

## Major Elements and Issues in Performance Management System: A Literature Review

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*Due to rapidly changing business environment, HRD practitioners are unprecedentedly demanded to actively participate in improving organizational effectiveness as performance management specialist. The purpose of this study was to examine and discuss major elements and issues in performance management system through an extensive literature review and provide some considerations for designing and implementing effective performance management system in organizations.*

Keywords: Performance Management, A Systems-Oriented Approach, Feedback

Presently, organizations are faced with new competitive conditions, and have to cope with dynamic environments, which lead them to the era of continuous improvement, value-addedness, doing more with less, and productivity. These developments have brought performance management to center stage. Accordingly, organizations are beginning to implement performance management that reflects the new shape of the organization and its emphasis on integration of work, multidimensional influence, and flexible jobs (Mohrman & Cohen, 1995). As a HRD practice, performance management in organizations is viewed as the total system of gathering relevant information, providing specific feedback to individuals and work groups, and applying such information for the improvement of organizational effectiveness (Bernardin, Hagan, Kane, & Villanova, 1998). Therefore, performance management goes beyond the ratings and formats that have been the focus of so much research and practices. Instead performance management is a means to execute organizational strategy by signaling to employees what is really important in the organization, fixing accountability for behavior and results, and helping to improve performance. In addition, performance management should be considered as not so much an event, that is, an annual performance rating, as a continuous, action-oriented process that emphasizes setting expectations in advance, coaching and continuous performance improvement.

However, performance management has long been regarded as one of the most critical yet troubling areas of HRD as well as HRM (Austin, 1992; Bernardin, Kane, Ross, Spina, & Johnson, 1996; Cardy & Dobbins, 1994). All too often the high expectations associated with performance management practices end up being destroyed by the reality of a system that produces more conflicts, problems, and resistance than it does positive results. As for HRD practitioners, the challenge is to establish an effective performance management system that eliminates the negative consequences and generates the positive ones for individual and organizational performance (Lawler, 1994; Mohrman, Resnick-West, & Lawler, 1989). In order for HRD practitioners to establish such performance management system, it is critical that job performance be clearly understood as performance measures, individual employees being given rewards and development opportunities through fair and accurate performance evaluation, and they also be provided acceptable feedback. In other words, major parts of performance management system must be clarified and well designed, so that performance management system will be able to effectively function in the organization.

Therefore, this study is to examine three important elements of performance management system as indicated in Figure 1, including defining employee performance, evaluating employee performance, and providing feedback on employee performance, to discuss the issues regarding these elements of performance management, and to make some suggestions for establishing and implementing effective performance management system for HRD practitioners. This study is based upon an extensive literature review. The databases searched are Business Source Premier, PsycINFO, and Proquest, which are used to find out information regarding performance management theories and practices in the fields of HRM, Industrial and Organizational Psychology, and HRD.

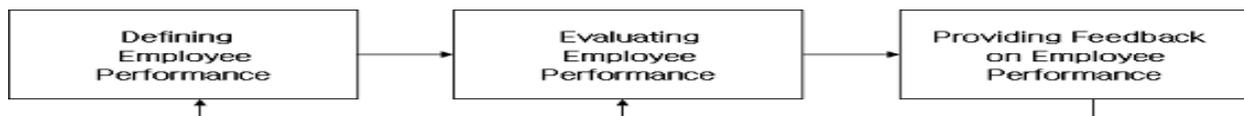


Figure 1. Basic Framework of Performance Management System

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## Defining Employee Performance

Defining performance is considered to be a critical part of performance management system and thus a number of performance evaluation research studies have focused on defining performance (Arvey, & Murphy, 1998). In the process of performance management, identifying performance measures required for appraisal determines performance standards as levels of performance that correspond to predesignated levels of individual and organizational effectiveness. From a rater's point of view, performance standards form the frame of reference within which to judge a ratee's performance. On the other hand, from a ratee's point of view, it becomes an important mechanism to communicate with employees what is expected of them. Therefore, it is necessary to develop a clear understanding of exactly what is meant by performance before designing performance management system.

Performance is usually depicted as desired results, behaviors, attitudes, or traits. Some argue that performance refers to the final result as what gets accomplished. Others argue that performance has to do with the behaviors people exhibit in the course of producing results and with their basic competence or ability to perform various aspects of the job.

