**Chapter 2: LITERATURE SURVEY**

In order to answer these questions, we need to do a literature review which a body of text that aims to review the critical points of current knowledge including substantive findings as well as theoretical and methodological contributions to a particular topic. Initially, in 2.1 we will introduce the definition about performance management, and 2.2 is the literature review about performance management system which made up of three stages: developing and planning performance, managing and reviewing performance and rewarding performance. Then, there will be an extensive literature review about employee performance and measurement, also the nature of relationship between each stage in performance management system and employee performance.

2.1 Performance management

The study of performance management has been popular within human resource management study. we attempt to define performance, as deploying and managing the components of the causal model that lead to the timely attainment of stated objectives within constraints specific to the firm and to the situation (Lebas, 1995). At an organizational level of analysis I assume that an organization that is performing well is one that is successfully attaining its objectives; in other words, one that is effectively implementing an appropriate strategy (Otley, 1999). The AMO-model 7 (Appelbaum et al., 2003) claims performance which is a function of employees’ Ability, Motivation and Opportunity to participate. This means that an organization will benefit most if it organizes the work process in such a way that non-managerial employees have the opportunity (O) to contribute discretionary effort and it could be achieved by giving them autonomy in decision making, by providing in good communication and by employee membership in self-directed and/or off-line teams. For their effort to be effective, employees need to have the appropriate skills and knowledge (A). Hence, organizations can achieve this by attracting employees who already poses this knowledge, or by providing employees with formal and/or informal training. Finally, the organization needs to motivate these employees to put their abilities into the best effort for the organization (M). According to Otley (1999), a general performance management considers such problems: “What are the key objectives that are central to the organization’s overall future success, and how does it go about evaluating its achievement for each of these objectives?

What strategies and plans has the organization adopted and what are the processes and activities that it has decided will be required for it to successfully implement these? How does it assess and measure the performance of these activities? What level of performance does the organization need to achieve in each of the areas defined in the above two questions) and how does it go about setting appropriate performance targets for them? What rewards will managers (and other employees) gain by achieving these performance targets (or, conversely, what penalties will they suffer by failing to achieve them)? What are the information flows (feedback and feed-forward loops) that are necessary to enable the organization to learn from its experience) and to adapt its current behavior in the light of that experience?”(Otley, 1999:365,366)

According to Fletcher (2001), who gave a completed and comprehensive HR related performance management definition which is “an approach to creating a shared vision of the purpose and aims of the organization, helping each individual employee understand and recognize their part in contributing to them, and in so doing manage and enhance the performance of both the individual and the organization”. Similarly, performance management is a management process for ensuring employees is focusing on their work efforts in ways that contribute to achieving the organization's mission. It consists of three phases: (a) setting expectations for employee performance, (b) maintaining a dialogue between supervisor and employee to keep performance on track, and (c) measuring actual performance relative to performance expectations. Armstrong (2004) defined performance management as a means of getting better results from the whole organization by understanding and managing within an agreed framework, performance of planned goals, standards and competence requirements. “Performance management is a process of designing and executing motivational strategies, interventions and drivers with on objective to transform the raw potential of human resource into performance. All human beings possess potential within themselves in a few or more functional areas. However, utilization and conversion of 8 this potential into deliverable performances is often sub optimal due to a variety of reasons. Performance management acts as an agent in converting the potential into performance by removing the intermediate barriers as well as motivating the human resource". (Kandula, 2006:5). Comprehensively, Bacal (1999) defines performance management as an ongoing communication process, undertaken in partnership, between an employee and his or her immediate supervisor that involves establishing clear expectations and understanding about the essential job functions of employee are expected to do; how the employee's job contributes to the goals of the organization; what doing the work well means in concrete terms; how employee and supervisor will work together to sustain, improve, or build on existing employee performance; how performance management will be measured, and identifying barriers to performance and removing them.

The similarities of general performance management and HR related performance management are the goal setting, planning, evaluation, feedback and rewarding activities. However, the HR related performance management focus on the management of employee or managers, then motivating employees and managers. Moreover, general performance management was defined more widely than HR related performance management. It considers the definition of goals and the measurement of goal attainment) not just financially but also in terms of meeting all stakeholder aspirations.

