Performance Management or Performance Based Management?

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Abstract
In this paper we present some considerations about performance and performance management. Starting with the challenge of defining the performance concept, we intend to establish if „performance management” can be a new management system or it is just a sophisticated term for a HR strategy in order to improve the performance of teams and individuals. We also try to discuss the connection between performance management and management by objectives. Whether or not it is exaggerated to talk about a performance management, giving the fact that management means a lot of planning, organizing, coordination, people motivating and controlling processes, it’s obvious that the performance concept become very important today.

Key words: performance, performance management, management by objectives

JEL Classification: L25, L26

One of the most frequently used concepts in the economic theory and practice, performance appears to have different meanings. On a general basis, performance means a special accomplishment in a certain field or domain. From a technical point of view, the performance represents the best results of a technical system or a machine. Therefore we reach performance not in the circumstances of an ordinary result, by in a special one. In the economic field, performance means „a certain level of the best results obtained by the company”1. Also performance can be defined as a „special result obtained in management, economic or comercial domain, which gives organization and its components competitiveness, efficiency and efficacy”2.

We can measure performance by using a series of economic and financial indicators which we compare with the firm’s achievements in the past or company’s objectives or with the results of similar companies on the market.

2 Ion Verboncu, Michael Zalman – Management si performante, Editura Universitara, Bucuresti, 2005, pg. 64
The performance concept gained more and more importance for companies and their management under the pressure of competitiveness in the market place. Therefore the next step was the performance management emergence. Performance management is a part of the new human resources management approaches and gives companies the possibility to create a new organizational culture. In this culture, each employee understands his role within the company and the way his performance affects the company’s objectives and performances.

It’s very useful to remember that nowadays competitiveness in many industries is based on the effectiveness of human resources – became „assets”. The competitiveness and profitability are brought by the ability of employee to create, to accumulate knowledge and to properly apply their skills within an organizational culture based on individual performance. For managers and shareholders too it is important to recognize that „creativity and human capital are sources for long-term competitive advantage”3.

Performance management is an useful tool for increasing labor yield, individual performance and reducing general administration costs.

According to Michael Armstrong, performance management „can be defined as a systematic process for improving organizational performance by developing the performance of individual and teams”4. This author sees performance management as an instrument for „getting better results from the organization, teams and individuals by understanding and managing performance within an agreed framework of planned goals, standards and competence requirements”.

The most important direction that must be followed in order to increase individual performance is given by objectives. Richard Luecke and Brian J. Hall consider that „performance management begins with goals”5 which are the results that people should aim to achieve. These two authors consider that „every company, every operating unit and every employee needs goals and plans for achieving them”. In fact, setting goals and sharing them within the company is one of the essential functions of management – planning. This idea isn’t new in management theory and practice. We must say that one of the most important management instrument – management by objectives (MBO) is based upon the same premises6. At this level we ask if there any difference between performance management and management by objectives or is it the same idea only with different names?

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3 Anca Mihaela Teau – Tehnici de vanzare, Editura ProUniversitaria, Bucuresti, 2009, pg. 40
5 Richard Luecke, Brian J. Hall – Performance Management. Measure and Improve the Effectiveness of Your Employees, Harvard Business School, Boston, 2006
6 Dan Nastase – Management comercial, Editura Axioma Print, Bucuresti, 2010, pg. 80
In my opinion, performance management as it is applied today, benefits a lot from "older" management instruments such as management by objectives\(^7\). It started rather as a philosophy than as a management tool, but gradually it has transformed in an instrument focused on aligning the individual goals with the goals of the organization and ensures that the employees work on the right tasks and do the right things.

Having in mind that management means a lot of planning, organizing, coordination, people motivating and controlling processes, we consider that performance management isn’t the proper name and it would be better to use the term "performance based management".

Performance based management can be regarded as a proactive system of managing employee performance for driving the individuals and the organizations towards desired performance and results.

In the theory and practice management, the performance based management system is still evolving and includes the following components\(^8\):

1. **Performance Planning.** Performance planning is the first component of any performance management process which forms the basis of performance appraisals. Performance planning is jointly done by managers and employees in the beginning of a performance session. As in MBO’s case, the planning process must developed throught a large implication of managers, employees, HR specialists and other stakeholders. During this period, the employees decide upon the targets and the key performance areas which can be performed over a year within the performance budget and following the entire objectives system. Also at this level it is important to establish the motivation forms and rewarding.

2. **Performance Appraisal and Reviewing:** The appraisals are normally performed twice in a year in an organization in the form of mid reviews and annual reviews which is held in the end of the financial year. In this process, the appraisee first offers the self filled up ratings in the self appraisal form and also describes his/her achievements over a period of time in quantifiable terms. After the self appraisal, the final ratings are provided by the appraiser for the quantifiable and measurable achievements of the employee being appraised. The entire process of review seeks an active participation of both the employee and the appraiser for analyzing the causes of loopholes in the performance and how it can be overcome.

3. **Feedback on the Performance followed by personal counseling and performance facilitation:** Feedback and counseling are given a lot of importance in the performance management process. This is the stage in

\(^7\) Sorin Gabriel Gresoi – *Managementul si gestiunea calitatii*, Editura ProUniversitar\(a\), Bucuresti, 2011, pg. 130

\(^8\) Source: [www.managementstudyguide.com](http://www.managementstudyguide.com)
which the employee acquires awareness from the appraiser about the areas of improvements and also information on whether the employee is contributing the expected levels of performance or not. The employee receives an open and a very transparent feedback and along with this the training and development needs of the employee is also identified. The appraiser adopts all the possible steps to ensure that the employee meets the expected outcomes for an organization through effective personal counseling and guidance, mentoring and representing the employee in training programmes which develop the competencies and improve the overall productivity.

4. **Rewarding good performance**: This is a very vital component as it will determine the work motivation of an employee. During this stage, an employee is publicly recognized for good performance and is rewarded. This stage is very sensitive for an employee as this may have a direct influence on the self esteem and achievement orientation. Any contributions duly recognized by an organization helps an employee in coping up with the failures successfully and satisfies the need for affection.

5. **Performance Improvement Plans**: In this stage, fresh set of goals are established for an employee and new deadline is provided for accomplishing those objectives. The employee is clearly communicated about the areas in which the employee is expected to improve and a stipulated deadline is also assigned within which the employee must show this improvement. This plan is jointly developed by the appraisee and the appraiser and is mutually approved.

6. **Potential Appraisal**: Potential appraisal forms a basis for both lateral and vertical movement of employees. By implementing competency mapping and various assessment techniques, potential appraisal is performed. Potential appraisal provides crucial inputs for succession planning and job rotation.

**Conclusion**

Performance based management brings a lot of benefits for companies and also for managers and employees. We can say that all major stakeholders benefit from it.

At the company’s level performance based management has the following advantages:
- Improved organizational performance due to the fact that employees understand the importance of their contributions to the organizational goals and objectives
- Improved productivity and costs reduction
- Benefits from a new organizational culture based on performance, employee retention and loyalty
For managers, we talk about saving time and a better organizational climate as a consequence of reducing conflicts. For employees the benefits are:

- Regularly providing open and transparent job feedbacks to the employees.
- Establishing a clear linkage between performance and compensation.
- Providing ample learning and development opportunities by representing the employees in leadership development programmes, etc.
- Evaluating performance and distributing incentives and rewards on a fair and equated basis.
- Establishing clear performance objectives by facilitating an open communication and a joint dialogue.
- Recognizing and rewarding good performance in an organization.
- Providing maximum opportunities for career growth.

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