Bernardin and Beatty (1984) define performance as the record of outcomes produced on a specified job function, activity, or behavior during a specified time period. They also distinguish this outcome-oriented definition from a person-oriented one and criticize the current tendency of performance evaluation to focus on the person's characteristics. For example, they argue that an assessment of an individual's competencies is not a measure of his performance and that a performance management system should focus on a record of outcomes. A focus on such results seems to be a fair, unbiased, and business-relevant basis for performance evaluation. However, a number of shortcomings of results-based approach have been pointed out (Borman, 1991; Cardy & Dobbins, 1994; Heneman, 1986). Results-oriented measures may be deficient as performance criteria because they typically tap only a small proportion of the job performance requirements. Workers may develop a results-at-any-cost mentality and strive to obtain outcomes in ways that are dysfunctional for the organization. Contamination can be a problem with some of these performance criteria as well. Problems such as opportunity bias beyond the employee's control may influence these outcome measures. The most important drawback to focus on such results is the fact that results are often beyond the control of the employee.

In fact, human performance is a complex phenomenon incorporating process as well as outcome aspects (Kozlowski, Gully, Nason, & Smith, 1999). It is important to avoid reifying outcomes as though they were performance. An outcome-based perspective is simply one approach for capturing aspects of a complex phenomenon of performance. The process-oriented approach to performance focuses on the competencies as the knowledge, attitudes, and behavior that yield performance outcomes. Competencies are defined sets of knowledge, skills, and abilities that allow the employee to perform specific functions related to organizational goals. A competency can also be defined as a collection of behaviors that contribute to the performance of organizationally valued work. Lawler (1994) contends that competencies should guide the very structure and reward systems of organizations of the future. Indeed, competencies are thought by some managers to represent the language of their strategic human resource policy allowing the organization to match its strategic needs (Woodruffe, 1991). Competencies can be general or organic to the organization. Generic competency is easy to imitate and thus does not provide a source of competitive advantage (Heneman & Ledford, 1998). Instead, Raelin and Cooledge (1995) show that the organic competency model, derived from the specific context of the individual, job, and organization, was found to be useful as an indicator of performance of the day-to-day operating duties of the employees. As a result, the organic competencies aligned with organizational strategy, value, and business objectives may constitute the very dimensions against which people might be evaluated and developed.

Efforts to assess employee performance have been focused primarily on the outcomes that are static and sometimes dysfunctional. The changing nature of work, the need for constant improvement and adaptability, necessitates a more dynamic, process-oriented perspective on an employee performance. Heneman and Thomas (1997) indicate that as performance measures for performance management, outcomes may measure performance relative to the organization's financial goals, while competencies represent the means by which these results are attained. Therefore, a performance management system should be designed to emphasize competencies as well as outcomes consistent with the organization's overall mission and objectives.

Performance measures discussed above rely on the assumption that personal variables are more important in performance management process. They did not consider other explanations, including the possibility that system factors exert a larger influence on performance in higher level jobs such as executive position or that system factors constrain the variance in performance in lower level jobs. In general, managers do not regard constraints on performance as very serious problems hindering the attainment of desired performance, whereas those performing the work believe constraints are a serious problem (Bernardin et al, 1996). The attribution theory of actor/observer

bias provides an explanation on the effects of situational constraints on performance (Bernardin & Beatty, 1984; Cardy & Dobbins, 1994).

