CHAPTER TWO: REVIEW OF LITERATURE

2.1 INTRODUCTION

Under the global economic crisis, almost every private and public organization is struggling to cope up with a performance challenge, in one way or another. Various aspects of performance management have been discussed in the literature in detail.

The foundation of performance management can be traced to about six decades ago when there was the requirement to identify the source of income justifications and a source for determining employee wages and salaries based on performance. A characteristic example is given by Aguinis & Pierce (2008) where managers use their ability to influence the behaviors and outcomes of their subordinates, for both tangible and intangible outcomes, like financial rewards and recognition. This practice, however, did not fit well with employees who were ambitious and needed learning and development to sharpen their skills, abilities and knowledge. This resulted in the necessity to put in place a more vigorous structure to ease the huge problem that the gap between the justification of pay and the development of skills and knowledge had created. Hence there is a need to have a shift to a more comprehensive approach towards management of employee performance which was realized in the late 1980’s in the Western and European countries.

Performance Management is a term which has been a buzzword in the field of business and management. A large number of researches have been done on Performance Management in Industry and organizations. Challenges of knowledge economy have fastened the search for gaining sustainable sources of competitive advantage to survive. As a result, organizational leaders are giving more importance to the human capital in getting success in the business. Moreover, apprehension for HR related activities and accountability in the organizations has increased extensively over the last few years.
2.2 PERFORMANCE MANAGEMENT SYSTEM: AN OVERVIEW

According to C.K. Sahoo and S. Mishra (2012), a performance management system consists of clear definition of job description, proper selection process, performance standards, measurement techniques and results, training & development, mentoring and feedback, performance development etc. It also includes the effective appraisal system, compensation and recognition system in the organization. Effective performance management system provides benefits not only to organization but also to the employees.

Performance Management System is an instrument which is used by organizations to direct and govern performance behavior of the employees in alignment to the organization’s plan and practices. It is a holistic process, bringing together many elements which helps to make up the successful people management, i.e., learning and development (CIPD 2010). The researchers focused on the concern that Performance Management System is a strategy which is related to every action of the organization in the framework of its HR policies and its culture.

Armstrong (2009) emphasized that the performance management system enables the organization to know how the employees perform, discovering those who add most and those who add least value to the organization. It allows the organization to undertake a thorough assessment of the training and development needs of its employees and set development plans and gives the opportunity of using the results of the performance management process to shape an individual’s remuneration.

Aguinis (2009) described Performance management as a continuous process which focuses on identifying corporate goals and objectives, aligning individual goals and objectives to the strategic goals of an organization and provision of meaningful feedback. It can also be described as the process of creating such a work environment in which people are motivated to perform to the best of their abilities. It involves a whole work system that begins when a job is defined clearly and ends when an employee leaves the organization. Many scholars use the term performance management as a substitute for the traditional appraisal system.
The study conducted by M. N. Gopinath (2009) stated that the performance of an organization depends on its manpower hence people need to be managed effectively in order to gain profitability. He also stated that there are two components of performance management system, i.e., Performance Evaluation System and Performance Reward System. The success of Performance Reward System is based on Performance Evaluation System. It is not the absolute performance of the employees that matter but their relative performance. He focused on the three dimensions to measure the performance: growth of business, profitability and quality.

Aguinis (2009, 2008), and Nankervis & Compton (2006) stated that the alignment of objective is used both in setting the objectives and measuring the achievement of the objectives. There have been a number of techniques used in performance management systems. Most important among these are 360-degree framework, Management by objectives (MBO), identification and assessments of competence, developing of comparative and absolute performance measurement systems.

According to Nel et al. (2008), Performance Management System engrosses performance measurement and evaluation. The performance of an employee can be judged in two ways, i.e., relative and substantive evaluation. In the relative performance judgement, supervisors compare an employee’s performance to that of others doing the same job. In terms of absolute judgements, supervisors assess their subordinates based on performance standards. This is based on the fact that the White Paper on Human Resource Management prescribes that the public service employee’s performance should be evaluated on the basis of work plan which covers a specific time period, setting clear responsibilities and objectives to be achieved. On the basis of the work plan, specific standards are set which are used as the basis for performance assessment. The supervisor is expected to set the performance standards in consultation with the employee in advance, and these predetermined performance standards are used to evaluate the performance of the employee. It must also be kept in mind that either of supervisor, peer or subordinate can be a performance evaluator. Self-appraisal or customer appraisal or a combination of all the above (360 degree feedbacks or multi rater system) is also possible.
Helm et al. (2007) observed that four metrics were used to evaluate the effectiveness of the performance management system: a) A performance management survey, b) An institutional employee opinion survey questionnaire, c) The distribution of performance ratings, and d) The distribution of merit compensation. Performance Management System can be described as the set of metrics which is used to quantify both the efficiency and the effectiveness of actions.

Helm et al. (2007) have also noted that PMS is imperative to organizational performance for various reasons such as: a) facilitating in achieving organizational vision and objectives. b) Acting as a prerequisite to develop a performance culture within the organization. c) Helps in aligning the employees’ performance goals with the organization’s goals. d) Ensuring that the employees are clear about their performance expectations. e) Improving employee performance and identifies talented individuals for promotion and f) Providing reinforcement by linking pay and performance.

According to Hardik Shah and Vinay Sharma (2007), most of the employees of BPO sector believe that the organization has fair appraisal system. It has also been found that people are satisfied with the PMS but they also believe that their linkage with incentives and career progression needs to be improved. They stated that It is often helpful to monitor the employees in regular manner so that organizations can match their performance and satisfaction levels. It has been felt that such concerns which are directly affecting the performance of individuals in BPO sector must be addressed carefully and effectively which in turn brings the higher levels of job satisfaction with higher levels of individual output for the organizations.

Corcoran (2006) explained that performance management is a system which is made of various interdependent internal processes. Appraisals are only single part of the overall process which covers several sub processes, i.e., from recruitment and selection, goal setting, performance review, to training and development. Performance management relates to everything that takes place between these events. Performance management is all about setting and achieving organizational objectives. The objectives put forward by the employee in accordance with the manager’s assessment of the employee’s performance determine the training and development objectives.
Performance Management is being considered as a vital and decisive Human Resource subsystem which can add to organizational growth and effectiveness (Nankervis and Compton, 2006). Nankervis & Compton (2006) reported that the main purpose of developing performance management systems was to revise the processes in order to achieve desirable outcome, and then to establish whether performance management can be used as a more effective strategic tool in the management of human resources. The effectiveness of HR systems depends on the degree to which they match the both organizational and individual goals (Stone et al., 2006).

Performance management is a process to establish an understanding about what is to be achieved at an organization level. It is a tool that aligns the organizational objectives with the employees agreed measures, skills and competency requirements. The emphasis is made on improvement, learning and development in order to achieve the business objectives and to create a high performance workforce. It is also about helping the management of an organization to achieve its strategic business objectives (Aguinis & Pierce, 2006).

Holland (2006) stated that in spite of the popularity of performance management systems, lots of studies shows the result that the organizations are not able to manage the performance of employees well. Only three in ten employees believe that their organization’s performance review system actually help them to make their performance better.

Vance (2006) noted that performance management consists of two components, i.e., a) talent exploitation and preservation and b) performance feedback mechanism.

Armstrong and Baron (2005) stated that the term performance management was not utilized until the 1970s.

Brown (2005) noted many reasons for introducing performance management in an organization. It helps in (1) Providing information about organizational and employees’ effectiveness; (2) Improving organizational and employees’ effectiveness; (3) Providing information on organizational and employees’ efficiency; (4) Improving organizational and employees’ efficiency; (5) Improving employees’ levels of motivation; (6) Linking employees’ pay with
their performance; (7) Raising levels of employee accountability; and (8) Aligning employees’ objectives with those of the organization as a whole.

