Implications of Performance Management Systems in Pakistani Organizations

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ABSTRACT

In competitive periphery, performance management is considered as essential ingredient for any business’s survival. Since 2000, performance management developed itself as a legislative condition for any type of organization all over the world. In management toolbox, very few win-wins strategies are left and performance management is considered as the best strategy. Most of the organizations have poor reputation with the implementation of performance management system because of non-serious attitude of top management. Accordingly, this study aimed to highlight the importance of performance management system within Pakistani context by interviewing key informants working in diverse organizations. Implications for practicing managers are presented.

KEYWORDS: Performance Management, Performance Management Systems, Pakistan, Strategy Implementation

INTRODUCTION

Performance management defined by Armstrong (2009) as “a means of getting better results from the whole organization or teams or individuals within it, by understanding and managing performance within an agreed framework of planned goals, standards and competence requirements”. DeNisi and Pritchard (2006) defined performance management is set of activities which helps the organizations in improving the performance of individual employees? Briscoe and Claus (2008) defined performance management as the approach how an organization make their goals, evaluate performance standards, work assignment and evaluation, feedback about the performance, conduct training and development analysis and allocate rewards. Armstrong (2009) claimed that first article appeared on performance management was on 1972 and 6607 articles were found on performance management till January 2009 (an EBSCO search).

Performance Management System:

Neely et al. (2005) defined performance management system (PMS) as the set of metrics which is used to measure the actions’ effectiveness and efficiency. PMS also taken as dynamic and balanced system which helps in the process of decision making by collecting, analyzing and monitoring information related to performance (Garengo and Bititci, 2007; Bititci et al., 2000). Furnham (2004) argued that each organization required different management tools but PMS is poorly managed by the managers across the global. The real goals of PMS are consisted of threefold – to correct performance, to sustain the performance and to improve performance (Lee, 2005). All PMS should design in a way that they can generate information, disseminate it to all individuals so that they can dissect performance properly, confer it, grasp it, and agree on its quality and characteristics.

Lawler (2003) contended that PMS involved in rewarding, controlling, monitoring and motivating the employees so that they put their best efforts to achieve strategic goals of the organizations. Biron et al. (2011) also explained the significant aim of PMS as the end result of individual and group performance with the ultimate objective of enhancing organizational effectiveness. Since each organization had its strategic direction, hence the best way of aligning the interests of top management and employees is the effectiveness of PMS (Becker et al., 2011). Another key contribution of PMS for the organization is to increase the organizational performance, fixing accountability, modify results and behaviors, helps in execution of organizational strategy and linked the individual employees with the organization’s effectiveness (Biron et al., 2011; Bae, 2006).

In management toolbox, very few win-wins strategies are left and performance management is considered as the best strategy (Black and Marshall-Lee, 2011). Performance management is regularly being used by the management for enhancing the overall performance of the organization (Marr, 2004; Davis, 2004; Propper and

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Wilson, 2003) but, so as to make it successful, the performance-driven behavior and PMS of organization should be premium (Martins, 2000). Researches on PM is unequivocal, it delivers remarkable results related with profitability, revenue growth, employee turnover / retention and return on equity without any investment (Fitz-enz and Berggren, 2006; Mortimer, 2006) (see figure 1).

<table>
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<th>Figure 1</th>
<th>Performance Management Practices as per Financial Performance</th>
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<td>Source: Fitz-enz and Berggren (2006)</td>
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Performance management is considered as planned process which consists of five primary factors – dialogue, positive reinforcement, feedback, measurement and agreement (Armstrong, 2009). It is associated with determining the delivered performance as an outcome as compared with the expected results, objectives or goals. He also claimed that performance management provides “the setting for ongoing dialogues about performance that involves the joint and continuing review of achievements against objectives, requirements and plans, feedback, reinforcement and coaching”. Performance management should not taken as top-down approach where managers assigned their duties, set priorities, objectives and performance improvement plans because “it is not something that is done to people” (Armstrong, 2009). Buchner (2007) emphasized that performance management is something “that is done for people and in partnership with them”.

**Measurement of PMS:**

Bento and Bento (2006) argued that PMS allowed to the businesses to design, quantify and manage the performance so that organizations can take better decision for allocating different resources and activates that can allied with desired results in better way. PMS also helps in developing customer-driven environment and evade ambiguities and goal conflicts by integrating explicit performance standards (Brunetto and Farr-Wharton, 2005). Researchers (Kennerley & Neely, 2002; Atkinson et al., 1997) strongly suggested that for including non-financial and financial measures for the effectiveness of PMS. Kennerley and Neely (2002) contended that “PMS are not only rational frameworks by which to assess many dimensions of organizational performance, but relational tools with which to invigorate the dynamics of organizational and environmental changes”. Hence, PMS convey the micro aspects of different organizational activities converted into more transparent for self-evaluation (Vaivio, 2007; Ishaq et al., 2012).