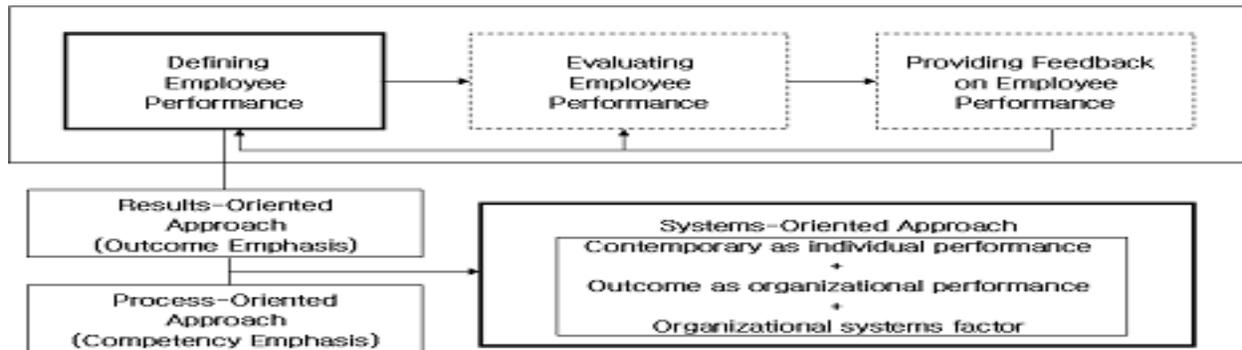


Figure 2. *Defining Performance: A Systems-Oriented Approach*

Proponents of this systems perspective suggest that most of the variance in performance is a function of the system instead of the person. An implication of this perspective is that a performance management system should be less concerned about assessing individual performance characteristics such as quantity and quality of work, and more concerned about assessing the extent to which the person “fits” with the system (Cardy & Dobbins, 1994). Therefore, the fit of a person with a particular organizational environment, rather than performance per se, may be the relevant criterion for assessing employee performance in organizations.

Based upon the above discussion, performance should be defined and clarified to emphasize both outcome and competency aspects of performance in order to avoid the tendency of seeing financial goals and productivity increases as only performance measures in organizations. In effect, performance must be viewed as the combination of competency as individual performance measure and outcome as organizational performance measure, tying with organizational strategy, values, cultures, and business needs as systems factors. Including the systems factors in the job performance is very important to define and measure performance because it will explain their effects on measuring performance. In effect, job performance must be viewed as a broader concept than it was as showing in Figure 2.

### Evaluating Employee Performance

In general, as a critical part of a performance management system, performance evaluation is geared toward the attainment of performance information that can be used for administrative and development purposes. Organizations should realize that it is the employees’ perceptions of the performance evaluation purpose that affects their attitudes toward it. It is generally predicted that ratings obtained for administrative purposes, such as promotions, transfers, termination, and compensation, are likely to be more lenient and less accurate than those obtained for research, feedback, or employee development purposes (Jawahar & Williams, 1997). This is based on the premise that raters bias ratings obtained for some purposes versus others (Cleveland & Murphy, 1992). Raters may intentionally bias administrative ratings to avoid providing negative feedback to obtain positive consequences, or to motivate a poor performer. In contrast, ratings for the purpose of employee training and development are likely to encourage raters to honestly record their “true” evaluations of ratees’ work performance.

However, it is less clear what action practitioners should take to deal with the effect of differently intended performance evaluation on performance management. One place to start would be to decrease the discomfort that raters and ratees have with the evaluation process. For example, encouraging raters to provide feedback at frequent, regular intervals throughout the appraisal period might reduce rater and ratee discomfort (Villanova, Bernardin, Dahmus, & Sims, 1993). Another potential solution would be to increase rater motivation to be accurate through holding raters accountable for the ratings they provide to their ratees (London, Smither, & Adsit, 1997). For example, policies may be set up to reward the raters for providing accurate ratings to the ratees. Furthermore, employee reactions should be carefully monitored. If trust is low, care must be taken to design and implement the performance management system in such a way that its developmental purpose is clear and employees will see that their fears of its administrative uses are unfounded. This will also help both raters and ratees to reduce their discomfort.

Cardy and Dobbins (1994) argued that ratees often dislike the performance evaluation process itself. In reality, performance evaluation involves once-a-year supervisory subjective judgment and thus has often focused on the

person and disregarded the situation. Since performance evaluation has been focused on the person, the ratee has been presumed guilty of any performance deficiencies. However, there is the potential for shifting performance evaluation to a partnership between rater and ratee in an effort to improve performance rather than place blame (Cardy, 1998). Rather than automatically focusing on the person as the sole source of performance, the stage is set for examining the multiple causes of performance and what can be done about them. To maximize the development of such a partnership, it is recommended that ratees conduct a self-appraisal using the same performance dimensions of both the person and the system as the rater. The disparity between rater and ratee assessments of system factors, instead of being simply a source of disagreement over evaluation standards, can illuminate areas of difficulty in the work situation that the rater may not have been aware of. This is an opportunity for a fundamental change in the typical performance evaluation process that would be a positive and energizing change in an organization.

