

THE VALUE AND LIMITATIONS OF PERFORMANCE MANAGEMENT PROCESS WITHIN AN ORGANIZATION

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Abstract. The paper examines the role of performance management process in influencing human resources development and their productivity in a company, as well as the changes in perception of the whole process by employees and managers. The recent trends in performance management area and certain limitations companies should consider when adapting the process are also identified in the paper.

Keywords: performance management, employee appraisal, feedback, workforce development, human resources management.

ŞİRKƏTDƏ FƏALİYYƏT EFFEKTİVLİYİNİN İDARƏ EDİLMƏSİ PROSESİNİN DƏYƏR VƏ MƏHDUDİYYƏTLƏRİ

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Xülasə. Məqalədə şirkətdə insan resurslarının inkişafına və onların məhsuldarlığına təsir göstərməsində fəaliyyətin idarəetmə prosesinin rolu, həmçinin işçilər və menecerlər tərəfindən bütün bu prosesin qavranılmasındakı dəyişikliklər təsvir edilmişdir. Məqalədə fəaliyyətin idarəetmə sahəsindəki son tendensiyalar və şirkətlərin bu prosesi uyğunlaşdırarkən nəzərə alınmalı olan bəzi məhdudiyyətlər göstərilmişdir.

Açar sözlər: fəaliyyətin idarə olunması, işçilərin qiymətləndirilməsi, rəy, işçi qüvvəsinin inkişafı, insan resurslarının idarə edilməsi.

ЦЕННОСТЬ И ОГРАНИЧЕНИЯ ПРОЦЕССА УПРАВЛЕНИЯ ЭФФЕКТИВНОСТЬЮ В ОРГАНИЗАЦИИ

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Резюме. В статье рассматривается роль процесса управления эффективностью в развитии и продуктивности человеческих ресурсов компании, а также изменение восприятия всего процессасотрасторны сотрудников и руководителей. В статье также выявлены последние тенденции в области управления эффективностью и определенные ограничения, которые компании должны учитывать при адаптации этого процесса.

Ключевые слова: управление эффективностью, оценка сотрудников, обратная связь, развитие персонала, управление человеческими ресурсами.

1. Introduction

The growing acknowledgement of employees' role in success and efficiency of any company is one of the most acute topics in today's business world. One of the main tools of managing and developing human resources is effective design and implementation of the performance management process within a company. Supporters of performance management insist that its value resides in the cycle of integrated activities that ensure a systematic link is established between the contribution of each employee and overall company performance.

Developing theories on how to improve individual and organizational performance has always been in the spotlight of Human Resource Management (HRM), yet the demand for

improved performance has intensified with increasing competitive environment in which organizations have to operate nowadays. Being a key people management tool, performance management is often concerned as a generic term covering a variety of activities through which organizations set targets, evaluate employees performance, determine training and development needs, develop their competencies and skills, distribute rewards and bonuses and etc. It is a strategy that is linked to every activity within the organization implemented in the context of its human resource policies, cultural elements and information sharing systems. Performance management practices when effectively implemented are interrelated with other HRM components, like talent management, employee retention, remuneration, promotion and other policies. Thus, for instance performance management can help to identify high-performers who may qualify for better positions or higher wages in the company as well as recognize those who need additional trainings to improve their skills and future performance. Most of these practices are mainly similar in their purpose to link company strategy and planning with employees' goals and further development, by reviewing their progress, reinforcing performance standards and supporting them to achieve high performance level. Performance management process is also about establishing a culture in which individuals take responsibility for the continuous improvement of their skills, behavior and work process overall. Moreover, it assumes an ongoing communication process between supervisor and employee. Thus, nowadays performance management appears to be one of the main tools used by managers to communicate what is required from employees, identify future objectives, clarify expectations and provide ongoing feedback on their progress and on how well the objectives are being met.

2. Performance management development

Important role in the evolution of performance management over the decades has always played economic and historical context. It came a long way from being strictly confidential process in the 60s, when results were not communicated even to employees, to sharing only negative remarks for corrective actions in the 70s, to gradually transforming from the performance appraisals based on personality traits into evaluations based on goals and objectives.

