THE IMPORTANCE OF IMPLEMENTING PERFORMANCE MANAGEMENT SYSTEM IN ROMANIAN FIRMS

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Abstract*:* To understand the importance of Performance Management (PM) we can start from the answers to the question: What distinguishes the "best" companies \ from the rest? Many writers and consultants are using the term "performance management" as a substitution for the traditional appraisal system. Performance management is the process of creating a work environment or setting in which people are enabled to perform to the best of their abilities. Performance management is a whole work system that begins when a job is defined as needed and it ends when an employee leaves your organization. Within such a system, feedback to each staff member occurs regularly. Individual performance objectives are measurable and based on prioritized goals that support the accomplishment of the overall goals of the total organization. The vibrancy and performance of the organization is ensured because it focuses on developmental plans and opportunities for each staff member.

To understand the importance of Performance Management (PM) we can start from the answers to the question: What distinguishes the "best" companies \ from the rest? which is:
- Ability to attract and retain talented people
- Culture
- Leadership
- *Performance management*
- Strategy implementation
- Managing through economic uncertainty

The competitive firms manage performance to ensure that people follow through on commitments and objectives.

In specialists opinion a performance management system includes the following actions (Heatherfield, S.M., 2006):

▪ Develop clear job descriptions

▪ Select appropriate people with an appropriate selection process

▪ Negotiate requirements and accomplishment-based performance standards, outcomes, and measures

▪ Provide effective orientation, education, and training

▪ Provide on-going coaching and feedback

▪ Conduct quarterly performance development discussions

▪ Design effective compensation and recognition systems that reward people for their contributions

▪ Provide promotional/career development opportunities for staff

▪ Assist with exit interviews to understand WHY valued employees leave the organization

The key elements of *Performance Equation and Engagement* are:
- "Do I know how I fit in to the organization's success?"
- "Do I get meaningful feedback on an ongoing basis, so I know where I stand?"
- "Do I feel I am rewarded fairly?"
- "Am I growing in this company?"

The best practices - to create value through people – are:
➢ *Planning* - understanding what good performance is, which means:
- Performance planning is a core business process
- Translates strategic intent into understood goals/actions
- All aspects of performance are considered
- Objectives include behaviors in addition to results
- Employees play a strong role in the performance planning process
- Obstacles to good performance are identified and dealt with
➢ *Coaching* - ensuring good performance, which means:
- Managers are selected for and held accountable for effective coaching
- Managers and employees are trained in and are good at coaching
- Modeling of coaching behaviors is critical (this includes the executive levels)
- Managers create the climate for superior performance
- Interim reviews are done (formally)
- Coaching interventions are frequent and are focused (less formal)
➢ *Reviewing* - assessing how good/poor performance was, which means:
- Initial self-assessment is critical
- Open, two-way communication is critical
- Discussion include both performance evaluation and development opportunities
- The role of Human Resources is value-added vs. controlling
- No more than a four-point rating scale is necessary
- People are rewarded for results
➢ *Rewarding* - reinforcing good performance, which means:
- Salary discussion is separate from performance/ development discussion
- Increased clarity regarding how performance is rewarded
- Distinctive rewards for different aspects
- Use of both monetary and non monetary rewards

The steps which we have to follow to implement these practices are:
• Identify what
• Clarify how
• Commit
• Monitor
• Give feedback
• Get feedback
• Act on feedback
• Build self-esteem and capability
• Summarize total performance
• Rate performance
• Strategize for improved performance
• Apply a broad spectrum of rewards in a focused way

For example, here is a checklist for *High-Quality Feedback*:
- Are managers and employees trained in dialogue?

- Is dialogue modeled by the leaders of the organization?
- Is the dialogue characterized by openness, informality, candor, and closure?
- Are managers held accountable for providing feedback?

We can propose also a checklist for *Differentiated Rewards*:
- Is there meaningful differentiation in reward levels?
- Is there a culture of meritocracy?
- Do people have opportunities for growth?
- Do they have the freedom to implement their ideas?

Need for an integrated approach to managing people and business performance is also required. This means that we have to consider:

➢ Individual & Team Capabilities:
- Define desired/successful behavior & competencies
- Individual development plans

➢ Culture:
- Make desired culture explicit
- Manage cultural change
- Leaders as role models

➢ Rewards & Motivation:
- Reward system – based on Contribution & performance

➢ Work processes:
- Diagnose work processes (focus on dependencies)
- Manage for results

➢ Performance Management:
- Target Setting
- Coaching
- Development
- Train Managers

➢ Organization Setup:
- Clear arrangements on responsibilities
- Clarity regarding dependencies
- Measurable output

➢ Leadership
- Supportive management philosophy & style (effective coaching)
- Delegation of authorities
- Train leaders of the future
- Talent Spotting & Development

The challenges of performance management implementation are, in general:

➢ Performance management it's not only about evaluation forms - Opposite of routine