Researchers (Bernardin & Beatty, 1984; Boswell & Boudreau, 2000) stated that criteria, such as the degree to which raters and ratees believe in fairness, equity, and utility of performance evaluation, represent better predictors of rating validity than do psychometric errors such as halo and leniency. Waldman (1997) was critical of the fact that performance management or HRD practitioners typically design evaluation procedures with little or no input from users. Performance management or HRD practitioners may be able to achieve a degree of psychometric accuracy or freedom from bias by using their expertise to design procedures. However, these procedures will not be used as intended if there is resistance by raters and ratees. In this regard, Mohrman, Resnick-West, and Lawler (1989) argued that the best way to ensure the acceptability of a performance evaluation design is to let users participate in creating it. In particular, allowing users including raters and ratees to participate in setting performance standards may be useful for several reasons. First, employees will be more likely to perceive performance standards as fair. Second, employees may be more committed to reaching performance standards and more likely to accept them. Third, negative reactions to the performance management practices may be less likely (Bobko & Colella, 1994; Mohrman, Resnick, & Lawler, 1989; Waldman, 1997).

Performance information can be generated from a variety of sources. Traditionally, the supervisor has maintained a primary, if not the sole, input into the performance evaluation process (Bernardin & Beatty, 1984). However, contemporary business trends and practices, such as downsizing, total quality management, reengineering, employee empowerment, and team-based organizational designs are renewing persistent concerns about the adequacy of traditional performance management systems that rely solely on supervisor ratings (Bettenhausen & Fedor, 1997). Many organizations are finding that a traditional performance management system does not seem to fit well within evolving strategies toward thinning or eliminating managerial ranks as part of their downsizing efforts (Bettenhausen & Fedor, 1997), empowering employees to achieve growth and self-development (Dalessio, 1998), and generating teamwork to continuously improve efforts to satisfy customers (Waldman, 1997).

Researchers (Bettenhausen & Fedor, 1997; Cardy & Dobbins, 1994; Waldman, 1997) assert that an alternative approach may be necessary for several reasons. First, performance variation may be largely due to system factors beyond most individuals' control, such as the availability of resources, nature of supervision or leadership received, variations in training received, and jobs requiring a high degree of autonomy. Second, it is a difficult, if not impossible, task for raters to accurately distinguish individual causes of performance from system causes. Third, the nature of work-related problems and increasing customer demands may require teamwork or team-based job design. Fourth, supervisors as raters often have a broader span of control and are less directly engaged in employee-level activities. Finally, as a performance management process, performance evaluation should communicate critical organizational behaviors and values to employees to move the organization forward and to change the culture. For these reasons, many organizations are required to develop and use the alternative way of evaluating an employee performance.

As an alternative to traditional performance evaluation, the multi-source, multi-rater, or 360-degree feedback system is characterized by the evaluation of an individual's performance by multiple raters from multiple levels such as supervisors, peers, subordinates, and customers. Although procedures vary, typically an individual is rated by others who interact frequently with the individual, who are knowledgeable about the individual's performance, and whose opinions are valued by the individual (Brutus & Derayeh, 2002; Cardy, 1998; Mount, Judge, Scullen, Sysma, & Hezeltt, 1998). This alternative system is believed to have a number of advantages over traditional evaluation systems (Bettenhausen & Fedor, 1997; Dalessio, 1998; London & Smither, 1995; Mohrman, Resnick-West, & Lawler, 1989). First, because job performance is multidimensional, raters other than the immediate supervisor may be better suited to evaluate certain aspects of performance. Second, even if raters have the same opportunity to observe performance, they may perceive and evaluate it differently. The multi-source evaluation system is assumed to provide information relevant to ratees that would otherwise not be available. Third, this new evaluation system can also give employees a sense of participation in the evaluation system and increase their feelings of importance to the organization. Fourth, feedback from peers or subordinates would help employees do

their jobs better, increase the productivity of the work unit, and add an important dimension to the performance evaluation system. Fifth, multiple source feedback can be effective motivators of an employee's behavioral change.

In sum, for the results of performance management to be maximized, it is necessary to set up a fair and accurate performance evaluation process, which decreases the discomfort and dissatisfaction that raters and ratees have with the evaluation process. As shown in Figure 3., a fair and accurate evaluation process can be designed and implemented to include encouraging raters to provide feedback at frequent, regular intervals throughout the appraisal period, holding raters accountable for the ratings they provide to their ratees through setting policy for accurate ratings, monitoring ratees reactions to evaluation processes, letting ratees conduct self-appraisal and examining the disparity between raters and ratees assessments, allowing raters and ratees to participate in designing evaluation process, and developing multi-source and multi-rater evaluation system.