Performance management includes activities like joint goal-setting, continuous performance review and frequent communication, feedback, coaching to improve performance, implementation of development programs and rewarding achievements. It is regarded as a systematic process through which the overall performance of an organization can be improved by improving the performance of employees within a team framework (Drumm, 2005).

Tangen (2005) affirmed that a successful PMS mechanism should maintain, and perform organizational activities. It is important that organizations and employees should work for each other and should succeed together. As a result, organizations need to continuously improve the performance to sustain and prosper in today’s competitive world. Individual and organization performance improvements are the vital factors to gain competitive advantage.

Armstrong and Baron (2004) stated that performance management is a tool to ensure that managers manage effectively. This means that (1) they ensure the employees they manage know and understand what is expected of them, (2) they have the skills to fulfill these expectations, (3) they are supported by the organization to develop the capacity to meet the expectations are giving and getting feedback on their performance, and (4) they have the opportunity to discuss the individual and team objectives.

London, Manuel et al. (2004) suggested that educating employees and managers in the context of the expected performance dimensions can help them to recognize desired behaviors, evaluate performance correctly and provide meaningful feedback. Feedback workshops, appraisal discussions and coaching can make easy these processes. Performance evaluation and goal setting can be used to establish a wide range of developmental assignments and an ongoing program evaluation is required to identify areas for continuous enhancement of the system.

Graham (2004) indicated that performance management is significant because it provides a fair way to guide employees’ performance and it enables employees to know what they are expected
to do, to know what is working well and to know areas that need improvement. Graham (2004) further argued the importance of performance management is that it enables employees to know how they are contributing to the organization and they are rewarded appropriately.

According to Radnor and McGuire (2004), there has been a revolution in performance management and measurements over the past twenty years. It is also noted that performance management systems are not new, and researchers have found reference to performance management during the third century A.D. in China, which has been confirmed by Furnham (2004). Furnham (2004) further indicated that in both America and Britain in the 18th and 19th centuries there was already evidence of early forms of performance management, whilst most Western armies did performance management in the last century. In the United States, performance management started with the industrial revolution in the late 18th century. However, the use of performance appraisal started after World War I, and the system was not extensively used until about 1955. Literature further indicates that during the industrial revolution the performance management was simple and crude.

According to Furnham (2004), two thirds of big companies had performance appraisal systems during the 1950s in America and the same happened in the 1960s in Europe. Companies were compelled to adopt some sort of system through legislation in Britain (1980s/1990s) and in America (1970s). Furnham (2004) notes that performance management systems were used to try to bring about change in the public service culture and ethos in the 1980s and 1990. Performance management focuses on future, i.e., performance planning and performance improvement rather than on traditional performance appraisal (Armstrong 2004).

Neely et al. (2004) suggested that the use of PMS does not make any difference to the performance of the organization. Still there are other authors such as Braam and Nijssen,(2004) etc who suggested that the impact of performance management depends upon the way it is used. There are different models of performance management, which includes: a) performance management as a system for managing organizational performance, b) performance management as a system to manage employee performance, and c) performance management as a system for integrating the management of organizational and employee performance.
Brumback (2003) advised that performance of employees and teams need to be managed very well if tall performance is to be achieved and sustained. He used the term tall performance to mean consistent competent, ethical and motivated behavior that produces the best results for an organization.

According to Economic and Social Council of United Nations (2003), performance management and measurement systems are developed as a means of observing and maintaining organizational control. Performance management is the process of improving capabilities of individuals and teams for bringing success to organizations. Organization should develop competencies of employees in such a way that it should align with those of the organizational goals because employees or people are considered to be the most important assets for an organization. Performance Management System, act as both behavioral change tools for improving the organizational performance. PMS must be able to capture the internal and external changes of the organization. Many organizations stated that their PMS implementation are somehow effective in a way that they have conducted all relevant and required steps in their PMS. The effectiveness of implementation of Performance Management System in an organization is still under ambiguity it depends on variety of factors that determines the success in organizations.

According to Dougherty and Dreher (2002), performance related data are used in making decision about employees, including promotion to higher-level jobs, salary adjustments, bonuses, commissions, lateral transfers, and terminations. Feedback, performance improvement, counseling and evaluation of organizational programs are the other purposes of PMS. In a PMS, performance measures are used as the basis to provide employees with feedback and counseling in order to improve their performance. Another major use of performance measures is the evaluation of organizational programs. Performance measures can serve as criteria for assessing the effectiveness, employee selection, employee training programs or any other intervention design to improve employee productivity or organizational effectiveness.

According to Mondy et al. (2002), Performance management deals with the challenge that an organization face while defining, measuring, and stimulating employee performance, with the ultimate objective to improve organizational performance. Performance management is defined
as an integrated process in which managers set performance standards or targets with their employees, review results and reward performance to improve employee performance with the objective to gain organizational success.

According to Stone (2002), performance management includes activities that ensure that organizational goals are being met in an efficient manner which involves shared vision, management style, employee involvement, incentives, rewards, team work, education, training and attitudes. PMS is a systematic approach to manage people that increase the level of personal performance and business success. Rapid change, tighter budgets, restructuring organization, and pressures for greater employee accountability put greater emphasis on performance management system by converting the organization’s objectives into individual job objectives and performance standards. A Performance Management System is a balanced and dynamic system that is able to support decision making processes by assembling and evaluating information (Neely et al. 2002).

In spite of the enormous growth of interest in Performance Management, a precise definition of the concept is elusive as a result of its difficult connotations (Smith and Goddard, 2002). In their opinion, whereas the most common feature for performance measurement are still financial, the traditional definition of performance management puts focus of attention on the individual employee and in that context, the definition of PM remains relatively uncontentious. According to the Association of Certified Charted Accountants (ACCA), PM is defined as a cyclical process organizations adopt to evaluate and improve employees performance to make sure that they effectively contribute to organizational objectives which normally includes setting objectives for the employees, assessing the performance against predetermined objectives and defining future developmental activities which helps in achieving objectives”. Consistent with the ACCA’s definition, Smith and Goddard (2002) defined performance management as “an integrated set of planning and review procedures which cascade down through the organization to provide a link between each individual and the overall strategy of the organization”.

According to Roberts (2001), performance management involves setting of individual, team and corporate objectives, utilization of performance review systems, proper rewards and recognition
schemes; training and developmental plans, feedback and coaching, counseling, career planning etc for observing the effectiveness of performance management system. Therefore, performance management involves the everyday management and the support of people as well. So a performance management system should be based on specific, realistic, measurable and achievable performance targets. The standards are set so that there would be no doubt about whether the predetermined standards were achieved or not.

According to Theron (2000), performance management plays a vital role in improving individual and team performance and organizational functioning as well. So, it is emphasized that the main goal of performance management is to enhance employees performance in order to accomplish organizational goals.

Bourne et al. (2000) stated that PMS needs to be reviewed and developed at different levels with the change in situation. According to Bourne et al.; PMS should include a mechanism to 1) review and revise targets and standards, 2) develop individual measures as performance, and 3) periodic review and revision of the entire set of measures which are in use. They also stated that the main problem in implementing and using a performance management system is the use of measures for which very few techniques are available and very few researches had been conducted in that area by that time.

According to Otley (1999), the new PMS must be able to produce specific, relevant and time bound information for planning, decision making and control purposes.