Johanson et al. (2006) argued that dynamic business environments and technological evolution entirely changed the paradigm of traditional approaches of measuring performance management frameworks. Accordingly, organizations shifted their mindset to integrated viewpoint of organizational performance from solely finance outcomes. This viewpoint holds a significant movement for the PMS’s non-financial position and its theoretical framework. Because of this reason, numerous integrated framework of PMS had been evolved like intangible capital model (CIMA, 2010), balance score card (Kaplan & Norton, 1992), shareholder value analysis (Rappaport, 1998), performance prism (Neely & Adams, 2001) and performance pyramid (Lynch & Cross, 1994).

Balance score card (BSC) is considered as the most influential framework of PMS that integrate four diverse perspectives of learning and growth, improvement, customer and finance (Kaplan and Norton, 1996). BSC helps the organization to consider and monitor ongoing structures of intangible facet of organizational performance (Wu,
2005; Lim & Dallimore, 2004; Bose & Thomas, 2007; Arora, 2002; Andriessen, 2004). Researcher (for reference Sánchez-Cañizares et al., 2007; Frost & Cooke, 1999) explained BSC an “enabler revealing intellectual capital”. BSC is also taken as management framework that integrate operational execution and strategic planning throughout the organizations (Kaplan & Norton, 2006, 2008).

Despite the importance of PMS for an organization, numerous researchers criticized this mechanism (Pulakos and O’Leary 2011; Jones and Culbertson 2011) by publishing number of books and research studies that suggested to eliminate performance appraisals from the organization or others emphasized on its effective execution for proper results (Grote, 2011; Culbert 2010). To resolve these issues numerous patches and adjustments were offered to fix performance management comprising of cascading goals, adding raters, changing rating scales and so forth (Hantula 2011). Parkman (2002) claimed that the significant concern that PMS can resolve is to create strong linkage between the efforts of individuals’ employees with its consequences like linkage of performance with effective team management, incentives, bonus, distribution of salary, motivation and reinforcement of individual tasks (Lawler 2008; Lawler 2000).

Effectiveness in Implementation of PMS:

From the last decade, the need of effective and efficient PMS is increased because it enhances the overall quality and performance of an organization (de Waal and Coevert, 2007). In order to successful implementation of PMS, the structure of PMS itself and performance-driven behaviors of organizations should be of high quality. A well-established and proper implemented PMS system ensured cost-effectiveness, better customer services at organization’s end. Numerous authors emphasized on advocating “performance management” rather than on “performance measurement perspective” because of its managerial implications (Dey et al., 2008; Greiling, 2006). Kochanski (2007) reported that Sibson and World at Work conducted a survey and found that high performing organizations have strong leadership support for performance management. In the period of 2003 – 2005, 64% high performing companies implemented PMS system effectively.

In the organizations with PMS, 85% pay is based on performance and 76% based on rated performance. Additionally, Strack et al. (2010) conducted a survey of 5560 HR and business leaders from 109 countries and concluded that those organizations who were high performer (with respect to profitability growth and revenue) ranked performance management as second highest HR-capability and ninth by low performing organizations. Performance management, at its best, act as viaduct between individual contributions and company’s strategy, by ensuring the efforts thousands of employees are harnessed to deliver a few, shared goals. However, most of the organizations have poor reputation with performance management because managers put emphasis on forms, systems, processes and resources but in-return the outcome is very low. Regrettably, failure rate of PMS implementation or its usage in an organization or project is 70% (Neely and Bourne, 2000)

Problems in Implementations of PMS in Pakistani Organizations:

Numerous problems are associated with the failure of PMS implementation. Waal and Count (2009) identifies those problems which came across in the literature (e.g., research articles and renowned books pertaining to performance management) published in the era of 1996 to 2008. After the formal interviews of 30 HR managers working in diverse industries highlighted the following critical problems faced by Pakistani organizations while implementation of PMS:

1. Low priority on implementation by the management. Because of routine work pressures and time constraints forced the management to solve these short-time organizational problems which slow the process of successful PMS implementation.
2. Insufficient resources. For successful implementation, PMS requires considerable attention, amount and effort but, very often, organizations are not ready to allocate the people (capacity) and budget (resources) which caused delayed or postponement of PMS implementation.
3. More effort and time required in implementation than expected. Organizations faced problems i.e., low effort and small budget while implementing PMS.
4. Unstable phase. Sometime organizations are in unstable mode and are busy in resolving major issues like acquisitions, mergers, reorganizations, downsizing, and financial problems which enforced them to not go for PMS implementation.
5. Unclear goal for PMS implementation. Management did not consider the PMS as strategic management tool and taken as skeptic and hostile view towards it which results in defiance of PMS.
6. **Negative attitudes for PMS.** For effective and successful implementation of PMS system in the organization, the employees should have positive attitude towards it which is only possible if they accepted and understand this new system as change tool.

