheses generated for this study are being tested through Z tests. The test value for this study is 4. For the study if Z test, value is greater than 0.5 then

Alternative Hypothesis 'H<sub>1</sub>' would be accepted and if the value of Z test were less than 0.5, Null Hypothesis 'H<sub>0</sub>' would be accepted.

Table 4 shows the Z test values of all the dimensions which are well above 0.5 and are almost 1, as well as the overall value of Z test of the data is 0.99 as can be seen

**Table 4.** Z test values for individual dimensions.

| Dimensions                    | Mean  | Standard deviation | Test value | Z test   |
|-------------------------------|-------|--------------------|------------|----------|
| Performance application       | 3.536 | 0.73               | 4          | 0.999995 |
| Roles profile                 | 3.335 | 0.72               | 4          | 1        |
| Performance agreements        | 3.752 | 0.57               | 4          | 0.998824 |
| Personal development planning | 3.440 | 0.85               | 4          | 0.999999 |
| Performance                   | 3.680 | 0.60               | 4          | 0.999863 |
| Performance review            | 3.585 | 0.75               | 4          | 0.999939 |

**Table 5.** Z test value for the overall data.

|         | Mean   | Standard deviation | Test value | Z test |
|---------|--------|--------------------|------------|--------|
| Overall | 3.5974 | 0.5603             | 4          | 1.0000 |

in Table 5 showing the strong acceptance of Alternative hypothesis 'H<sub>1</sub>'.

From the results of Z-test, the overall mean of the sample, mean of individual dimensions and Radar diagram we can conclude that there is enough statistical evidence to infer that null hypothesis is not accepted and that the alternative hypothesis is accepted. Therefore, it can be concluded that standard performance management system is not being implemented in the organization.

### Conclusion and Recommendations

The study at UVD's division is subject to a number of limitations. First, the research population is not necessarily representative of the all development organization as the study was carried out at only one of organization LDO. Secondly, the respondents of the questionnaire may have rated their own organization more favorably than an outsider. Thirdly, there may well be other dimensions that influence PMS but in this study, only dimensions identified by Armstrong (2003) have been included.

Regardless of the limitation, this study gives us a clearer picture of the PMS in the investigated organization. It fulfills all the major objectives identified for this research that is to study and verify the performance management system currently being applied in organization and comparing it with the standard PM model and to Identify barriers to implementation of effective performance management system. The results were communicated to the top management of the organization under investigation. There was brainstorming sessions conducted with the organizational employees. Taking into consideration the input from the organizational employees regarding the research outcomes and the data analyzed following barriers were identified:

- Success of any approach implemented in an

organization always depends on the commitment from top level management, as the facts and figures showed that performance management system in LDO is well-balanced and of a good quality however proper attention and dedication is needed from top level management to improve it. Their commitment will enable HR department to execute PMS formally and successfully.

- In order to run the PMS more efficiently and to increase the work efficiency of the employees, managers should be properly trained. Training sessions regarding PMS should be conducted.
- Results also show that organizations should increase focus on improvement of 'Role Definition' as key result areas and skill requirements established which provides the basis for strong PMS. Lack of attention in designing 'proper role definitions' causes conflict in roles of the employees as well as overlapping of responsibility. So to reduce overlapping of responsibility, and to ensure the proper placement of right people on right place.
- Organizational objectives can be achieved successfully when there is a link or alignment between organizational and unit objectives so to avoid the conflict between team and organization's objectives Top level management should set their objectives with the consensus and involvement of low level management and supervisory staff.
- Managers at unit level have to monitor and revise their mission as well as statement of objectives on regular basis to compare their goals with strategic goals of the organization.
- In the organization, there is a need of open style of communication as well as communication means should be smoother so that employees can be encouraged to discuss their problems and opportunities with their supervisors, as well as performance feedback can be provided where weaknesses are identified and recognition for good performance can be given. This will lead to employee loyalty and performance improvement.
- Managers should develop a culture of appreciating the

employees on their good performance, as praise is the thing that motivates people the most, takes so little time and costs nothing. Data showed that managers at LDO not always appreciate the good performance of employees that is a highly de-motivating factor. While keeping in mind the famous saying "Compensation is a right. Recognition is a gift." Managers of LDO are suggested to pursue six ways described by Bob Selden (2006) to appreciate their subordinates that is, look for things people do well and acknowledge them for their good work, be a model of acknowledgment - show others it's OK to give praise, have a conversation with a colleague about how to give praise for work well done. When people have performed above the norm, write them a small thank you note. Encourage others to thank one another and pass on stories of good work to your manager. Work to create a culture of appreciation - make acknowledgment part of daily routine. The important thing is that praise must be frequent and given locally (by colleagues and managers). It should not be seen as a corporate initiative or program, but merely "the way we do things around here."

- Incentives should also be given to employees on improved performance to encourage them to deliver more enhanced results next time. Such type of rewards should be given which are valued for employees, as value of reward differed according to type of employees, like some people value financial reward while others may want non-financial rewards as well, such as recognition, liking, respect, sense of accomplishment, authority etc.

As Further research opportunities studies can be conducted in LDO by executing the results of this study and assessing the status of PMS again. Similar comparative analyses could be carried out by duplicating this study in other organizations and other counties. In addition, other PMS models can also be used to analyze organizations comparatively, which could include new dimensions and variables for analysis.

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