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Performance Management Systems in Organizations: An effective method of  
managing employee performance

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managing employee performance  
Many organizations seek to find methods to help boost employee

performance without disrupting the normal workday or lowering morale. Many researchers have noted the problems with traditional Performance Appraisal (PA) tools and the lack of usefulness they bring to the organization. Traditional PA tools are commonly criticized for the one-sided view that they provide and the frequent misuse of the assessment for personal objectives. Literature suggests that there is a shift from simply focusing on accurately assessing performance to determining proper methods of managing it and developing future performance. According to an article posted by the Prodcon Group, there is no research to support that organizations are more successful as a result of using PA in comparison to an organization that doesn't (2008). (Note: the absolute verbiage here is the view of the Prodcon Group.) Furthermore, employees are likely to alter their performance at the expense of the company or their team in order to meet the requirements of a PA. "Most people hate performance appraisal, but they assume that's because they are not doing it the right way. There is no right way to do it: it's inherently the wrong thing to do," say Peter Scholtes, an avid supporter of eliminating the Performance Appraisal tool (2008). Perhaps this is the direction that many organizations will go in an effort to maximize the performance of their current employees.

This white paper will address the difficulties associated with effectively measuring and managing performance within an organization. Traditional PA will be examined to determine the pitfalls that make these tools appear ineffective. A

critical analysis of Performance Management may also provide greater clarity into the shift towards more up to date methods of managing employee performance.

### Traditional Performance Appraisal

*Common Uses.* The traditional PA tool is typically used for one of two reasons. In some cases it is used for both, however many researchers have warned against this. The first and most common use of performance appraisal is to make administrative decisions such as termination, promotion, or pay raise increases. In this case, there is rarely a concern with actually improving performance. The PA is simply used to review the employee's performance within a predefined period of time and make the previously mentioned decisions based on this performance rating.

The second use involves using PA for developmental purposes. In this case, employees review their performance with their supervisor to determine in which areas they can make improvement. This use is less commonly utilized in the traditional PA, although it is desired. PA for developmental purposes is more widely conducted incorrectly which contributes to the failure of this approach.

*Common errors.* Researchers have noted common errors noted with PA. (This does not exclude these errors in considering Performance Management. This will be addressed later.) These errors are often associated with raters, or individuals assigned to rate the employee, provide feedback, and administer the PA. Some common errors or biases include halo effect, leniency effect, attribution, and recency effect. These behaviors often involve biases from the rating individual that can be reduced with proper training (Martell & Evans, 2005.)

Also, greater attention should be given to the manner in which PA is administered. It is noted that if the environment is stressful and the employee is not comfortable, there is a lower success rate in PA (Schwartz, n.d.) Time is rarely taken to plan when and where the feedback meeting will take place, where the parties involved will sit, how will the meeting begin and flow, and on what note will the meeting end. Failure to appropriately prepare for the actual feedback meeting is also a contributing factor to the misuse of the traditional PA (Kinicki, Prussia, Wu, & McKee-Ryan, 2004.)

*Raters.* Organizations choose their PA raters for several reasons. Ultimately, organizations *should* take advantage of the individuals who can most accurately and objectively assess the employee's performance; unfortunately this is not always the case. In most cases, single rater feedback is utilized which involves using one rater. This rater is typically the employee's direct supervisor. This approach has been particularly ineffective as the direct supervisor many times does not have the necessary information to make an accurate assessment. Traditional PA tools are usually based on behavior. Unless the direct supervisor has the means to observe the employee for prolonged periods of time regularly, this approach is not sensible.

Many organizations' answer to this problem is to utilize the multi-rater feedback approach. The idea here is simple, use multiple raters. In this case the appraisal can include the feedback of other supervisory members who have had the opportunity to observe the employee's behavior and is particularly useful when an employee reports to more than one supervisor. This enables the direct supervisor to include information unknown to them and provide a more objective assessment.