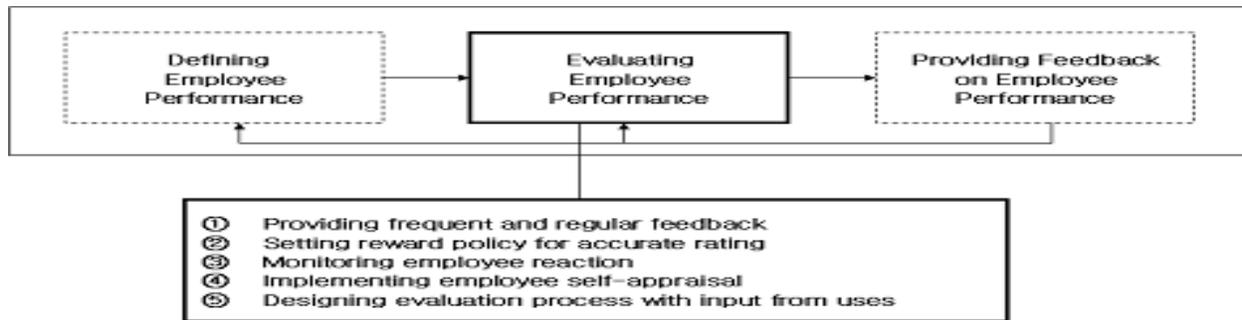


Figure 3. *Evaluating Performance: Fair and Accurate Processes*

### Providing Feedback on Employee Performance

Evaluations of performance are fed back to the individual and relevant decision-makers. In a performance management system, feedback plays an important role both for motivational and informational purposes and for improved rater-ratee communications. For example, supportive feedback can lead to greater work motivation for employees and feedback discussions about pay and advancement can lead to greater employee satisfaction with performance management processes. In effect, providing people with feedback about their performance will have positive effects on their future performance (Taylor & Pierce, 1999).

Research (Bernardin et al., 1996; Bobko & Colella, 1994; London, Larsen, & Thisted, 1999; Mikkelsen, Ogaard, & Lovrich, 1997; Pettijohn, Pettijohn, & d'Amico, 2001) demonstrated that clear, specific, and descriptive feedback, compared to evaluative outcome feedback, resulted in more accurate evaluations of expectancy for success, led to perceptions of source credibility and fairness, and increased performance by allowing for accurate attributions about past performance. However, it is often reported that feedback to inform poor performers of performance deficiencies and to encourage improvement doesn't always lead to performance improvement. Many employees view their raters (supervisors) less favorably after the feedback, and feel less motivated after the appraisal. Therefore, it is recommended that feedback meetings would be created to maintain a supportive atmosphere between ratees (employees) and raters (supervisors). For a supportive atmosphere in a feedback meeting, Bernardin et al. (1996) argued that the raters should remove distractions, avoid being disturbed, and take sufficient time in the meeting. Although raters seem to have trouble adhering to these guidelines, raters should be informal and relaxed and allow the employee the opportunity to share his or her insights. Topics that should be addressed in the meeting include: praise for special assignments, the employee's own assessment of his or her performance, the supervisor's response to the employee's assessment, action plans to improve the subordinate's performance, perceived constraints on performance which require subordinate or supervisory attention, employee career aspirations, ambitions, and developmental goals.

In addition, feedback should aid self-management for employees because feedback keeps employees' work-related activities directed toward desired personal and organizational goals (Locke & Latham, 1990). Career opportunities and career patterns are becoming far more variable and unstructured in light of corporate downsizing and the implementation of new technology. Consequently, employees need and want to take responsibility for their own development (Holt, Noe, & Cavanaugh, 1996). A feedback meeting can serve an important role in exploring and promoting employees' career development opportunities as well as their contributions to organizational change efforts. London, Larsen, and Thisted (1999) insisted that raters should play a role in the feedback process to offer useful information about career development opportunities and organizational change demands for employees. In

this regard, Birdi, Allan, and Warr (1997) showed that employees participated voluntarily in work-related learning and career development activities as well as in organizational performance improvement when they perceived management support in the feedback process.

In effect, a feedback process must be a critical part of performance management system that influences individual and organizational goals. It is thus important to establish and implement a feedback process that provides clear, specific, and descriptive feedback, gives feedback in a non-threatening and supportive manner, involves employees in discussions about their career development opportunities and decisions, and offers reinforcement for good performance (Figure 4).