Armstrong and Baron (1998) stated that a performance management system which is only concerned with what objectives employees should achieve without concerning itself with how those objectives are going to be achieved is bound to fail. A good PM system requires that organizations note and reward good performance which may be monetary or non-monetary. Where performance related pay exist, a valid connection between employee performance and employee pay must be established.
According to Armstrong and Baron (1998), performance management system helps the employee to perform their tasks better, and develop their skills, knowledge, abilities and potential. Employees must be satisfied with the feedback received from PMS. If they feel that the performance assessments are fair, consistent and unbiased, they will feel more motivated after review meetings. PMS helps the employees to know how their objectives are associated to the business needs of the organization. If the information received during the performance reviews is used positively and productively by the organization, the employees will get more motivated and this will in turn enhance their performance positively.

Campbell & Garfinkel (1996) defined performance management as the cyclical, year-round process in which managers and employees work on setting expectations mutually, feedback and coaching, reviewing results and rewarding performance.

According to Armstrong and Murlis (1994), PMS focuses on both individual and organizational development. In this regard, it is a significant means to develop a learning organization, to empower employees and to enhance employee’s accountability and motivation through management by agreement, as per McGregor’s management by integration and self-control.

Johnson and Kaplan (1987) clarified that there is an immediate necessity to have new management approach which can be able to manage the performance of organizations as the conventional methods and customs have lost their significance. Therefore, Performance Management System was developed to administer the performance within organizations.

### 2.3 FACTORS INFLUENCING PERFORMANCE MANAGEMENT SYSTEM

According to P. Pant, PC Kavidyal and HK Pant (2013), both financial and non-financial factors directly and indirectly affect the performance of employees. These factors also create stress on individual and group performance. They also stated that focusing more on non-financial factors can help the organization to improve the employees’ performance and maintaining a harmonious relationship within the organization.
According to Abu Mansor et al. (2011), in his study about the determinants of PMS in South East Asia, PMS implemented in an organization is mainly influenced by three organizational factors, i.e., Employee involvement, Performance oriented Culture and management commitment. Out of which performance oriented culture has the strongest relationship with the effectiveness of performance management system. They also emphasized that in order to increase the effectiveness of performance management system; these organizational factors should be carefully integrated with the organizational environment.

Mone and London (2010) focuses on the involvement of employees. They suggested that designing the performance management process including employee engagement will lead to higher levels of performance. Many Researchers have identified various factors that influence performance management system.

According to Macey et al. (2009), Employee engagement is one of the variables that have been getting an increase in attention as key determinants of performance.

Pollitt's (2008) emphasized on time-related dimensions as a factor that affects the implementation of PMS in an organization. During recent period, increased attention has been given to time related concepts and it has been highlighted that the adoption of an inadequate time period to measure the performance can produce negative effects.

Franco and Bourne (2003, 2005) have investigated that certain factors play an important role that enables the organizations to effectively use their PMSs. They focus their attention on the organization’s struggle to convert performance information into effective improvement actions. They also lay stress that managers should understand what factors makes the organizations able to manage their PMS effectively from the organizations those are unable to implement PMS effectively.

De Waal (2004) developed his work by grouping behavioral factors that are important for the regular use of PMS into five areas, i.e., manager understanding, manager’s attitude, PMS alignment, PMS focus, and organizational culture.
Lawler (2003) stated that there are a great number of design features that potentially can influence the effectiveness of a PMS and many of these have been studied empirically to clarify their impact.

Merchant and Van der Stede (2003) emphasized on the fact that national culture has a direct effect on the design of a Performance Management System. Behaviour and culture need to be incorporated into the design and implementation of an effective PMS.

2.4 PERFORMANCE MANAGEMENT SYSTEM AT PUBLIC AND PRIVATE SECTOR

According to the study conducted by S. Joshi (2014), most of the Indian and international organization’s performance management system are almost similar except cultural differences. He also emphasized on the issue that PMS will not be able to serve its purpose unless it is implemented effectively and is well accepted by the employees.

S. Venkatesh (2014) studied the fact that how organizations manage change in performance management. He identified that the companies studied have different approaches to manage change in performance management, however they possess many common things as well, such as way of execution, process, input, challenges in IT and culture etc. further it was also observed that employee involvement was the biggest challenge for the companies.

According to S. Pradhan and S. Chaudhary (2012), survey on employee performance management in OCL India Ltd, Successful and efficient handling of performance management system helps to retain employee and improve its productivity with the help of learning effect and by the achievement of objectives.

R. Alamelu et al. (2014) studied the opinions of employees of banks towards their existing performance management system. Employees were aware about the PMS practices in workplace. It was identified that increased responsibilities and effective management control are the major expected qualitative outcomes of PMS, while higher productivity is identified as quantitative
outcome of PMS. Moreover, the strength of PMS identified was simple or practical and well thought system while weakness is that it is subjective in nature and a slow procedure. The study also suggested that PMS can be improved by identifying performance measures, providing training to employees, proper communication between employees and management and proper maintenance of PMS records. A progression plan of performance linked pay, allowances and rewards can help the employees to achieve their performance measures objectively.

According to the study conducted by S. Upadhyay and A. Gupta (2012), on the efficacy of PMS in a commercial bank, the effectiveness of PMS was determined by clear job descriptions, clarity of goals, flexible goals and broader mapping of performance rather than just job.

Nair and Pareek (2011) studied the types of performance management systems adopted by various private sector organizations in India. A lot of performance indicators were identified including both financial and non-financial measures in all the aspects, i.e., customers, employees and environment etc. most widely used measure include 360 degree appraisal, then Total Quality management (TQM) and Activity Based Costing (ABC). However there are few employees who want to change the measure to Balance Scorecard (BSC).

According to Kuhlmann (2010), there are two levels of the performance management system in the public sector organizations, i.e., organizational level performance management system and Individual level performance management system. For the organizational-level PM, each organization’s overall performance could be evaluated in terms of its major policy execution, financial performance, and other key areas such as HR, e-government, quality of public service, etc and at individual level it is assessed using a variety of indicators like input, process, outcome and output indicators. The private sector responded much earlier by adopting systems such as TQM, Six Sigma. Activity based Management and Balance Scorecard etc.

Sole (2009) stated that two key factors influence performance management system in public organization, i.e., internal and external factors. Internal factors include leadership, management commitment, internal resources, performance oriented culture, employee engagement and
maturity of PMS and External factors include citizens and elected officials, labor unions, legal requirements.

Bassey B. Esu and Benjamin J. Inyang (2009) stated that performance management system in public and private sectors have no difference between them. This is because they both wants to achieve goals whether micro or macro. They also stated that Performance management is a comprehensive approach for planning and supporting improvements in the performance of employees, so as to meet set standards. In public sector, annual budget and annual performance evaluation are used in managing performance outcomes and behavior. These two deal with past and not with future. The absence of PMS has contributed to the high rate of business failures while adoption of PMS will make public business effective, efficient and sustainable.

According to Lawler (2008), PMS is the main process through which task is completed and should therefore be a top priority for the managers to review. Public organizations, at all levels of government, have made progress on using performance management systems to capture the complexities of accountability and transparency; however, research have shown that performance management is still gaining importance as an effective organizational approach in the public sector, Bouckaert and Halligan, (2008), stated that performance is the main focus of international public management research.

Watkins (2007) explained the most suitable model of PMS that could be used in public sector which includes seven components: a) Identify desired performance, b) define objectives, c) performance assessment, d) identify a solution set, e) development of performance solution, f) conduct formative evaluation and g) implementation and continuous improvement.

According to Veberteen (2007), the definition of clear and measurable goals is positively associated with the quality and quantity performance while the use of incentives is positively associated with only quantitative performance. He also discerns that performance management practices in public sector are influenced by various institutional factors. In general it demonstrates that on the managers of public sector enterprises, the behavioral effects of performance management practices are as important as the economic effects.
According to the study conducted by Cascio (2006), almost all the organizations, i.e., from universities to the public and Government aided firms implement some system to identify or measure the performance of the employees at some level. As a result of survey conducted on 278 organizations, out of which two third were multinational organizations from fifteen different countries, indicated that more than ninety percent of the organizations implement a formal performance management system in their organization to assess the employees’ performance.

