

PROCESS CONCEPT TO PERFORMANCE MANAGEMENT

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-Abstract-

In recent years many organisations have been busy implementing new or improved performance management systems. Recent research has shown that the regular use of these systems leads to better organisational results. There is however little knowledge about the actual mechanisms which cause the positive effects of performance management. Consequently, the objective of this paper is to create a clear focus on performance management process and illustrate that it is needed to design a step by step framework for managers.

Key Words: *performance management, performance measurement, performance planning.*

JEL Classification: M100

1. INTRODUCTION

The recent technological advancement opens a new era, in which a global competitive environment has emerged. Traditional organizational management is no longer considered an appropriate strategy in this highly competitive global market (Ho, 2008). Consequently, businesses must compete for their survival through continuous improvement and innovation to maintain or gain market advantages. In other words, businesses have to consistently use strategies and methods of various types and levels to become more competitive and profitable. The literature emphasizes that performance management systems historically were developed as a means of monitoring and maintaining organizational control (Nanni *et al.*, 1990), which is the process of ensuring that an organization pursues strategies that lead to the achievement of its overall goals and objectives.

Performance management systems cause strategic evolution and ensures goal congruence (Chan, 2004), since enterprises need to fix strategies for success, establish goals, execute activities by making proper decisions and monitor their resulting states as the business processes move towards their goals (Taticchi and Balachandran, 2008).

Consequently, this paper is motivated by the belief that implementing new or improved performance management systems shows that the regular use of these systems leads to better organisational results. Accordingly, the next sections discuss the performance management literature and the performance management models then proposing a process concept to performance management.

2. PERFORMANCE MANAGEMENT LITERATURE

Performance management is defined by several authors (Aguilar, 2003; Chan, 2004; Den Hartog *et al.*, 2004; Armstrong and Baron, 2005; McDavid and Hawthorn, 2005; Armstrong, 2006; Lam, 2008; Otley, 2008; Kent, 2010) as a vital part of any change process as it measures how effective plans are and how well they are carried out. Thus, determining what constitutes good performance and how different aspects of high performance can be measured is critical to true design of an effective performance management process. McDavid and Hawthorn (2005) also state that a performance management cycle begins and ends with formulating clear objectives for the organisation. As well as, Price *et al.* (2007) who suggest that performance planning, evaluation, and rating should be included in the performance management process. They also add that an effective performance management process encompasses six components: organizational goals and objectives (strategic planning), individual's performance and planning, employee performance measurements, performance reviews, ongoing feedback and coaching, and recognition and rewards. Therefore, to achieve balance between the various performance management applications that any organization can apply to achieve consistency in performance, performance management models have been developed as listed below.

3. PERFORMANCE MANAGEMENT MODELS

Rogers (1990) identifies the characteristics of "*Performance management as a system for managing organizational performance*" systems as that they are corporate systems which include corporate policy, a detailed set of plans, budgets, objectives, targets and standards of performance, and regularly and systematically reviewing the performance of all services. Another illustration of this conception is presented by Bredrup (1995), who sees performance management as comprising three main processes: planning, improving and reviewing.

