

Performance Management System (PMS): An Important Performance Measurement Tool for Modern Organizations

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Abstract

Performance management system (PMS) is the heart of any “people management” process in an organization. Organizations exist to perform. If employees do not perform, organizations would not survive. If employees perform at their peak level, organizations would be competitive and productivity would increase. Performance management supports an organisation in the achievement of strategic goals and objectives. It assists managers in setting clear performance expectation goals for all employees that are aligned with the strategic goals. It provides a structure for employees to develop the skills they need to achieve the organisation’s strategic goals. The key features of PMS involve setting objectives, measurable performance criteria expected of the individual employee must be made known to him/her from the beginning of the year. There is regular day-to-day meeting as well as periodic formal feedback meetings with subordinates. An unbiased annual assessment of performance based on specific measurable targets set at the beginning of the corporate year is carried out. During these end of year assessment/appraisal face-to-face meetings, achievements and non-achievements of targets are discussed objectively. Necessary steps are then taken to either recognize performance or improve performance, enhance career development, promote, reward and compensate as deemed fit. The study shows how important PMS is to modern organizations when it comes to performance measurement. The study then concludes and recommends among other things that efforts should be made by organisations to ensure effective and efficient performance management system that would ultimately recognize employees’ efforts, improve performance, enhance career development which would go a long way to achieve organisational strategic goals and bring about competitive advantage.

1.1 Introduction

Traditional performance indicators particularly, performance appraisal has been unsuccessful in delivering the desired human resource outcomes of morale, motivation, attitudes and performance. Modern day’s organizations are shifting more from the parochial focus on performance appraisal to a focus on total performance. One of the most powerful tools for tapping individual employee creativity and innovativeness is a performance management system based on target-setting Asare-Bediako (2013).

Performance Management specifically targets the personal performance of an employee. Performance Management system aims at improving the results of employees’ efforts by linking these to the organization’s goals and objectives. It is, ideally, the means through which employees’ performance can be improved by ensuring appropriate recognition and reward for their efforts, and by improving communication, learning and working arrangements.

2.1 Definition of Performance, Performance Appraisal, Performance management, and Organization

Performance: According to businessdictionary.com, performance is the accomplishment of a given task measured against preset known standards of accuracy, completeness, cost, and speed. In a contract, performance is deemed to be the fulfillment of an obligation, in a manner that releases the performer from all liabilities under the contract.

Performance Appraisal: The process of assessing how well employees are doing on the jobs Chuck Williams (2007).

Performance management: Hrcouncil.ca defines Performance management as a process by which managers and employees work together to plan, monitor and review an employee’s work objectives and overall contribution to the organization.

Performance management system (PMS) provides an opportunity and an environment for involving individual employees in the performance and productivity improvement effort. It is a powerful tool for tapping individual employee creativity, innovation and effectiveness.

Unlike performance appraisal, which is an annual performance review, performance management is the continuous process of setting objectives, assessing progress and providing on-going coaching and feedback to ensure that employees are meeting their objectives and career goals (Hrcouncil.ca).

Organization: A social unit of people that is structured and managed to meet a need or to pursue collective goals. All organizations have a management structure that determines relationships between the different activities and the members, the subdivisions, assigns roles, responsibilities, and authority to carry out different tasks. Organizations are open systems – they affect and are affected by their environment

(businessdictionary.com 10-03-2016).

According to Laurie Mullins (2010), organizations exist in order to achieve objectives and to provide satisfaction for their members. Through co-operative action, members of an organization provides a synergistic effect and are able to achieve what an individual would not be able to.

2.2 Traditional Performance Appraisal

Performance appraisal is a process of assessing how well employees are doing their jobs Williams (2007). Many organizations have adopted this tool in measuring performance of their employees. The common approach to performance appraisal is the practice of periodically (mid-year/annually) determining whether, and to what extent, a given employee has lived up to certain predetermined requirements. Though there are many variations in the traditional approach, most of them have the following features:

- Provision of a formal job description (if any) to the jobholder.
- The assignment of tasks to the appraisee by the supervisor and supervision of the appraisee in the day-to-day performance of these tasks.
- Mid-year/Annual assessment of each appraisee's performance using some kind of rating system under which appraisee's are rated on a number of traits or performance factors.
- A formal meeting of the supervisor and appraisee at which the supervisor informs the appraisee what ratings have been given.
- Subsequent use of the appraisal form by the HR department as a basis for making important decisions about the appraisee's compensation, promotion, training and so on.

Performance appraisal systems have certain common problems which include resistance, the application of universal traits for all positions or jobs, year-after-year application of the same universal traits, lack of common understanding of traits or attributes, and the average ratings tendency. The move to solving these problems has led to the introduction of performance management system.