7. **PMS and information-communication technology (ICT).** Management faced numerous problems and required much effort if the ICT did not support the PMS by collecting, processing and reporting the data of key performance indicators (KPIs) automatically.

8. **Organizational strategy.** If the organizational objectives and its mission strategy are not comprehensible and clear to the employees, then the inclusion of developed critical success factors and KPIs are not relevant for the organization which will results in delaying the implementation of PMS.

9. **Definition of Critical Success Factors and KPIs.** Key human resource cannot put their best efforts in their assigned tasks if organizations failed to defining critical success factors.

10. **KPIs measurement.** KPIs are poorly defined and designed then organizational members may take these KPIs as they want or they misused it.

11. **Goals for lower levels.** Sometimes organizations faced problems for defining objectives, KPIs, critical success factors for the lower level management which caused bad translation of the strategy and no alignment with organizational strategy throughout the organization.

12. **Linkage between KPI, individual employee, team and departments.** Employees did not feel any responsibility regarding the indicators and results of performance management of there are no proper linkage exist between the KPI and organizational staff members.

13. **Change process.** While implementing phase of PMS, organizations put great importance to it rather to focus on the new organizational change process. If the organization put less attention to the changing process then there will be a high risk for successful implementation. Employees feel threatened to the new changing process because PMS system highlights the individual performance more accurately.

14. **Reward system and PMS.** Employees show resistance if there is no sufficient linkage between the reward system, KPIs, and critical success factors with PMS which will leads to slow down the process.

15. **Updating PMS system.** To get better results from the PMS, there should be proper updating PMS system with the current changing business environment in-terms of KPIs, organizational strategy (vision and mission) and critical success factors.

Bourne et al. (2002) argued that structured discussion is missing in the literature why the implementation of PMS is not successfully achieved. Without knowing the SWOT analysis, organizations may confront with these problems again and again which cause inefficiency in the project or terminated systems. De Waal (2002, 2003) claimed that the term successful companies managed and controlled the system effectively through PMS on regular basis. Researchers (e.g. Waal and Count, 2009) argued that the reason behind the failure in implementation of PMS is human element. Ashton (1997) quotes the quotation of American Productivity & Quality Center’s International Benchmarking Clearinghouse as “…people issues appear to be make or break factors in success – deliberate, targeted and ongoing communication strategies are crucial, along with education and reinforcing a central question: how does individual effort relate and contribute to business strategy?” Performance management is considered as the manifestations and strong instrument to support the work culture of an organization. So, without exploring context / meaning of the organizational culture, every discussion on the failure of PMS implementation is incomplete (Mitchel, 2006).

**Concluding Thoughts**

Without taking human element into consideration, the designed phase of management control system would be curtailed (Simons, 2000) and successful implementation of PMS is depends on accommodating and understand of human element solely (Holloway et al. 1995) which is beneficial and crucial aspect of using and implementing of PMS (Davenport and Gardiner, 2007). Additionally, regular use of PMS and performance-driven behavior enhanced the performance of an organization as compared to other means (Malina and Selto, 2004). Waal and Count (2009) claimed that “…to test if the combination of structural and behavioral aspects in practice influences the success of implementing and using a PMS, and consequently the performance of an organization. The fact that the academics rate these behavioral problems to be relatively less important than the practitioners serves once again as a wake-up call for researchers to go more deeply in these problems, to come up with solutions how practitioners can deal with them”.

Pongatichat and Johnston (2008) concluded that performance management is significant aspect for the management. For any organization, the process working at the workplace provides the bases to the organization to design and planned their objectives, identify weaknesses and strengths of the systems, and introduce creative initiatives for enhancing business’s performance (Pursey et al., 2007) and benchmarking is considered as the best instrument for this purpose (Goncharuk, 2008; Dawkins et al., 2007). Longenecker and Fink (2001) contended that
organizations which fail to make benchmarking as an integral part of their performance management efforts and practices tend to experience lower than expected performance improvements, and higher dissatisfaction and turnover of employees”.

As previously stated, performance management is one of the fewest managerial techniques to improve the performance, attain and sustain competitive advantage. Simultaneously, the implementation rate of PMS is alarmingly high. Hence, the organization should put their utmost effort for successfully implementation of PMS either through financial resource or human resources. In short: the research results in reinforcing that important adage: forewarned is forearmed!

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REFERENCES