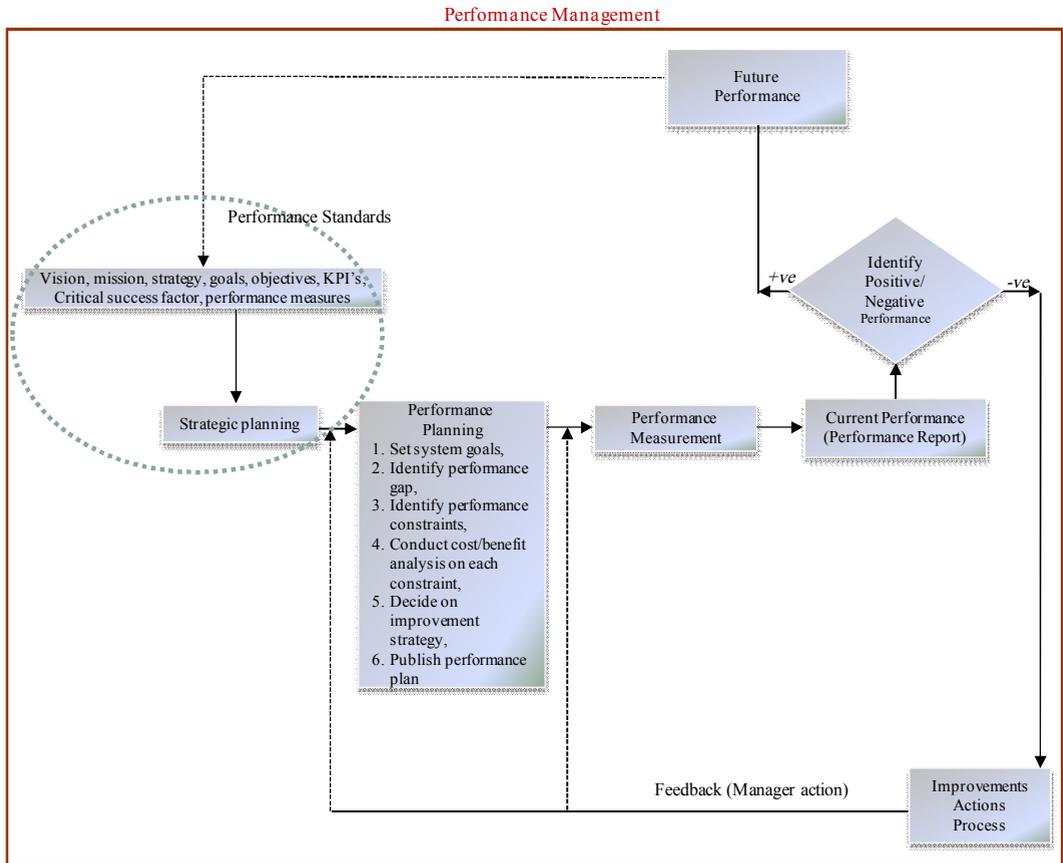
Performance management is commonly represented as a cycle, by several authors (Guinn, 1987; Schneier *et al.*, 1987; Heisler *et al.*, 1988; Ainsworth and Smith, 1993; McAfee and Champagne, 1993; Storey and Sisson, 1993; Hartle, 1995; Williams, 2002). Furthermore, "*Performance management as a system for*

integrating the management of organizational and employee performance” model may be regarded as a combination of “*Performance management as a system for managing organizational performance*” and “*Performance management as a system for managing employee performance*” models, although there are variations on the basic theme. Performance management supports a company's or organization's overall business goals by linking the work of each individual employee or manager to the overall mission of the work unit (Costello, 1994). Therefore, it is argued that the central aim of performance management is to develop the potential of staff, improve their performance and, through linking an employee's individual objectives to business strategies, improve the company's performance since, performance management is about directing and supporting employees to work as effectively and efficiently as possible in line with the needs of the organization (Walters, 1995). Also, Spangenberg (1994) presents one of the most comprehensive integrated models and identifies three levels of performance: organization, process/function and team/individual. Rummler and Brache (1995) similarly specify three interdependent levels of performance from a systems point of view: organization, process and job/performer.

4. PROCESS CONCEPT TO PERFORMANCE MANAGEMENT

The author's perspective based on the above literature is that, performance management can be seen as the overall process that includes performance planning (Plan), measurement (Check) and improvement (Do/Act). Accordingly, performance management is a managerial business process which consists of performance planning and strategic planning (Otley, 2008; Price *et al.*, 2007; Kent, 2010) in order to make the best use of company's resources (Spangenberg, 1994) by coordinating the efforts of every member of the organization (Den Hartog, *et al.*, 2004) to achieve the predetermined goals (Heisler *et al.*, 1988) through quantifying these goals and objectives using performance measurements which enables the performance management process to function effectively and efficiently (Armstrong and Baron, 2005). Therefore, an iterative planning-implementation-evaluation organization adjustments process is needed. This definition is clearly depicted in Figure 1.

Figure-1: Process Concept to Performance Management from the Author's Perspective



Performance Standards: The first step exists when any organization is going to open or already exist; is its vision (a corporate long-term goal) then this allows the mission statement to come into sight in order to make the strategy established. At the same time the vision form the organization goals, objectives, key performance indicators, critical success factors, and performance measures.

Strategic Planning: Subsequently, this assists the strategic planning to be positioned in order to structure the performance standards.

Performance Planning: Hence, to achieve performance standards; performance planning emerges from the strategic planning, in order to achieve the desired performance of a system by eliminating the constraints that affect the maximum performance a system can achieve; through setting system goals, identifying performance gap, identifying performance constraints, conducting Cost-Benefit-Analysis (CBA) on each constraint, deciding on improvement strategy, and

publishing performance plan.