HR-performance management aims at developing potential capabilities of human resource. The performance management must be in line with the company's long-term policies (Kandula, 2006). Performance management involves managing employee efforts, based on measured performance outcomes. Therefore, determining what constitutes good performance and how the different aspects of high performance can be measured is critical to the design of an effective performance management process. And performance management effectiveness increases when there is ongoing feedback, behavior-based measures are used and preset goals and trained raters are employed (Lawler, 2003).

2.2 Performance management system

In different literature, there are various models of performance management. Each model has its importance as a system for managing organizational performance, managing employee performance, and for integrating the management of organizational and employee performance. Performance management involves multiple levels of analysis, and is clearly linked to the topics studied in strategic HRM as well as performance appraisal. Different terms refer to performance management initiatives in organizations, for example, performance-based budgeting, pay-for-performance, planning, programming and budgeting, and management by objectives (Heinrich, 2002). A performance management system, according to Rudman (2003), is increasingly seen as a means of integrating HRM activities with the business objectives of the organization, where management and HR activities are 9 working together to influence individual and collective behavior to support the organization's strategy. Besides, he also stressed that the performance management system must fit with the organization's culture. Performance management system is a kind of completed and integrated cycle for performance management. The emphasis of performance management systems is on continuously improving organizational performance, and this is achieved through improved individual employee performance (Macky & Johnson, 2000). Similarly from the suggestion of Lawler (2003), the objectives often include motivating performance, helping individuals develop their skills, building a performance culture, determining who should be promoted, eliminating individuals who are poor performers, and helping implement business strategies. The main purpose of the performance management system is to ensure that:

1. The work performed by employees accomplishes the work of the company;
2. Employees have a clear understanding of the quality and quantity of work expected from them;
3. Employees receive ongoing information about how effectively they are performing relative to expectations;
4. Awards and salary increases based on employee performance are distributed accordingly; 5. Opportunities for employee development are identified; and
5. Employee performance that does not meet expectations is addressed

Developing a performance management system is essential for an organization. Developing a performance management system, according to Schneier, Beatty and Baird (1987), is classified into a development, planning, managing, reviewing and rewarding phase. In 2000, Macky and Johnson suggested that a typical performance management system would include: the organization communicates its mission/strategies to its employees; the setting of individual performance targets to meet the employees' individual team and ultimately the organization's mission/strategies; the regular appraisal of these individuals against the agreed set targets; use of the results for identification of development and/or for administrative decisions; and the continual review of the performance management system to ensure it continues to contribute to the organizational performance, ideally through consultation with employees.

Fletcher (1996) suggested that the main building blocks of a performance management system approach include: development of the organization's mission and objectives; enhancing communication within the organization so that employees are not only aware of the objectives and the business plan, but can contribute to their formulation; clarifying individual responsibilities and accountabilities; defining and measuring individual performance; implementing appropriate reward strategies, and developing staff to improve performance, and their career progression further in the future.

2.3. Employee performance

In the organizational context, performance is usually defined as the extent to which an organizational member contributes to achieving the goals of the organization. Employees are a primary source of competitive advantage in service-oriented organizations (Luthans and Stajkovic, 1999; Pfeffer, 1994). In addition, a commitment performance approach views employees as resources or assets, and values their voice. Employee performance plays an important role for organizational performance. Employee performance is originally what an employee does or does not do. Performance of employees could include: quantity of output, quality of output, timeliness of output, presence at work, cooperativeness(Güngör, 2011). Macky and Johnson pointed that improved individual employee performance could improve organizational performance as well. From Deadrick and Gardner's (1997) points, employee performance could be defined as the record of outcomes achieved, for each job function, during a specified period of time. If viewed in this way, performance is represented as a distribution of outcomes achieved, and performance could be measured by using a variety of parameters which describe an employee's paten of performance over time. On the other hand, Darden and Babin (1994) said employee's performance is a rating system used in many corporations to decide the abilities and 17 output of an employee.