➢ The individual is placed on the center of the performance management concept
- Organizational performance culture

Classical key performance indicators consider that *"First you have to decide what to measure"* and this means to define:
▪ Quantitative indicators
▪ Practical indicators
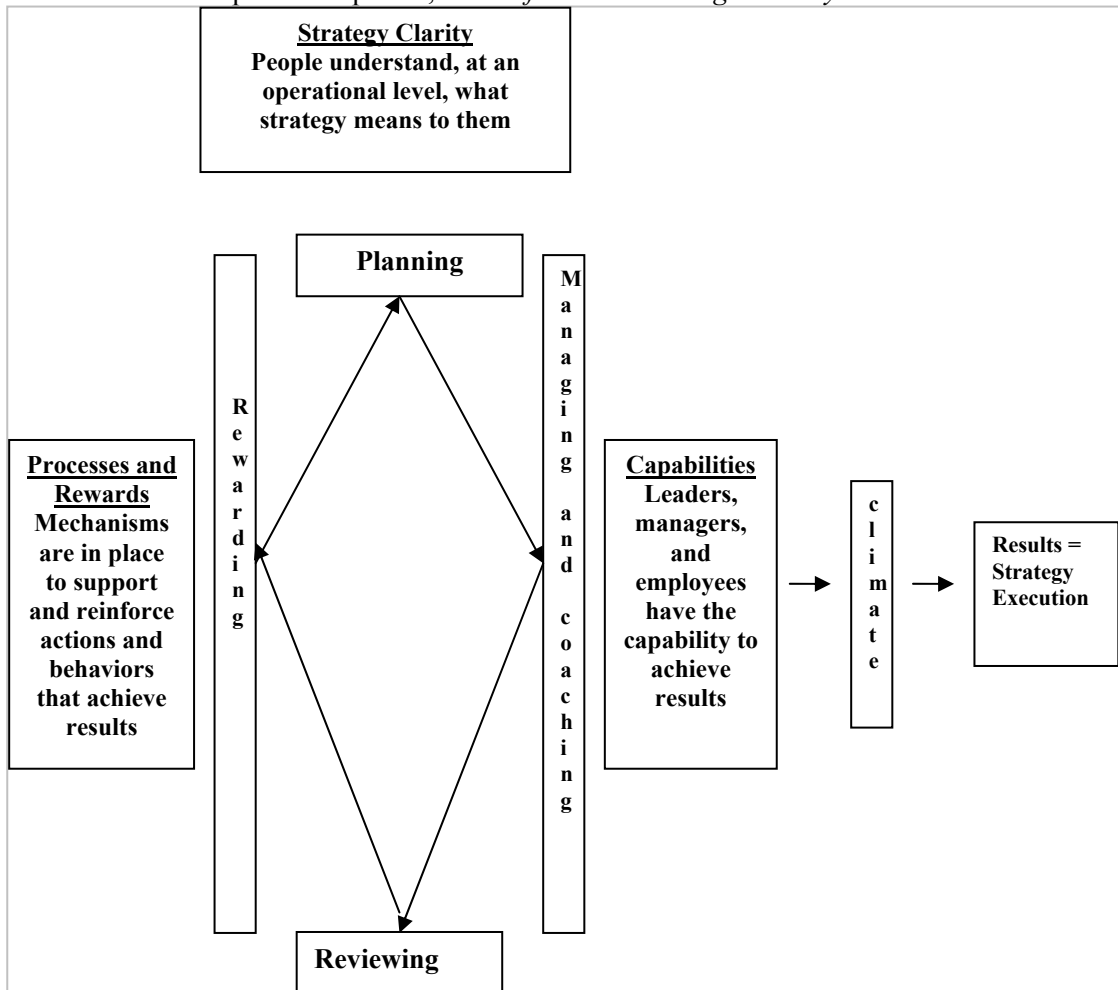▪ Directional indicators
▪ Actionable indicators

A different view on key performance indicators means to consider:
- "the plodder" - the high-performer
- "the peaked" - the poor employee

The tools which can be used are, generally:
- software systems generating reports based on: strategic performance management issues and tactical performance management dynamics, valorizing the strength points of each individual employee
- evolution
- management by objectives
- performance management cycle

From the specialist opinion, the *Performance Management Cycle* includes:

Strategy Clarity
People understand, at an operational level, what strategy means to them

Planning

R e w a r d i n g

M a n a g i n g   a n d   c o a c h i n g

Processes and Rewards
Mechanisms are in place to support and reinforce actions and behaviors that achieve results

Capabilities
Leaders, managers, and employees have the capability to achieve results

c l i m a t e

Results = Strategy Execution

Reviewing

Susan M. Heathfield (2006) considers that an effective PM system sets new employees up to succeed, so they can help your organization succeed. It provides enough guidance so people understand what is expected of them. It provides enough flexibility and wiggle room so that individual creativity and strengths are nurtured. It provides enough control so that people understand what the organization is trying to accomplish.