3.1 Features of a Performance Management System

PMS brings together many aspects of people management. It is about performance improvement at individual, team, department and organizational levels. It is also about staff development as a means to both improve and enhance performance and managing behaviour and attitudes. PMS is designed to overcome the problems of traditional performance appraisal.

Before an organisation embarks on the development of an effective performance management system, one should take a moment to consider whether or not the organisation has HR management practices in place to support the performance management process. These include:

- Well-designed jobs and written job descriptions.
- Effective supervision.
- Comprehensive employee orientation and training.
- A positive and supportive work environment.
- Reward and recognition.
- Performance Improvement plan.

PMS must be designed with the following features:

- Objective, measurable performance criteria. That is, the standards or targets upon which employees performance would be measured at the end of the year, must be set and made known to the employees.
- Targets are set based on employees' competencies that is, the technical, personality and managerial competencies of the employees.
- Day-to-day and periodic formal/informal feedback on performance is scheduled with the respective employees before the annual review meeting which provides opportunity to summarize all the feedback provided in the course of the year.
- Objective, unbiased annual assessment of performance will depend on beginning of the year's mutual identification of specific, measurable performance targets or criteria.
- Meetings between supervisors and subordinates allow for objective discussions of achievements and non-achievements of targets, the problems and perspectives of both are also discussed.

3.2 Components of Performance Management System

Any effective performance management system includes the following components:

- **Performance Planning:** Performance planning is the first crucial component of any performance management process which forms the basis of performance appraisals. Performance planning is jointly done by the appraisee and also the appraiser in the beginning of a performance session. During this period, the employees decide upon the targets and the key performance areas which can

be performed over a year within the performance budget. Which is finalized after a mutual agreement between the reporting officer and the employee.

- **Performance Appraisal and Reviewing:** The appraisals are normally performed twice in a year in an organization in the form of mid reviews and annual reviews which is held in the end of the financial year. The entire process of review seeks an active participation of both the employee and the appraiser for analyzing the causes of loopholes in the performance and how it can be overcome.
- **Feedback on the Performance followed by personal counseling and performance facilitation:** Feedback and counseling is given a lot of importance in the performance management process. This is the stage in which the employee acquires awareness from the appraiser about the areas of improvements and also information on whether the employee needs to attend training programme (s) to further develop the competencies and improve the overall productivity. The employee receives an open and a very transparent feedback and along with this the training and development needs of the employee is also identified. The appraiser adopts all the possible steps to ensure that the employee meets the expected outcomes for an organization through effective personal counseling and guidance, mentoring and
- **Rewarding good performance:** This is a very vital component as it will determine the work motivation of an employee. During this stage, an employee is publicly recognized for good performance and is rewarded. This stage is very sensitive for an employee as this may have a direct influence on the self-esteem and achievement orientation. Any contributions duly recognized by an organization helps an employee in coping up with the failures successfully and satisfies the need for affection.
- **Performance Improvement Plans:** In this stage, fresh set of goals are established for an employee and new deadline is provided for accomplishing those objectives. The employee is clearly communicated about the areas in which the employee is expected to improve and a stipulated deadline is also assigned within which the employee must show this improvement. This plan is jointly developed by the appraisee and the appraiser and is mutually approved. Performance Improvement Plan is initiated when an employee performs below expectation.
- **Potential Appraisal:** Potential appraisal forms a basis for both lateral and vertical movement of employees. By implementing competency mapping and various assessment techniques, potential appraisal is performed. Potential appraisal provides crucial inputs for succession planning and job rotation.

(Source: <http://www.managementstudyguide.com/components-of-performance-management-system.htm>)

3.3 Designing Performance Management System

In modern organizations, performance management systems are designed on the basis of three main concepts. These are key results areas (KRAs), targets and competencies.

3.3.1 A key results area is an area of an organization or operation which either the appraiser or appraisee or both would like to improve. For instance, if vehicles have been breaking down frequently, then vehicle maintenance becomes a key results area from which a specific target could be set to improve the situation.

3.3.2 As a first step in target-setting process, the supervisor and subordinate would identify key results areas, jointly discuss and agree on specific targets to achieve improvement in the key result areas identified.

A target is a goal, standard or result to be accomplished within a specified time frame. A target may be a job problem that one would like to minimize or eliminate, a new project one would like to undertake, a development programme one would like to embark upon; or an already attained standard one would like to maintain or exceed.

Targets are usually deduced from the corporate objectives. A good target must be smart that is, specific, measurable, agreed, realistic and time-bound. Targets set must also be compatible with organizational or departmental targets and should be action oriented.