Lawler and McDermott (2003) in their study on performance management practices of medium and large US corporations found that PMS design related practices like - business strategy driven performance goals; joint establishment of performance goals; performance results and salary linkage; and development planning were highly correlated with system effectiveness. In their study they also found certain high impact practices which brought about differentiation in performance management process and these are: training for appraisees, termination of lowest rated individuals etc.

Mazzarol (2003) stated that any organization with suitable performance management system increases employer’s confidence that it has the right people in the right place at right time. Since then, the performance has become an important aspect of work in many public sector firms, in one way or another performance is associated with the establishment of performance standards which an employee needs to achieve. (Boland and Fowler, 2000).

De Bruijn (2002) listed three benefits that are considered the outcome of an effective PMS: transparency, improving the quality of policies, and decision making. One argument which reflects the impact of time on PMS is that its implementation is considered a long-term process. This long-term focus is that the first barrier in implementing PMS in public sector organizations has a short term focus due to political cycles and budgetary issues. (Liner, et al.2001 etc.) Thus, the time or duration of PMS implementation needs to be analyzed, which shows the maturity of the PMS initiative, and increases the organizational expertise. It also shows the capacity of the PMS to attract attention over time.
According to the study of San and Wong (2001), on the current and future practices of Performance Management in Malaysia, the employees in Malaysia hardly prefer to use Performance Management System unless it is being imposed on them through obligation by the organizations. So there arises a need to find out how effectively is PMS implemented in organizations.

Wyatt (1994) conducted a study which focuses on identifying the best practices in performance management by examining the systems of a selected group of companies recognized for financial success and innovative human resource programs. What emerged from the study, are a set of best practices that could facilitate the process of designing, implementing, and monitoring performance management. These are: internal and external alignment; simplicity; flexibility; decentralized control; a measurement process; greater links between pay and performance; feedback from multiple sources; senior management involvement and employee development.

**2.5 COMPONENTS OF PERFORMANCE MANAGEMENT SYSTEM**

Performance management helps the employees communicate goals, share information, explore career opportunities and spreading learning and development.

Performance management is a process that contributes to the organization’s overall success and has a positive impact on employees. It's about letting employees know what is expected of them, and providing feedback on how they are doing and how they can improve throughout their tenure.

The components of performance management system has been identified and studied on the basis of the given literature.

**2.5.1 CORPORATE OBJECTIVES**

Bateman and Snell (2009) stated that goals evolve from the mission and vision of the organization and communicated downwards. In this way everyone knows about the objectives of
the organizations and everyone is involved in the achievement of the organizational goals. The linking of employee’s goals to organizational goals therefore contributes to the attainment of results.

Wikina (2008) founded that the need to align individual performance goals with that of organizational strategy is causing organizations to examine the performance management structures they possess and identify ways to make them more effective and outcome based.

Finn (2007) also stated that in designing a performance management system, expectations for employees need to be stated with clear, measurable performance goals.

Stiffler (2006) recommended that a unified approach to performance management is achieved through aligning the objectives, resources and activities of the organization to the goals and opportunities of individuals within the organization.

The ACAS Model Workplace also indicated that employees require clarity around expectations of them in terms of standards of performance and behaviour and they need consistency in the application of processes. It also stated that at an individual level appraisal systems are the ideal way of clarifying objectives and those appraisals provide the opportunity for managers to check that employees understand what is expected of them (ACAS, 2005).

Senior leaders should also play a role in ensuring performance management aligns corporate strategy and objectives to individuals, so that employees know how what they do fits with the organization’s overall strategy. This is known as the golden thread of performance management (IDeA, 2004).

Murphy (2004) criticized that organizational goal for performance appraisal systems are not considered carefully enough and this results in systems attempting to achieve too much.

Lawson et al. (2003) founded through research in 150 organizations, that two-thirds agreed that implementing performance management systems increased employees’ awareness of company
strategy and business plan goals, and helped to align operational improvements with overall strategy.

The Corporate Leadership Council (2002) concluded that employee’s understanding of performance standards and objectives is more influential than specific features of the performance management system itself in driving performance.

Murphy and Cleveland (1995) make the point that the organizational goals for the appraisal system need to be compatible with what the appraiser and appraisee want to get out of it. If not, they will not use it effectively. The implication here is that many of the organizational purposes of appraisal are not of great value to the manager or the employee, so their compliance will at best be half-hearted and they may well consciously distort the process to achieve their own desired ends.

Cascio (1991) stated that a performance appraisal system should help managers groom their employees to accomplish objectives that will help the corporation gain competitive advantage.

Borman (1991) equally argues that an effective performance appraisal requires relevance; through which there are clear links between the tasks for a job and organizational objectives.

Locke and Latham (1990) in a series of studies have shown strong evidence for the effectiveness of individual goal setting, although the majority of such work has not been done in the context of appraisal. They advocated the use of goals that are specific, moderately difficult, and accepted by the individual for whom they are set. The recurring theme here is about goals which the employee really agrees with, not goals which are imposed. Alongside the importance of aligning employee’s efforts with company objectives is the need to clearly communicate the organization’s expectation of its employees.
2.5.2 PERFORMANCE PLANNING

Schraeder & Jordan (2011) argued that in order to improve the overall effectiveness of performance management programs, the key performance expectations should be clearly defined in employee’s job descriptions and should be expressed in the methods used to measure performance. They both argued that the idea is to express the expectations clearly about the tasks to be performed in employee job descriptions and then measure them as a component of the PMS. Hence, it generates a direct link between job descriptions and employee’s performance plans. However, the most common challenge is to regularly update job descriptions.

According to Pulakos (2009), during the beginning of the performance management cycle, it is important to discuss the performance expectations with the employees including both about the behaviors they are expected to show and the results they are expected to attain during the upcoming rating cycle. Behavior is important because it reflects how an employee goes about getting the job done, how they supports the team, communicate, mentor others etc. There are certain employees who may achieve exceptional results but are extremely difficult to work with, unhelpful or show unacceptable behavior at work. Because such behaviors can be extremely disruptive, behavior is important to consider in most work situations. On the contrary, there can be an employee who is extremely helpful, considerate and interpersonally very effective, yet not able to achieve any important results.

Sunlin (2008) had an opinion that performance plans in an effective performance management system will be able to maintain a current view about the expectations and accountabilities of an employee or team.

Chan (2005) argued that performance planning involves defining job responsibilities and setting performance expectations at the initiation of the review period.

According to Armstrong (1999), performance management emphasizes on the integration of organizational objectives with those of individual goals, the regular monitoring of performance, and training & development.
Armstrong (2001) also stated that in a performance management process both parties require training and guidance on the use of competencies related to how to prepare performance agreements and plans, how to prepare and conduct performance reviews, how to perform ratings and how review forms are completed. Competencies include the factors contributing to high levels of individual performance, and therefore lead to organizational effectiveness.

According to Lockett (1992), performance management focuses on the development of individuals with desired commitment and competencies to work towards the shared meaningful objectives within an organizational framework. Performance management is basically a managerial process which consists of performance planning, managing performance through observations and feedback, reviewing performance and rewarding performance. The measurement of performance in an organization is the core of any system of performance management.

**2.5.3 PERFORMANCE REVIEW**

According to Pulakos (2009), during the performance review session developmental activities related to employees can be planned. It was found that competency models and performance standards help managers and employees to identify and address developmental needs. Those performance standards which are not currently being met are identified as developmental areas. If all present performance standards are being met, employees and managers can further move to the next level’s performance.