- *Setting System Goals*: The system could be any organized assembly of resources and procedures united and regulated by interaction or interdependence to accomplish a set of specific functions. In addition to a collection of personnel, equipment, and methods organized to accomplish a set of specific functions. Theory suggests that SMART goals are necessary in order to prevent the diffusion of organizational energy (Kaplan, 2001). By quantifying goals and measuring whether they are achieved, organizations reduce and eliminate confusion about objectives, and gain coherence in pursuit of their mission.
- *Identifying Performance Gap*: Any business needs to compare the present level of performance to the desired level of performance. Therefore, it is necessary to identify the desired level of performance in measurable terms; the performance gap occurs when there is a difference between where one is and where he/she wants to be (Braverman *et al.*, 2004; Wilson, 2005; Piskurich, 2006; Pressley *et al.*, 2007; Hall, 2008). *Performance gap analysis* helps identify the reasons causing the gap and taking appropriate steps to reduce it, in addition to improving the effectiveness and efficiency of employees, ensuring target achievement, facilitating easy adaptability to change, concentrating on individual employee performance improvement and team performance improvement, and then an overall corporate performance improvement will result (Lewis and Entwistle, 1990; Schlessenger and Heskett, 1991).
- *Identifying Performance Constraints*: There are always limitations to the performance of the system of interest, and that despite the complex web of relationships, these limitations are caused by just an element in the system which is known as “*constraint*” (Goldratt, 2000). Constraints can come in many forms, and it's often difficult to know where to look first. Constraints may be controllable (removable) [financial – resources – material – market demand –knowledge/competence] and others are sometimes uncontrollable (irremovable) [environmental factors – policy/regulations – culture] aligned with business rules and policy. By taking the *theory of constraints philosophy* into consideration, improvements in performance can only be achieved by focusing on system constraints. Goldratt and Cox (1992) suggest five generic steps to achieve this focus that can be applied to any system.
- *Conducting Cost-Benefit-Analysis (CBA) on each Constraint*: After that the system has to decide which of these constraints has the priority to be removed that provides the highest quality at the lowest cost. In other words, the system

urgently needs to weigh the costs involved in remaining those constraints against the benefits received by moving them (Holt and Elliott, 2003). Among the several quantitative approaches to decision making which have become popular in recent years, CBA is the most widely used. CBA is the systematic and analytical process of comparing benefits and costs in evaluating the desirability of a project or programme, often of a social nature. It attempts to answer such questions as whether a proposed project is worthwhile, the optimal scale of proposed project and the relevant constraints (including financial, legal, among others) (Mishan and Quah, 2007; Florio, 2007). Therefore, CBA in all areas of research is used as part of wider evaluation of the impacts of a project (Jupp, 2006).

- *Decide on Improvement Strategy:* What might be a tremendous success for one company may be a failure for another. Improvement from a very good position in the previous year may be much more difficult than improvement from a bad position. Accordingly, managers need to assess annual performance improvement in order to capture the starting point in decision making.
- *Publish Performance Plan:* After applying the previous steps, the system publishes its performance plan to attain transparency (Armstrong, 2006). The system is now ready for performance measurement in order to know the position of the organization, where it is now and where it will be.

Performance Measurement: Subsequently periodical measures for an organization's progress toward explicit short- and long-term objectives are done. *Feedbacks* are given on the results to decision makers who can use the information in various ways to improve performance or predict the future performance (World Bank, 1996).

Improvement Action Process: Through asking managers about the annual performance improvement, they will be able to report on their perception of change from one year to the next while taking into consideration their own perception of their firm's reference groups (including their firm's circumstance in terms of size, industry, stage of export involvement, technology intensity, and the characteristics of the foreign market).

Future Performance: Decision makers also can predict future performance as previously mentioned. Future performance should be characterised by efficiency and effective performance measures; considering CBA; providing a continual self-assessment; periodically evaluate overall competitive position; reflect stakeholders requirements specially customer and identify their current and future

needs; identify where problems exist and where improvements are necessary; set up comprehensive marketing; identify focal issues (strategic issues and research needs); encourage employees' innovations; provide transparency, including a "scoreboard" for employees to monitor their own performance levels; make interviews with stakeholders to convert these into their own job context (meetings).

Consequently, an organization's evaluation and performance measurement system play important roles as ways of providing information to decision makers who are engaged in managing organisations to achieve results and predict their future performance. Also, it sets the direction and forms the basis for measurement, feedback, assessment and development in the performance management process.

Hence, the author built the performance management framework upon the process-input-output that organizations can use to manage their performance effectively to achieve the potential performance.

5. CONCLUSION

This paper is motivated by the belief that implementing new or improved performance management systems shows that the regular use of these systems leads to better organisational results. Accordingly, the paper discussed the performance management literature and the performance management models then proposed a process concept to performance management based on the aforementioned literature. Performance management can be seen as the overall process that includes performance planning (Plan), measurement (Check) and improvement (Do/Act). Hence, the author built the performance management framework upon the process-input-output that organization can be used to manage their performance by effective way to achieve the potential performance.

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