3.3.3 After targets have been set, the next step is to discuss and agree on competencies for the subordinate. A competency is an innate or acquired characteristic of a person which facilitates effective or superior performance Asare-Bediako (2013). Competencies are usually categorized in to three in human resource management. These are: technical competencies which is job knowledge or skills, personality competencies refer to knowledge, skills, traits or attributes that relate to the individual's personality, and managerial competencies that is, knowledge or skills in the key functions of management (which are decision making, planning, organizing, communicating, motivating and controlling).

At the beginning of an organization's year, target-setting and competencies meeting are held between supervisors and team members to agree on targets and competencies.

3.4 Phases in Performance Management System (PMS Cycle)

Performance management system is a cycle with three main phases. As soon as the third phase is completed, the first phase begins – it is a never ending process.

3.4.1 The first phase is the target-setting stage which is done at the beginning of the corporate year. The target-setting process involves supervisor/manager and subordinate meeting for mutual discussion of targets for the subordinate for the year. The target setting process follows a top-down approach starting with the CEO of an organization and individual executive managers. One key factor that guarantees the success of a meeting is adequate preparation especially, on the part of the supervisor/manager. Some of the things the supervisor/manager should consider are:

- The supervisor/manager has set target with his/her immediate supervisor.
- Supervisor/manager sets date, time and place for the target-setting meeting with subordinate.
- The subordinate is encouraged to identify key results areas where performance improvement is needed, set a maximum of about six targets to improve performance, select critical competencies for the achievement of selected targets or overall job performance.
- The supervisor/manager has the opportunity of selecting two or three targets and competencies that he/she would like to add to those of the appraisee at the meeting.
- During this meeting, the supervisor/manager and appraisee agree on key results areas, targets and competencies.

After the target-setting meeting, the supervisor/manager completes the target-setting form which is signed by both parties. Copies of the form are kept by both and one is put on the subordinate's file.

3.4.2 The second phase is the feedback stage. After target-setting, either the supervisor/manager or subordinate can initiate feedback to keep the other informed about developments affecting the set targets and discuss "additions", "deletions", and "modifications" which need to be made

This periodic review meetings may be held quarterly or mid-year and it involves a process of dialogue. Unless serious problems exist, the review meeting need not take a great deal of time.

Day-to-day feedback is provided to feed information for the periodic review meetings and the subsequent end-of-year reviews. This could happen if the appraiser kept notes of "significant events" observed and shared them with the subordinate on a day- to- day basis. Immediate feedback is an important tool geared towards maintaining desirable as well as change unwanted behaviours.

3.4.3 The third and final phase involves end of year review and appraisal of performance. The supervisor/manager meets with the subordinate, reviews the entire year's performance and, on the basis of the review, pronounces his/her "rating" of the subordinate's performance for the entire year.

The success of this end-of-year review meeting depends largely on the supervisor/manager's preparations which are as follow:

- Use a place free from personal and telephone interruptions.
- Schedule a brief meeting to inform the appraisee about the impending review meeting, in terms of date, time and place of meeting.
- On the meeting day, go over targets, competencies, and key day-to-day duties, and write down observations and ratings that the appraiser wants to discuss with the appraisee.
- Record on paper the major points to be discussed at the meeting.
- The manager or HR should seek the views of the subordinate's immediate supervisor, observations and ratings recorded for the subordinate. This ensures that the supervisor's judgement is not rejected.
- An agenda must be drawn for the review meeting.
- After the review meeting, the supervisor/manager completes the review form which is signed by both parties and distributed as follows:
 - Employee's copy
 - Employee's file copy
 - Supervisor's copy

4.1 Implementing a Performance Management System

According to Asare-Bediako (2013), four key steps are recommended for the implementation of performance management system:

Step 1: Get top management buying in by making sure they understand and approve of the introduction of PMS in the organisation. This can be done by briefing them about the concept, objectives, components of the PMS and the conditions for success.

Step 2: After its approval, the HR department/unit should prepare a manual that will be a guiding handbook for managers and supervisors at all levels.

The manual should explain the broad objectives of the PMS the three phases of the system, the concept

of target setting and competencies.

Step 3: After the manual has been put in place, the next step is training of affected employees especially, managers and supervisors.

Because PMS is a skilled oriented, the training should cover areas such as, target setting meetings, conducting the end of year performance review and appraisal meetings with an appraisee; and reviewing demonstration or non-demonstration of competencies with an appraisee.

Step 4: After skilled training, PMS can be implemented throughout the organisation beginning with target-setting by managerial staff. For non-managerial staff, a very simplified version could be introduced. When the target-setting process is over, a survey could be conducted to determine how the process was managed at various levels in the organisation.

Similarly, the two other phases should be monitored and evaluated and lessons feedback to managers to correct mistakes and improve upon the process in subsequent years.