According to De Waal (2006), in a performance review, a proper assessment and review of performance over a time period takes place. This phase includes an employee’s achievements, growth and difficulties while performing requiring revision upon performance agreement and personal development plan. Organizations show a deep interest in developing such strategies that helps them to progress and enhance their output and competence. However, the time and the cost of implementing these strategies are insignificant unless they are continuously reviewed.
According to Armstrong (2003), performance review provides a clear picture of past performance and enables to make plans for future. These reviews not only consider about what has happened in past performance year but also emphasize on why it happened, which helps in making future planning more effective. This helps to design future development and improvement strategies for the employees.

Performance reviews are not only top-down appraisals nor like the interviews in which one party asks questions to the other, instead they are like open meetings where both parties can exchange their views and thoughts, which leads to effective conclusions. Armstrong (2001) advocated that performance reviews should be like purposeful conversations, which ends at the conclusion where both the parties reach to a consensus.

Bititci et al. (2000) highlighted that a Performance Management review mechanism is obligatory which utilizes the information associated to the performance of employees provided by the internal and external monitors. Moreover a system is also required in order to revise objectives and priorities of business enterprises, their processes, and activities using performance measures. Besides the review process, the role of organizational culture is also being discussed in the literature.

According to Athey & Orth, (1999), Annual performance reviews are the traditional and very common practice followed in the organizations to manage employees. While these annual reviews have certain shortcomings as well. Often the criteria on which the employees are evaluated are not closely associated to the actual needs of the organization. Therefore, it is very important that the employees should be evaluated on the basis of behavioral competencies that are vital aspect to perform well in the job and promoting the goals of the organization. For the most accurate and legally viable results, the behavioral competencies on which evaluations should be based needs to be validated through a detailed review process which is either developed by the human resources department or an outside consultant which should be specifically associated with the needs of the organization.
According to Wexley (1986), assuming that feedback is done on a continuous basis, the formal performance review session should simply be a replay of what has occurred throughout the performance period. During the review meeting, managers should discuss their ratings and reasons for the evaluation given with the employees.

2.5.3.1 Methods to Assess Performance

Various methods or techniques have been developed by the experts to assess or appraise the performance of employees.

a) 360-Degree
Employees rate themselves on various performance dimensions and this is compared to the assessment of others to arrive at a definitive conclusion about the employees’ performance. The information is either gathered confidentially or by the employee nominating people to assess his performance all year round. During this process a gap analysis is performed to examine areas of discrepancies and improvement which adds on to the qualitative nature of the process. This feedback process is very helpful when it is used for various purposes whether developmental or administrative for the benefit of the employees and the organization as well. The 360-degree system works effectively in organizations that believe in high performing cultures that support open and honest feedback. It benefits employees who feel comfortable with the system and believe they will be rated fairly and honestly because of the open and honest feedback (Aguinis, 2009).

Beehr et al. (2001) define Multisource or 360 degree feedback as an instrument used to assess employee behavior wherein the evaluation is done by more than one source, i.e., colleagues, supervisor, subordinate and self. They further argue that such a process be used for developmental rather than evaluative purpose. Present day organizations tend to have a flatter organizational structure which means that employees have multiple reporting lines and managers have a wide span of control making it inappropriate for a single line manager to assess the performance of employees (Kettley, 1996, cited in price, 2000).
Fletcher and Baldry (1999) point out that indeed this approach has been largely used for such developmental purposes. As opposed to traditional employee assessment methods where employees are measured against clearly identifiable tasks, 360 degree ratings helps in identifying high level competencies that include certain roles and behaviors that is essential for the success of organization and competences that are necessary in most other jobs throughout the organization. The concept of the 360-degree framework is about receiving feedback and gathering information on the performance of an employee from different groups all around the employee. These groups may include peers, colleagues, subordinates, supervisors, customers and other stakeholders who might have an interest in the performance of the individual.

On the other hand, implementing this system can have direct consequences for employees who are easily hurt by negative feedback. Beside the risk of some employees getting demoralized by comments of colleagues, subordinates or superiors, the 360 degree framework involves a lot of bureaucratic processes and data gathering which may be cumbersome to manage.

b) Management by Objectives (MBO)

Management by objectives (MBO) is the process whereby employee performance is assessed using objectives and standards to produce measurable results (Aguinis, 2009). Objectives are set at the beginning of every year which is statements of importance and measurable outcomes. Employees are expected to focus on key responsibilities in their roles by which they will be evaluated. A key philosophy of this system allows an organization to place emphasis on employee objectives and standards that will be translated from organizational goals into individual goals. Objectives are determined by standards which have the following characteristics Specific and clear; Measurable; Achievable; Realistic and Time-bound.

If MBO is implemented correctly with the above specific objectives tied to the strategic plan, performance outcomes of the organization tend to increase very quickly. Employees who are successful at achieving their objectives normally receive favorable reviews; those that get unfavorable performance evaluation in the absence of extenuating circumstances get unfavorable reviews with associated consequence. The process of every performance management system therefore drives performance outcomes. Employees those are able to attain objectives of the
organization are rewarded with favorable reviews in line with their performance and contribution to the organization (Aguinis & Pierce, 2008).

According to Weihrich (2000), the term management by objectives was introduced and popularized by Drucker (1961), who stated that objectives are required in each and every area where performance and results are directly responsible for the survival and success of the business. The MBO has survived for over twenty years and has been one of the most successful approaches to management to date. MBO allows the integration of both individual and organizational objectives where employees set and discuss their yearly objectives with their superiors. In the MBO approach, the basic idea is not that top management should be able to know best, but rather the employees at all levels should be capable to contribute to the success of the organization; participation is a key aspect of this orientation. In its traditional form however, MBO is usually cited for its short sightedness focusing on the one-year cycle, which may neglect important decisions necessary for the long-term development of the organization.

The systems heaviest criticism is perhaps captured by Levinson (1970). In his opinion, most people work within a social system and that even the best performer may fail to achieve his or her objectives because of actions or inactions of colleagues, subordinates and managers. He further mentioned that the tendency for MBO to be overly quantitative with the measurement of performance means that subtle, informal but important aspect of performance may be overlooked. For example MBO overlook the good will of an organization on account of the time spent with a customer and consider such an encounter a failure because the customer did not make a purchase. Finally, he believes that MBO is unlikely to be a motivator for effective performance because it defines objectives as organizational whilst most employees work to further their own personal objectives.

c) Balance Scorecard
An effective Performance Management System should consists of a set of factors those are vital for the success of an organization and indicators that can measure organizational performance. Balance Scorecard is one of the techniques that are opted for performance management. It was
first introduced by Robert S. Kaplan and David P. Norton as a technique that helps the managers to balance the achievement of organizational objectives.

Since 1990s, Kaplan and Norton advocated Balance Scorecard as a top down management approach. It acts as a framework which can translate organization’s strategic objectives and critical success factors to key (financial and non-financial) performance indicators. The Balance Scorecard focused on the important drivers of organizational performance, i.e., resources, business processes and capabilities, and the consequences of those drivers, i.e., growth and profitability of business.

It provides a balance between short and long term corporate goals by translating vision into measurable and attainable objectives, by linking the corporate strategy with performance expectations and by a mechanism of review and feedback that stimulates learning and growth.

It is intended to have a cause and effect relationship between the current activities of business and its long term success. Many public, private and nonprofit organizations have adopted the Balance Scorecard as a strategic management approach.

Kaplan and Norton (1996) noted “The measures of BSC represent a balance between external measures for stakeholders and customers, and internal measures of critical business process, innovation, and learning and growth. The measures are balanced between the outcome measures—the results from past efforts and the measures that drive future performance. And the scorecard is balanced between objective, easily quantified outcome measures and subjective, somewhat judgmental, performance drivers of the outcome measures”.