The *Performance Management Model* (Mwita, J.-I., 2000) suggested by John Isaac Mwita from University of Birmingham stems by a clear understanding by every member of the organization's mission and values, and what it want to achieve.

The five factor of this model are:

6.Mission Statement: purpose of existence, community expectations and values

7.Strategies and plans: corporate objectives, SWOT analysis, training, development and retention policies

8.Action Planning: operational objectives, key tasks & responsibilities, resource allocation – mapping, performance target setting, agreement & performance contracting

9.Performance recognition> measurement of performance, rewards and sanctions, training needs assessment

10. Management Accounting Information System: feedback/feed forward loops, performance information-set, timely availability for planning, decision making and control, suggestion box.

In October 2007, Professors Lisbeth Claus and Michael Hand of Willamette University (USA) surveyed Romanian HR practitioners to gain an understanding of performance management (PM) practices in this Eastern European country. The survey is part of a broader Human Resource Management research study of PM practices of domestic and multinational companies (MNCs) in emerging market countries around the world.

A sample of 44 Romanian HR practitioners, members of Romanian HR Club (the author of this paper is one of them), responded to a survey on performance management practices within their companies. Descriptive results indicate that:

• More than eight out of 10 companies in Romania have a PM system.

• Half of the companies in Romania conduct performance appraisals for their employees more than once a year.

• Although supervisors are mostly rating performance of their employees, 360 degree multi-rater performance appraisals are making inroads in companies in Romania.

• Companies in Romania are more likely to measure individual than team or organizational performance.

• The PM system of Romanian companies is often designed by HQs and adopted by the subsidiaries.

• Most companies in Romania use a combination of paper and computer-based systems for the administration of the PM system.

• Development is the major purpose of PM systems in companies in Romania. Providing performance feedback and determining whether team/group performance objectives are met are rated as most important purposes of PM.

• Aspirations (should be) of Romanian HR practitioners with regard to their PM system are higher than reality (as is) in terms of having a PM system, the frequency of performance appraisals, and measuring individual, team and organization performance.

Development is *the major purpose* of PM systems in companies in Romania. HR practitioners rated the following purposes as very important: providing performance feedback and determining whether team/group performance objectives are met. Control purposes of a PM system were rated as being of little or no importance in their companies.

In conclusion, PM on Romanian organizations:

5.Is focus on rationality rather than on emotional part of the process

6.Unconscious excess of power and force

7.The management by objectives method is focus on clarity rather than participation and assumption

8.PM has a strong impact in building the organizational culture.

The following nine guidelines, examples, and ideas can assist to develop a performance measurement and rating system which is motivational rather than confrontational (Heathfield, 2006).

- Take great care in establishing what it is that you want to measure

- Develop effective measurements that tell people how they are doing.

- Establish straightforward, honest criteria that tell people exactly what they must do to achieve a particular score.

- Communicate the established criteria to the people who need the information to perform effectively.

- Obtain employee input when establishing the criteria and the measurements.

- Review the employee's progress on the defined criteria, goals, and competencies regularly.

- Avoid the "halo" effect.

- The employee needs to see and read his performance ratings, rankings, the judgment calls, and the previously established criteria that came together to form his ratings.

- The specialists also recommend having the employee collect their own performance feedback data as often as possible.

Done well, performance criteria and ratings can contribute to a positive, powerfully motivating experience for organization members. Their presence in performance management system can help formulate the culture needing for success as an organization. Employees know what is expected of them, and they experience few surprises. People know what to work toward, and they know the rewards and recognition they will achieve with their success.

In conclusion we can underline the idea that in a PM system, feedback remains integral to successful practice. Both the staff person and his manager have an equivalent opportunity to bring information to the dialogue. Feedback can be obtained usually from commonly 360 degree feedback which means: peers, direct reporting staff, and customers to enhance mutual understanding of an individual's contribution and developmental needs. The developmental plan establishes the organization's commitment to help each person continue to expand his knowledge and skills. This is the foundation upon which a continuously improving organization builds.

Finally, from the results of the researcher studies we can try to answer to the question: "Why Most Performance Management Changes Fail?". Usually:

➢ organizations focus on the "easy" things like:

• Completing forms/using technology

• Quantitative measures

• Complicated rating systems

➢ Organizations don't do the "hard" things: coaching!

➢ Senior executives don't/won't/can't model the behaviors

➢ Reward systems don't reinforce the new behaviors

The most important is to create a culture of performance which means:

➢ Performance Management is the core responsibility of Business Leaders!

➢ HR Leaders= Trusted Business Partners:

➢ to provide highly pragmatic business solutions – build with Business Managers the Culture of Accountability & Dialogue

➢ reinforce the Business Case – Why PM on the Agenda of the CEO & Leadership Team

➢ all its about Business AND People Growth!

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