Good employee performance has been linked with increased consumer perception of service quality, while poor employee performance has been linked with increased customer complaints and brand switching. To conclude, employee performance could be simply understood as the related activities expected of a worker and how well those activities were executed. Then, many business personnel directors assess the employee performance of each staff member on an annual or quarterly basis in order to help employees identify suggested areas for improvement.

2.3.1 Employee performance measurement

The concepts of performance are studied through evaluation of overall performance and the management of the performance and the evaluation of performance is the process classifying certain outcomes within a definite timeframe (Coens & Jenkins, 2002). Moreover, the axiom, 'If you can't measure it, you can't manage it,' underpins the rationale for organization having a completed and comprehensive performance measurement system such as the Balanced Scorecard or total quality performance management. This approach connects measures throughout an organization to translate high level objectives into lower level activities. Then, measures are imposed on individual employees to monitor their performance of these activities (Platts&Sobotka, 2010). Performance criteria need to be unambiguous, clearly explained, relevant to the work tasks undertaken by employees and achievable.

The criteria should not include factors beyond the control of the individual employee. Supervisors also need to be trained to provide regular, meaningful and constructive feedback. Employees should also be provided with appropriate training and development opportunities to overcome weaknesses in performance identified through the appraisal process. The assessment of individual employee performance also needs to focus on evaluating employee behavior and work performance and not the personality of the employee (O' Donnell & O' Brien, 1999). According to Huselid (1995), employees within firms contribute for organizational performance and HRM practices can affect individual employee performance through their influence over employees’ skills and motivation and through organizational structures that allow employees to improve how their jobs are performed. Also, he used labor turnover, productivity as employee performance measurement when he test the influence of HRM practices on employee performance. Labor turnover is the rate at which an employer gains and losses employees.

Arnold and Feldman (1982) concluded that perceptions of job security, the presence of a union, compensation level, job satisfaction, organizational tenure, demographic variables such as age, gender, education, and number of dependents, organizational commitment, whether a job meets an individual’s expectations, and the expressed intention to search for another job were all predictive of employee’s leaving, and Sheridan (1992) also concluded that perceptions of organizational culture influenced turnover. Job dissatisfaction could cause employees to leave once they have reached decisions on the desirability of movement and the perceived ease of movement (March and Simon, 18 1958). Prior to leaving the organization, individuals experiencing job dissatisfaction explore job alternatives and evaluate these in terms of their expected utility (Mobley, 1977). The traditional approach therefore views voluntary separation as a consequence of low job satisfaction combined with alternative labor market opportunities that are subjectively perceived as having higher utility and relative ease of movement to alternative employment (Price, 1977). In order to avoid job dissatisfaction, employees need adequate remuneration, job security and comfortable working conditions (Jonathan, 2004). In Bhatti (2007) and Qureshi’s (2007) perspectives, productivity is a performance measure encompassing both efficiency and effectiveness. Labor productivity means the output of workers per unit of time which is a commonly used and straightforward measure of productivity. The growth rate of labor productivity is approximately equal to the difference between the growth rate of output and the growth rate of the number of hours worked in the economy (Christopher Gust& Jaime Marquez, 2004). High performing, effective organizations have a culture that encourages employee involvement.

Therefore, employees are more willing to get involved in decision-making, goal setting or problem solving activities, which subsequently result in higher employee performance. Moreover, labor productivity also could be impact by continuing information technology innovations which has the potential of changing the competitive game for many organizations (Mukhopadhyay, Javier Lerch& Mangal, 1994). If employee output is produced by two factors, labor and capital, then the growth of labor productivity depends upon the rate of ‘capital deepening’ and the growth of ‘multifactor productivity’ (Christopher Gust& Jaime Marquez, 2004). Capital deepening refers to a rise in the ratio of capital to labor, that is, an increase in the amount of capital which includes machines, structures, and infrastructure. For a given level of technology, capital deepening raises workers’ ability to produce more output with the same level of effort. Increases in multifactor productivity may reflect advances in technology, but they may also reflect any other developments that result in greater efficiency, such as reorganization of tasks in a firm or improvements in distribution channels used to deliver goods and services.