In the 1980s and early 1990s, performance management received considerable criticisms for being restricted to financial measures and robust accounting methods. However, during the 1990s there was a shift from a heavily bureaucratized evaluation procedure, based on reward driven policies and quantifiable objectives, towards more rounded systems of performance management with a stronger emphasis on development. Consequently, according to Armstrong and Baron research, performance-related pay was a feature of only 31 per cent of performance management systems in 2004 compared to 45 per cent in 1998 [6]. A stronger developmental focus of performance management was also reflected in a trend of integrating

it more firmly with other learning and development practices to manage talent, plan careers and support individuals through mentoring programs, as well as in placing more emphasis on behaviors expected from employees. Thus, in the spotlight of developmental performance management process came an individual employee and the management of his/her behavior, as a result of the growing assumption that employees who show more commitment, loyalty and self-assurance are more effective performers. This trend could be also observed in industry-leading companies, like Google, Adobe, Microsoft, where the extent to which employees are enthusiastic, passionate and motivated is of great importance and is carefully monitored. Furthermore, developmentally oriented performance management practices are also about helping companies to increase employees' perceptions of being valued and needed in their jobs. These changes in the management of employees' performance were also acknowledged in the IRS survey conducted in 2003 to identify the main reasons of using performance management, with 89 per cent of respondents considering it necessary for determining training and development needs, about 32 per cent citing it to acknowledge good performance or effective communication, whereas only 19 per cent referring to it to make reward decisions, thus, making it obvious that the financial goals of performance evaluation were being replaced by more developmental and relations-focused approach [8].

In the web-based survey conducted by CIPD in 2009, respondents were asked what activities they consider necessary when developing performance management system. With the reference to this survey, most of the respondents agreed that performance appraisal (82.8%), goal-setting (85.2%), regular feedback (83%) and assessment of development needs (75.1%) are the cornerstones of performance management [6].

3. Key features of performance management

Performance appraisal, being one of the crucial parts of performance management process, was traditionally associated with clearly stated performance criteria assigned to individual employees as well as the assessment of objectives achievement established in the previous appraisal period. The success or failure of any organization depends heavily on the efficiency of its employee performance appraisal system, as it is a complicated task to develop truly effective policies that reinforce each other, have valid and objective measure criteria and add value to organizational performance. Establishing the right performance criteria appears to be one of the most challenging processes for line managers, as they also need to have relevant skills and experience to be able to set SMART goals that will motivate and encourage their subordinates for better performance. It proved to be even harder in service industries, where employees' achievements are often not tangible or quantifiable or in highly politicized sectors like education or health in which the key criteria for staff performance may be contested. The fairness of the measurement criteria and credibility of appraisal procedure have an impact on overall perception of the performance appraisal system as reliable by both employees and line managers.

Some scholars, like Brown and Heywood, also suggest that in certain circumstances performance appraisal delivers more benefits than in others [4]. For instance, appraisal on an assembly line where team production is monitored by a machine will yield fewer benefits compared to the one, where workers have an opportunity to influence their tasks and determine the goals and effort levels. These employees have more control over the productivity and as a result are more likely to respond to appraisal outcomes by making efforts to improve their performance. Hence, when adapting performance appraisal process it is important to consider the specifics of the company and the main reasons and goals for conducting the employee evaluation, in order to create the system that will provide required data and bring more benefits.

One of the widely accepted issues around performance appraisal is that evaluation outcomes are often used for many conflicting purposes that are often applied together in an ill-defined manner. Some appraisal results may be used to define training and development needs, others to motivate workforce, thereby confronting the purpose of distributing rewards based on past performance. Furthermore, appraisers have to balance conflicting roles of monitoring and judging employees performance and at the same time acting as a counsellor and mentor. Thus, it usually leads to employees being reluctant to discuss their limitations and job-related problems with their appraisers, since it might for instance, hinder their promotion opportunities or influence their remuneration in case performance-related pay is applied. These consequences are, however, considered to be detrimental to organizations, since the relationships between employee and his/her line manager is one of the most significant factors impacting his/her willingness to perform. Therefore, one of the main duties is to ensure that managers are qualified enough to adopt these conflicting roles in order to build trust-based relationships and open communication with their employees.