Utilizing this approach also reduces many of the rater biases mentioned previously (Woer, Sheehan, & Bennett, 2005.)

Another method of multi-rater feedback that is becoming increasingly popular is 360-degree feedback. This approach involves gaining feedback regarding the employee's performance from different angles. For example, assessments would be made by the employee's direct supervisor, subordinate(s), customer(s), and peer(s), as well as the employee's self appraisal to gain greater insight into the employee's actual performance. This provides a more holistic view of the employee's performance rather than a one-sided view.

#### Performance Management Systems

First, it is noted that the word "system" is used when referring to Performance Management (PM) rather than a simple "tool." This implies that this approach is an ongoing process that requires an organizational cultural shift with a greater emphasis on improving employee performance. Performance cannot be simply viewed as a measurable occurrence of which employees should always be expected to perform up to or beyond expectations. In PM, improving performance is more of a partnership between employee and supervisor or supervisor and organization where everyone is dedicated to making the necessary improvements to contribute to the success of the entire organization (Heathfield, n.d.)

*What is it?* Performance Management is a complex method of addressing employee performance that begins with the development and defining of a job position. In a performance management system, there are many contributing factors that all work together towards the common goal. Organizations begin by clearly defining the job

role. This sets the standard and communicates expectations even before an applicant submits an application. Following successfully hiring an employee, the job description serves as the initial reference for how the employee is expected to perform. Performance management then moves forward addressing orientation and training, compensation and rewards, frequent developmental meetings (monthly, quarterly, etc.), discussing and negotiating goals, coaching and feedback, career development opportunities, and exit interviews when employment is terminated. Most of these activities are already completed in most organizations, however, they are rarely completed with the idea of managing performance in mind (Heathfield, n.d.)

*Common Uses.* Similar to the traditional PA, PM can be used to make administrative decisions and for developmental purposes. It is not recommended that PM be communicated to employees as a method of making administrative decisions as this may complicate the developmental process, which is the intention of PM.

Administrative decisions are naturally built into a PM system. With constant goal setting, developmental meetings, coaching and feedback, a clearer assessment of performance will be ongoing. Therefore, an employee will likely be terminated easier and with greater, more legally defensible documentation. Also, career development is addressed within the system and provides a better method of promotions. Finally, pay increases are addressed in the compensation and developmental rewards portion of developing this system. PM is a more holistic approach that gets away from the rigid components of a PA and makes great use of

all of these factors working collectively to meet the needs of the employee as well as the organization.

*Common errors.* The same errors are consistent with PM as discussed in PA. They will not be highlighted again. However, it is noted that greater emphasis on reducing these errors and improving the overall process is recommended in either method.

*Why is it useful?* PA is often seen as a burden. To many managers and supervisors it is viewed as a senseless form that Human Resources require each employee to have on file. Many supervisors rarely make the effort to use PA as it was intended. PM requires greater attention and dedication from all individuals in the organization so its success begins with organizational culture. This will create a sense of organizational loyalty and citizenship (Whiting, Podsakoff, & Pierce, 2008.) PM should be encouraged from the top levels of the organization rather than the Human Resources Department. This will also likely improve morale in the organization, as employees will view management positively. This positive view will stem from the organization's devotion to collaboratively improve performance rather than simply stress the importance of performing up to expectations. PM relies on the positive relationships established in the organization and simply is the more effective approach to managing employee performance.

#### Performance Appraisal meets its opponent

Performance Appraisal is being criticized more often with the implementation of a more systems approach in organizations. Given the many criticisms of what seems like a simple, yet ineffective approach, it is not unusual that organizations are beginning to seek an alternative that produces results. A carefully

designed and implemented PM System will likely provide a more effective approach to managing performance as it is built upon many of the basic components of any organization. PM simply pulls all of these components together to provide a more sensible and useful approach to developing employee performance and maximizing employee potential.

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