According to Banker, Chang, Pizzini (2004), BSC is “an essential aspect of the BSC is the articulation of linkage between performance measures and strategy objectives, once linkage is understood, strategic objectives can be further translated into actionable measures to help organizations improve performance”.

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Balance Scorecard reviews performance from four perspectives, i.e., financial, customer, internal process and learning & growth. Each perspective provides desired feedback about how is the strategic plan executing, so that necessary changes can be done.

According to Kaplan and Norton, description about the balance scorecard perspectives is as follows:

a) **Financial Perspective:** It helps to measure the economic impact of the action implemented by the business. It focus on the measures through which shareholders determines the profitability of investment.

b) **Customer’s Perspective:** It emphasizes on the view about how customers perceive organizations. It is considered as a key element of an organization’s strategy. It shows how an organization gains a competitive edge over its competitors by attracting and retaining targeted customers. It includes a mix of product, price, image and relationship with customers.

c) **Internal Business Perspective:** It focusses on the means through which performance expectations can be accomplished. It includes the consequences of the internal business process that leads to financial success and customer satisfaction. It is basically based on producing goods and services in an effective and efficient way.

d) **Learning and Growth Perspective:** It is related to the employees of the organization. In this, managers must identify the measures through which opportunities are provided to the employees to learn and grow.

Kaplan and Norton further recognized that Balance Scorecard in public sector is different from that of private sector. Public sector organizations rarely put financial perspective on priority. Public sector organizations focus more on internal process and customers perspective. However they recommend that financial and customer perspective should be given equal status, depending on the mission of the organization.

On the basis of the study by Al Sawalqa et al. (2011) on the implementation state of the balanced scorecard among industrial organizations in Jordan, it was identified that about 35% of the
surveyed organizations applied Balance Scorecard, while 30% were considering for implementing the Balance Scorecard approach.

Hasnan (2006) laid emphasis on the fact that one of the imperative measures to implement Balance Scorecard includes the capability of the organization to explain its objectives. Balance Scorecard also increases the integration of all levels of the organization.

Tapanya, S. (2004) studied the factors that affect the performance management systems in a highly competitive and dynamic environment through the application of the Balance Scorecard approach. Through various studies in the Thai banking industry after 1997 financial crisis, he observed that the institutional forces play a vital role in the implementation of the performance measurement system regardless the strategic orientation.

Lawson et al. (2003) have investigated 150 organizations out of which two-thirds agreed that significant benefits had been identified by using a balance scorecard system. Feedback from these indicates that implementing a scorecard system helps in improving the communication of the company’s strategy to the employees. The benefits that employees see by using a scorecard system are that the employees have become more aware of business plan and that the system helps to align improvements with the overall organizational strategy. It highlights that there is a necessity for a formal attachment between scorecard and strategy and it should be implemented by conveying responsibility for actions on the people.

According to Newing (1995), Balance Scorecard compels a manager to focus on non financial measures which have a long term impact on the profitability of the organization. He also explained that while combining and measuring through four perspectives could inhibit the improvement in one area at the cost of another.

2.5.4 IMPLEMENTATION

According to Coleman (2009), It is unrealistic to expect that when a PMS is implemented, the performance of employees will be improved immediately and all the performance related issues
will be immediately resolved. To realize the full potential benefits from the PMS, the organization must be prepared to invest resources to make sure that the managers and other employees own the system and should be accountable for the performance management system implemented, otherwise it will be taken as a compliance activity. The employees will not get any from such system. Even the organization also will not gain success by such system. No PMS can ever be perfect or complete as soon as it is implemented, i.e., the PMS evolves as the organization evolves.

According to De Waal and Counet’s (2009), the implementation of performance management systems improves the performance and overall quality of the business.

Du Plessis (2007) states that implementation of performance management systems encounter resistance at certain points throughout an organization. But in order to ease the resistance one has to focus carefully on the implementation of its sub projects which should include all the cultural and environmental issue in concern so that the PMS can be carefully implemented.

Peters (2000) suggested that performance management systems will not be effective in implementation without adequate management. Therefore another research question arises about the implementation of PMS in the public sector; if information is imperfect and there are political complexities in outcomes based performance management systems, through adequate management they can still provide effective guidance and a means of control which can improves program results.

### 2.5.4.1 Challenges in Implementing Performance Management System

In reviewing other studies, it is indicated that there are a number of possible problems that affect the successful implementation of a performance management system (Rademan and Vos, 2001). De Waal and Counet (2009) identified thirty-one problems associated with the implementation of performance management systems. It is indicated that one of the problems which affects the implementation of a performance management system is that management put low priority on the implementation because of work pressures and time constraints. It was also observed that this
slows down the speed of implementation of PMS. It is indicated that where there is change of management especially where old management is replaced by new management who do not support the system, the implementation of a PMS hardly gets any priority and many a times it is abandoned.

One of the problems experienced in implementing the performance management system is that it might require more time and effort than the organization planned or expected. According to De Waal and Counet (2009), this makes the organization members discouraged by a lack of short-term results. They then spend less time and energy in implementing the performance management system, which contributes to the slow implementation of the performance management system.

De Waal and Counet (2009) noted that there can be insufficient resources and capacity for the implementation of a performance management system. This happens often because organizations cannot free enough resources and capacity to implement the system. This implies that if an organization wants to succeed in implementing the performance management system, it should possess sufficient resources and capacity for implementing the performance management system. This has implications for this study as it takes into account other factors, like resources, which impact on the implementation of the performance management system. Another problem is that failure to implement the performance management system is caused by the fact that an organization is either in its unstable phase as it is busy with major projects or is facing some serious financial problems.

They also observed that one of the key reasons for failure to implement the performance management system is the lack of clear goals for the implementation of the performance management system and this is further complicated by the lack of a clear and understandable strategy, mission and objectives for the organization. This finally leads to the development of key performance indicators which are not relevant, and thus it is found that some organizations measure the wrong performance indicators.
One finding is that lack of management commitment (including middle management commitment) and insufficient use of the system is a serious problem and presents a constraint for the successful implementation of a performance management system. Lack of management commitment creates a situation where less or no priority is put on the implementation of a performance management system (De Waal, 2009). The lack of properly defined key performance indicators (KPIs) is also a constraint. It is noted that organizations have difficulty in defining key performance areas, and as a result they lack trust and lose faith in the system. Sometimes there are too many key performance areas, and there is difficulty in working on each indicator (De Waal, 2009).

Ohemeng (2009) also indicated that other problems associated with the implementation of performance management systems include institutional fragmentation whereby decision making is fragmented among different departments instead of one, and this create a problem of accountability and responsibility. These problems form the foundation for the development of research questions for this research and understanding of problems associated with the implementation of performance management systems.

De Waal and Counet (2009) noted that lack of knowledge and skills in performance management are some of the constraints on successful implementation of performance management. This usually results in a performance management system not being properly implemented or just not being implemented at all. It is also stated that the rater (manager or supervisor) must plan to use a problem solving approach rather than a tell and sell approach before interviewing employees.

According to the authors, although earlier studies have shown that the use of, and satisfaction with performance management systems remain challenging, there is every indication that increasing use and integration of the available framework and theories will encourage more strategic links between individual, team and organizational results oriented outcomes. When organizational goals are linked to individual employee objectives and goals, the performance review reinforce the behaviors that are consistent within the organizational culture and the attainment of its goals. Even if individual goals and objectives are not achieved, it serves as a basis for management to concentrate on the crucial business initiatives and come up with
efficiency modalities to arrive at its strategic goal. However, in spite of this, performance management systems are not always successful and do not always help in getting the desired results. Some of the reasons of poorly managed PM systems are as follows:

**a) Ineffective communication:** Ineffective communication between employee and manager and failure to agree on objectives to suit continuing changes in conditions and priorities are likely to lead to a poor performance management system. (Aguinis & Pierce, 2007)

**b) Misleading information:** Non-availability of a standardized system in any organization may lead to multiple chances for the fabrication of information and a high level of subjectivity in the performance decisions of employees. It also leads to feedback being provided in an ineffective and inappropriate manner leading to employee resentment (Aguinis 2009,).