Ongoing feedback is another important tool of communicating the success or failure to progress at the workplace that helps employees to identify where they stand in terms of performance improvement and goal achievement. There has also been the growth of more varied forms of feedback where employees have a greater responsibility for setting their job targets and being involved in different forms of self-assessment or 360-degree feedback. The main purpose of 360-degree feedback is to gather data from various sources (for example, they could be managers, colleagues, customers, subordinates and etc.) that might differ due to relationship with the assessed employee and different behavior they may observe. The interest for self-assessment and employee involvement in appraisal process emerged in search for more rounded forms of evaluation, thereby enhancing employees' responsibilities for their own performance development. Moreover, it is often advised to provide an ongoing feedback to gain maximum benefits from appraisal process and help employees to change their efforts level if needed, rather than providing traditional once a year appraisal feedback. The problem with annual feedback is that by the time employee receives it, it becomes already irrelevant

and is not actionable for employee in order to improve immediate performance, making it more critical rather than development-oriented. Regular check-ins and short-term goals are acknowledged to influence performance positively by raising motivation and increasing productivity. Thus, for example Adobe has already generated the statistics to prove that regular check-ins have positive impact on employees' engagement by cutting voluntary employee turnover by over 30 per cent. The introduction of regular feedback and reviews allowed employees to timely raise and resolve any issues and kept managers in the loop regarding their team's progress or any potential issues. Another example of successful reinvention of their performance appraisal system and introducing "Everyday Performance Management" designed to incorporate daily feedback into conversations is food producer and distributor Cargill Inc., where measurable improvements were made after managers started giving constructive feedbacks that were forward oriented, rather than reviewing the past performance, with 69 per cent of employees saying that the feedback they had received was useful for their professional development.

The objectivity of the appraisal results and feedback should be also adequately addressed by the organizations and be free of rater bias. The findings from different studies emphasize the aspects of fairness and credibility of performance management practices that should be considered by managers when elaborating their policies, because performance management next to all its potential benefits and contributions to the employees' performance improvement and behavior management may have also quite reverse outcomes when inadequately implemented. Employees' participation in goal setting, feedback and development of the measurement policies may reduce the potential for rater bias and enhance the accuracy of the appraisal outcomes. This may result in a more reliable and objective practices both for organization and employees, because as a consequence of the decreasing emphasis placed on reward-driven performance management the requirement to generate precise ratings diminished within companies, thereby creating the ground for inaccurate measurement procedures and rater bias. In these circumstances, the systems that were designed to provide valid information on employees' developmental needs have in practice less utility due to the fact that managers are often reluctant to judge individuals and assign poor ratings to them. Some managers give more lenient appraisals of subordinates' performances as a result of recognition that their own lack of support and guidance may have contributed to poor performance, others to avoid conflict and maintain good interpersonal relations or simply based on personal likes/dislikes. This may cause systematic overrating of staff leading to employees' suspicious attitude to appraisal results and lack of confidence in their appraisal system among managers. Some studies have also acknowledged that managers often have no enthusiasm to conduct performance reviews, as they believe overall process lacks credibility and it is becoming difficult to find time for it in terms of increased workloads. A survey conducted by Willis Towers Watson in 2015 found that 45 per cent of managers did not see value in the evaluation systems they used, while Deloitte reported that 58

per cent of HR executives considered provided reviews an ineffective use of supervisors' time [5].

More and more companies are realizing that the traditional way of conducting performance management no longer works and are currently under competitive pressure to upgrade their people management systems, so that to increase its value. Ongoing conversation about employees' performance and development changed the focus to building the workforce they need to be competitive both today and years from now. In 2017, Deloitte's Global Human Capital Trends reported that the redesign of performance management is picking up speed with 79 per cent of executives rating it as high priority, while a year later, 76 per cent of surveyed companies reported that they had already reinvented their performance management to be more continuous [7]. According to Mercer survey conducted in 2019, 70 per cent of companies also wanted to strengthen the link between performance management and other talent management practices, in order to create a more integrated HRM system that will help them gain even more engaged and motivated workforce [10]. A growing trend among companies in 2019, as reported in "BetterWorks" survey, was also embracing a less formalized and more agile approach to performance management, where companies can dynamically set goals, provide regular feedback, and improve productivity [3].

Conclusion. Based on the facts discussed above it could be noted that despite the rhetoric of performance management positively impacting employees' work performance and development, there are issues that should be thoroughly analyzed by the executives before they introduce performance management into their companies, because poorly designed and implemented system could have detrimental effect on employees' motivation, engagement, productivity and overall performance of the organization.

Although there could be observed common trends in the development of performance management that most companies strive to implement, executives and HR representatives should keep in mind that performance management is rapidly changing space and as one of the top HR trends witnessed massive changes in adaptation and perception of the whole process in the past decades. Therefore, while analyzing the best practices and success stories of industry-leading companies that may not always be entirely adaptable or transferable, each company should build a process that works specifically for them. It is important to create a unique system that will be suitable for your company, taking into account its structure, industry it operates in, cultural aspects and overall strategic plans and goals. Only in this case the company will be able to truly benefit from the performance management system and gain needed competitive advantage.

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