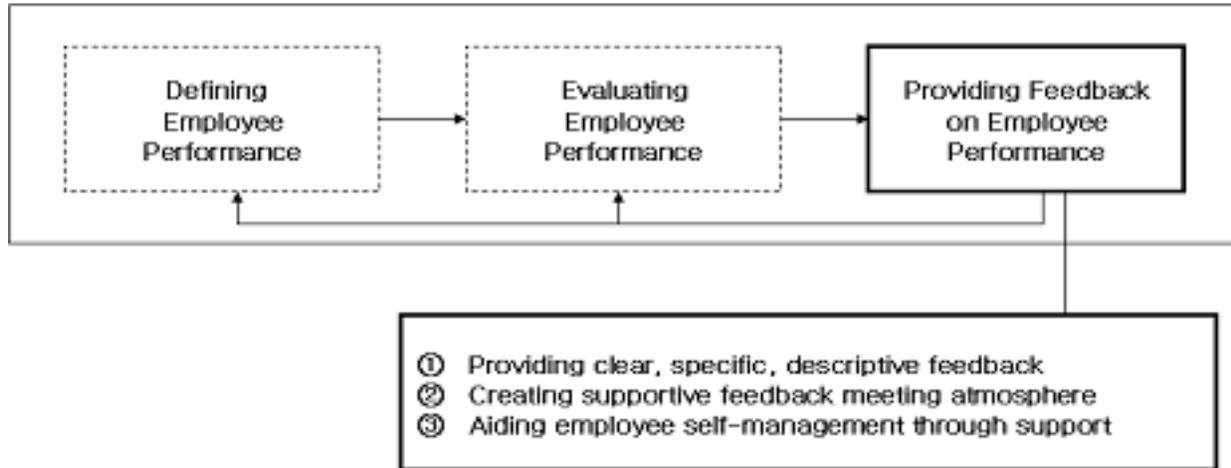


Figure 4. *Providing Feedback on Employee Performance: Effective and Supportive Methods*

### Conclusion and Suggestions for HRD

Many scholars predicted that jobs in the future would be less rigidly programmed and more flexibly unique than ones in the traditional organizational forms (Motowidlo & Schmit, 1999). Coupled with a rapidly changing business environment, the uniqueness of jobs engenders difficult challenges in designing and implementing effective performance management systems in organizations, as for HRD practitioners. Those challenges often have to do something with critical elements of the performance management system. A performance management system is comprised of three key elements: the setting, evaluation, and feedback of performance. For the results of performance management to be maximized in the organizations, those key elements must have much attention paid to them by managers and HRD practitioners who would be eager to attain organizational goals. This study aimed to identify the issues relevant to those elements as major determinants of successful performance management, with some practical suggestions. In short, it can be suggested that HRD practitioners concerned with improving individual and organizational performance must bear in mind the following things when designing and implementing a performance management system.

The first thing is to decide what aspects of employee performance should be represented in measures of the degree to which they contribute to organizational objectives. The expectations of key internal and external customers must play a critical role in determining the dimensions and standards of job performance as performance measures, thereby eliminating the chance that employees are evaluated for performance that is irrelevant to the organization's mission, value, and objectives. Furthermore, a performance management system should be designed to emphasize competencies as well as outcomes consistent with business objectives and day-to-day performance in the organizations. Based on the system-oriented approach to defining job performance, an explicit assessment of situational constraints helps illuminate areas of difficulty in the work situation and facilitates agreement between employees and managers about the causes of performance and appropriate remedies.

The second is to evaluate the performance of employees accurately and fairly. Fair and accurate evaluation of employee performance can be achieved through holding raters accountable for their ratings and setting a reward policy for accurate ratings. Furthermore, employees should also be given an opportunity to help set their performance objectives and voice their concerns, so that they can perceive the performance evaluation as fair. In addition, performance information can be collected from multiple sources and can be reviewed by others, such as higher-level management. It will lead to fair and accurate results.

Finally, feedback is a way to improve job performance as well as to initiate further career development of employees. In particular, with regard to career development, some organizations require that employees take responsibility for their development. The organization may provide the enabling resources but does not take charge of the individual's career. Supportive and effective feedback can create conditions that encourage employees to find their own direction and guide their own activities.

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