**c) Damaged relationships:** Relationships between colleagues, subordinates and supervisors can become estranged causing a deficiency in the system.

Rahman (2006) indicated that a team which prides itself on power distance is likely to be more cohesive than teams that behave counter-dependently and will always avoid interaction with each other. According to him, if interactions took place, the appraisers could give feedback to their managers. Anytime feedback is conveyed, it could be perceived as either a source of social facilitation, which would invariably help to improve employees’ performance, or social interference that could adversely affect their performance.

**d) Unfair standards and rating system:** Poorly implemented PM systems can vary across units and departments resulting in unfairness and non-standardized systems across the organization. Due to poor communication, employees will not be able to get actual decisions about their performance ratings and what are the criteria of getting rewards. Within any organization, there are many opportunities for managers to directly influence the performance of their people and therefore their business contribution. By addressing the specific behaviors identified above, managers can encourage every employee to personally reach for the exceptional performance and have confidence and belief in the rating system. (Aguinis, 2009)
Kaplan and Norton (1996) stated that the balance scorecard projects could fail because of a number of reasons: It can be lack of technical knowledge and awareness amongst the implementers about the performance measurement system. It can be the defects in the structure, poor communication among employees, lack of management commitment, defects in the organizational process of developing scorecard project, poor employee involvement, improper change management processes during the implementation phase.

2.5.4.2 Successful Implementation of Performance Management System

According to Ochurub and Bussin (2012), organization cannot introduce PMS successfully without the involvement of all employees and a strategy to develop HR so that everyone must be clearly able to understand the benefits of change initiatives to the employees and organization. Implementing such systems requires change and the success of these changes depends on the readiness of the organization.

According to Pettigrew (Sole, 2009), culture can be thought of as the sum total of beliefs, ideologies and behaviors that prevail in an organization which influence the relationships in the organizations. If the employees feel involved and motivated during the development of the performance management system, it could help in the success of the organization. In particular, employees view performance monitoring systems as systems which intended to force them to work harder, and managers view performance monitoring system as an effort which increase pressure on them to produce additional results. Creating a performance oriented culture in an organization influence the success of implementation of performance management system.

Rao (2008) has proposed the following as certain critical aspects for improvement of performance management systems' in Indian context: (1) Greater focus on contribution, improvement and transition from appraisal to management of employee performance. (2) Need for recognition of the complexities of multi-dimensional PMS. (3) Decentralization of PMS by making it a responsibility of the line managers. (4) Rigorous implementation of the system and giving it the seriousness.
DeNisi and Pritchard (2006) in their expectancy based motivation model for individual performance improvement presented a number of implications for the design of an 'ideal' PMS. These are as follows: 1. The system should be simple and transparent so that performance ratings can be easily understood by employees. 2. Performance standards and expectations should be clearly stated so that everyone involved (appraisee, appraiser and HR) understands what is expected and what is rewarded. 3. Separate appraisals for feedback and decision making purposes (administrative) would make the process easier to explain and understand. 4. Besides formal appraisals (which happen once or twice a year) informal appraisals and feedback must be a part of the system and frequency of feedback should be increased.

De Waal (2003) identified 18 individual behavioral factors that are important in the successful implementation of a performance management system. These can further be divided into the managers understanding about the nature of performance management, manager’s attitude, the alignment of the system to the manager’s responsibilities, organizational culture and the focus on internal management control. These behavioral factors have an impact on the justness of a performance management system. Employee’s perceptions about the fairness of the performance management system are often governed by the idea of how they perceive their manager’s attitudes, culture of the organization and how the system is applied in the organization.

Cascio (1996) believed that every effective PM system requires that the organization perform three fundamental functions very well: (a) Define the characteristics of a good performance as opposed to an average or bad performance. (b) Help employees to perform well by removing obstacles: Organizations should not just set objectives for their employees to achieve but also provide the assistance and tools needed to perform at the required level.

McAfee and Champagne (1993) identified the following as certain key aspects for successful PMS implementation: (1) Supervisor must chart out the critical competence areas, discuss and work them out with employees to establish a viable action plan. Further, organizations must establish a norm for self-development, i.e., employees should be able to understand that they are expected to enhance their job skills continuously. (2) The goals should be specific and mutually developed, measurable, attainable, realistic and time bound. (3) Supervisors/managers must be
provided with training to explain them the purpose and specific methodology of performance management. (4) The organizations need to establish specific follow-up procedures to help ensure that employees are achieving their goals as defined in the action plan. To facilitate this, managers must be prepared to follow through and must have a number of meetings with employees during the review period.

2.5.5 FEEDBACK

According to Mujtba and Shuaib (2010), Timely feedback about performance helps to motivate employees and become more innovative in approach. Through proper feedback they will be able to adjust their strategy according to the need of the organization and thereby creating high performance. Employees require feedback about their performance; because if they will be able to analyze their strengths and weaknesses, they will be able to take actions accordingly. Immediate feedback is very important to each employee at every level of the organization as everyone wants to learn about one’s progress so that they can excel their performance.

According to Pulakos (2009), during the performance planning process, expectations related to behavior and results expected should be set. Performance in all areas should be previously discussed and decided in advance and a continuous feedback is provided during the rating period. In addition to that feedback about daily accomplishments is also considered important for performance of an employee, but because of the lack of manager’s skills and abilities of giving appropriate feedback it could not be implemented in an organization effectively. However managers mostly try to avoid immediate feedback as they are not aware of how to handle the defensive attitude of the employees in a productive way.

According to Bhattacharjee, S. and Sengupta, S. (2011), Performance Management System cannot be effective without effective feedback. As a basic human tendency people prefer to make judgments about the people who work with them. In the absence of a structured and an objective system of appraisal, people will judge the work performance of other employees informally based on their likes and dislikes. The multi rater feedback system is called 360 Degree Feedback. It is considered to be one of the most effective and widely used techniques to identify potential,
and develop cohesiveness among teams and enhance key competencies in organizations. The focus of a 360-Degree feedback is on development now a day. Organizations rarely use it for performance appraisals, rewards and recognition, or succession planning etc.

In a study conducted by Thach, Elizabeth C. (2002), two hundred eighty one executives participated in a six months coaching and 360 degree feedback process and result suggested that combination of individual coaching and multi-rater feedback helps in increasing leadership effectiveness, and thereby coaching and 360 degree feedback have a positive impact on developing leaders.

Farr (1993) stated that the impact of everyday or informal feedback on the work performance and attitude or behavior of employees is more than that of feedback given during semiannual or annual appraisal session.

Kopelman (1986) stated that Feedback and goal setting are considered to be the integral management tools because they serve both informational and motivational functions that help in enhancing an employee’s work performance.

However according to Jack Rabin (1985) the importance of appropriate and timely feedback is often neglected by many supervisors and managers especially in public sector organizations.

According to Bandura and Hackman (1977), Feedback and clarity about the performance plays a vital role in the development of employees’ perception about their work. Employees always seek feedback about their work performance from their supervisor, co-workers. It is because employees seek to minimize uncertainty about their performance at work.