4.2 Conditions for success: For the implementation of PMS to in an organisation, the following conditions must be put in place:

- Top management support: Top management must buy-in into PMS. This can be evident by setting their own targets and meeting with all who report to them to set targets for them. Management must show commitment by communicating the implementation of PMS to all and sundry.
- Initial training for manager and supervisors is a key condition. Because they will be meeting with their subordinates to set goals, have regular performance discussions and review performance at the end of the year, managers and supervisors would have to acquire certain competencies to best perform these tasks.
- A target-based performance management system thrives best in an organisation which emphasizes participative, problem-solving approach to management. Managers and supervisors particularly need to demonstrate the ability to listen to the ideas, concerns and problems of team members, and the ability to use the problem-solving approach to resolve differences about targets.
- Time is also an essential tool for effective implementation of PMS. Managers at all levels must be willing to devote their time and attention to the target-setting and performance review meetings. They would have to appreciate this as an integral part of their jobs.
- Finally, it is important for management to set up a reward system which should be aligned properly with the PMS. When employees work hard to consistently meet or exceed targets, and thereby, enhance organisational productivity, they must be rewarded in order to sustain, motivate and increase their desire to set more challenging targets in future.

4.3 Importance of PMS to modern organisation:

A good performance management system works towards the improvement of the overall organizational performance by managing the performances of individuals and teams for ensuring the achievement of the overall organizational ambitions and goals. According to Wayne Eckerson of Data Warehouse Institute, Performance Management is “*a series of organizational processes and applications designed to optimize the execution of business strategy.*” This means that performance management has a key role to play in improving the overall value of an organization.

An effective performance management system plays a very vital role in managing performance in an organization by:

- Ensuring that the employees understand the importance of their contributions to the organizational goals and objectives.
- Ensuring each employee understands what is expected from him/her and equally ascertaining whether the employees possess the required skills and support for fulfilling such expectations.
- Ensuring proper aligning or linking of objectives and facilitating effective communication throughout the organization.
- Facilitating a cordial and a harmonious relationship between an individual employee and the line manager based on trust and empowerment.

Performance management practices can have a positive influence on the job satisfaction and employee loyalty by:

- Regularly providing open and transparent job feedbacks to the employees.
- Establishing a clear linkage between performance and compensation
- Providing ample learning and development opportunities by representing the employees in leadership development programmes, etc.
- Evaluating performance and distributing incentives and rewards on a fair and equated basis.
- Establishing clear performance objectives by facilitating an open communication and a joint dialogue.
- Recognizing and rewarding good performance in an organization.

- Providing maximum opportunities for career development.

An effectively implemented performance management system can benefit the organization, managers and employees in several ways as depicted in the table given below:

Organization's Benefits	Improved organizational performance, employee retention and loyalty, improved productivity, overcoming the barriers to communication, clear accountabilities, and cost advantages.
Manager's Benefits	Saves time and reduces conflicts, ensures efficiency and consistency in performance.
Employee's Benefits	Clarifies expectations of the employees, self-assessment opportunities clarifies the job accountabilities and contributes to improved performance, clearly defines career paths and promotes job satisfaction.

(<http://www.managementstudyguide.com>).

Clearly defined goals, regular assessments of individual performance and the company wide requirements can be helpful in defining the corporate competencies and the major skill gaps which may in turn serve as a useful input for designing the training and development plans for the employees. A sound performance management system can serve two crucial objectives:

Evaluation Objectives

- By evaluating the readiness of the employees for taking up higher responsibilities.
- By providing a feedback to the employees on their current competencies and the need for improvement.
- By linking the performance with scope of promotions, incentives, rewards and career development.

Developmental Objectives

The developmental objective is fulfilled by defining the training requirements of the employees based on the results of the reviews and diagnosis of the individual and organizational competencies. Coaching and counseling helps in winning the confidence of the employees and in improving their performance, besides strengthening the relationship between the superior and the subordinate (<http://www.managementstudyguide.com>).

4.4 Conclusion and Recommendations: One would conclude that performance management system is a continuous process of identifying, measuring, and developing the performance of employees and teams and aligning their performance with the organisation's goals. It ensures continuous improvement of employees and attainment of organisational objectives.

It also serves as an important tool for realizing organizational goals by implementing competitive HRM strategies. It helps in aligning and integrating the objectives with the key performance indicators (KPI's) in an organization both vertically and horizontally across all job categories and the levels and thus helps in driving all the activities right from the bottom level towards one single goal.

Finally, performance management establishes a high performance culture in which individuals and teams take responsibility for the continuous improvement of business processes and for their own skills and contributions within a framework provided by effective leadership. It is therefore recommended that modern organisations should adopt PMS to improve the skills of the human resource and enhance the growth of their organisations.

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Author's biography

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I hold a Bachelor of Arts degree in Secretaryship from the University of Cape Coast, Central Region, Ghana and master's in business administration (human resource management option) from Ghana Institute of Management and Public Administration, Accra.

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