Steers and Porter (1974) stated that feedback increases an employee’s knowledge about what is expected of them and thereby reducing the occurrence of unnecessary and irrelevant behaviour that is not expected during work performance. Moreover feedback also serves as a function that gives clarity about setting goals and gives an idea about how to achieve them.
Most organizations use 360 degree feedback mechanism as it involves feedback from four sources, i.e., supervisors, subordinates, colleagues and self which reduces the possibility of any perceptual errors or biasedness. It is implemented in a large number of public sector organizations to improve employee’s performance and hence organizational culture. It also helps to inculcate healthy and collaborative working relationships among employees. Linking goal setting with feedback is a critical factor to enhance employee’s performance as both these factors can be complementary to each other in enhancing performance.

2.5.6 REWARDS AND RECOGNITION

With the rise of industrialization, managers of an organization want to evaluate the performance of employees as a tool to ensure total productivity in an organization. It is later converted into a method of income justification and the whole procedure was associated with material outcomes, i.e., performance related pay.

According to Mujtba and Shuaib (2010), most of the HR managers realized the importance of having effective reward system in the organization. Few have realized the fact that the difference in the incentive programs the quality of reward systems can have a great impact on the morale and productivity of each employee. Most reward systems were obtained from a traditional reward program. Such reward systems can have serious limitations that could inhibit its application to the general population and they are not economical as they cost more and the results obtained are not as per expectation for the organization. A comprehensive employee reward system for effective performance management programs should possess the following elements: fixed pay, variable pay, short term and long term incentives, profit sharing, bonus, benefits, allowances, quality and quantity of work, working environment, work-life balance, non-financial rewards, leadership style, organizational culture, equity, training and development, participation in decision making, trust amongst employees, holidays and leave, challenging work, open communication, employment security, opportunities for achievement, values and ethics, freedom and autonomy, management support and encouragement, performance management etc.
According to Kock (2007), Effective, timely, and market influenced rewards can be motivational factor for managers and employees in the same manner. However research in the field of success also reinforces the concept that effective and timely feedback can be motivational factor for increased morale and enhanced productivity.

Franklin and Mujtaba (2007) effective reward systems for all employees as part of a performance management program could help an organization to improve performance and productivity in the workplace.

Decoen & Bruggeman (2006) suggested that the use of performance management systems to influence financial rewards can negatively influence the motivation of employees if the performance measures involved have low strategic alignment, controllability, timeliness, and technical validity.

According to Armstrong (2002), Reward is not only about getting hike in pay, many organizations are realizing that non-financial rewards are as powerful and motivating factor as financial. Total reward systems integrate both financial and non-financial rewards and can be beneficial for encouraging job satisfaction and commitment among the employees. (Armstrong and Baron 2005)

According to William (2002), many organizations adopted the technique of performance related pay to improve performance; however it can take many different forms. Non-financial rewards can include awards such as best employee of the month, award for punctuality etc. advanced career opportunities, autonomy and freedom to perform task, flexibility of working hours and training and developmental opportunities

Hendry et al. (2000) had a doubt on whether employees are actually feel motivated to do the right things in order to meet business goals. There are different views on the effectiveness of Performance Related Pay and whether or not it contributes to improve the performance of employees. It has been argued that PRP is just a process of controlling employees rather than contributing to their overall development. However, it is important to establish such type of
reward system which is valuable to employees and not on the basis of what is valuable to senior management only.

According to Carla Joinson (1996), in a survey of more than 350,000 government employees it was identified that more than half of them believed that there are few people who handles entire tasks and responsibilities while there are some others who do just enough to get by. Most of the respondents were not in favor that job performance was not an important factor in getting promotion, nor did they believe that the best people reaches to the top of the organization. Top management makes decisions related to salary, rewards and promotions based on employee’s or team’s performance; however, it is important that these decisions should be perceived as just, fair and equitable by all the employees of the organization.

According to Gratton (1996), by linking reward strategies to business goals and objectives one can encourage the performance necessary to meet short and long term business objectives.

Armstrong and Murlis (1994) also stated that PMS linked to reward has its own demerits as it can spoil the developmental intentions of the PMS where instead of being open and objective, appraisal and reviews become reward centric.

It is significant that rewards needs to be considered as fair and equitable for the individual who is receiving it. Fairness and equity in pay and rewards appear to be the key factor in providing an environment that motivates people to believe in their organization’s actions and policies. It is obvious that each manager would like to reward his efficient employees; however researches demonstrate that best performers do not always receive highest pay for their efforts and performance.

### 2.5.7 PERFORMANCE IMPROVEMENT

According to K. Dewettinck and H. van Dijk (2013), emphasizing on the developmental side of performance management will increase its effectiveness in terms of improving employee’s performance. The study also indicated that the PMS effectiveness can be improved by enhancing
the frequency of performance reviews whether formal or informal and by increasing employee’s participation in performance management system.

According to S. Panda (2012), PMS is implemented to improve the performance of employees as well as that of the organization. The study shows that in order to get better results out of PMS, the components of PMS need not to be revised rather the results should be enhanced by increasing the level of participation by the line management. Moreover the appraisal of performance at regular interval, timely feedback and proper counseling should be given to the employees to improve their performance.

According to M. Chowdhary (2011), in a study conducted on Performance management practices in organizations operating in Bangladesh, 252 organizations were studied, out of which 20 were local companies and 52 were MNCs. It was stated that with the increase in the competition between local companies and MNCs, the pressure to improve performance is increasing. It was observed that in local companies there is a low level of linkage of performance measurement outcomes with other HR functions however most of the MNCs establish meaningful linkage between PMS and corporate strategy which gives a competitive edge to them. Performance outcomes were used for taking HR decisions like salary increments and promotions etc. MNCs show a high degree of awareness in implementing a standardized PMS while most of the local organizations found it difficult to implement. However with the rapid integration with the global market many of the local firms have started to feel the need of introducing a standardized system to measure and improve performance.

Liu, Xiangmin and Batt, Rosemary (2010) The study analyzed the impact of adopting coaching and other group management practices by a supervisor in improving employees performance and the results founded that more the amount of coaching received by the employees every month, more improvement is observed in their performance employees exhibit improved performance where the supervisors implemented the practices of group incentives, give group assignments and where the technology was more automated. Hence a positive relationship is observed between coaching and performance improvement in those organizations where there are less technological changes and supervisors emphasized on group management practices.
Performance Management contributes and promotes individual and organizational learning and thereby enhancing organizational performance and growth. Adhikari (2010). DeNisi and Pritchard (2006) stated that performance improvement can be attained by managing performance in such a way that the linkage between each of the association is optimized.

Heinen and O’Neill (2004) stated that the performance improvement plans are designed to facilitate a healthy and open discussion between an employee and his supervisor so that the supervisor can suggest the ways on how to improve the work performance. It was recommended that the HR department and the head review the entire plan. It ensures fair and equitable treatment of all the employees of the organization during performance improvement plans, the supervisors monitor and give appropriate feedback to the employees about his performance.

According to Coelho and Moy (2003), the stability of firms is directly associated to the continuous improvement of its performance. Many organizations have identified a way to improve organizational performance by implementing a well-defined performance management system. It is through such systems that the business and its employees achieve mutually accepted objectives, thus maximizing the productivity and adding value to its outcomes.

Macky and Johnson (2000) focused on the issue that the importance of PMS is on continuously improving organizational performance which can be achieved by improving employee’s performance. So, improving employee’s performance by using PMS is a way to improve organizational performance.

According to Baker (1999) and Rao (2008), if organization expects their employees to perform and add value to the organization, then the organization should also provide employees with challenging work to grow and provide developmental opportunities necessary for employees to improve.

It is evident from the review of literature given above that performance management is highly important to both employer and employee. It is important for the employer to understand how the employees contribute to the achievement of the overall objectives of the organization. For the
employee, the performance management process grants transparency over the performance provides a background for documenting performance issues and can be used to consider future career development requirements.

Figure 2.1 Conceptual Framework