Chapter 2

LITERATURE REVIEW

2.1. History of performance management or performance management development.

The evolution of performance management has a long and winding history and journey. Employee performance management is not a new concept. There have been several breakthroughs in performance management in the 20th and 21st centuries. However, some firms continue to analyze employee performance using outmoded approaches. According to Dooren et al. (2015), as the commercial and industrial sectors expanded in the 1920s, performance management became indispensable. Companies that want to increase mass production have made operational efficiency a priority. In the 1950s, broad acceptance of personality-based performance rating methods occurred. Initially, employees were judged based on traits such as knowledge of the job, honesty, and loyalty. However, it was immediately apparent that judging the success of employees based on their innate characteristics had little to do with their job output. As a result, businesses began to seek out improved employee evaluation systems. In the 1960s, yearly formal assessments began to place greater emphasis on a person's perspective, future accomplishments, and ambitions. Finally, in the 1990s and early 2000s, employee motivation and engagement grew in importance. Numerous firms have abandoned yearly performance appraisals in favor of more continual feedback-driven approaches (McLntyre et al., 2001).

During this phase, the assessment process was more focused on growth, goal-oriented, participatory, and open as opposed to closed. Following a structured methodology, the system focused on performance planning, evaluation, and staff development. The procedure would need the employee and management to agree on the major outcome areas at the beginning of the year and conduct a six-monthly assessment. During this review period, the appraiser and evaluator cooperated on a number of subjects, including performance-influencing variables, the employee's training requirements, new targets, and ratings (Busi & Bititci, 2006). At this moment, the performance management framework begins to emerge. The subsequent decade witnessed major growth in the number of businesses concentrating on employee motivation and engagement, resulting in a more comprehensive approach to performance management and reviews. Culture building was given the highest significance, and quality circles were developed to assess the rise in staff productivity as a whole. Ten years later, roughly in 2010, performance management continues to evolve. Companies have begun replacing traditional hierarchies with more egalitarian work environments, forsaking yearly performance assessments in favor of continual feedback. This resulted in an open, egalitarian, and constructive performance management approach that solicits feedback from different sources and examines multiple employee attributes.

According to Amaratunga and Baldry (2002), employee empowerment is the future of performance management. Human Resource Development will focus on what they can do to improve the workplace experience for their employees. The Human Resource Departments will empower workers by providing opportunities for learning and development; participating in continuous performance management; maintaining forward-focused performance dialogues; and being adaptable to global developments. When employees are content and feel like they are contributing, improved business outcomes are inevitable (Chubb et al., 2003). (2011). Josh Bersin (2015) predicts that by the year 2030, all HR activities will be changed by artificial intelligence. The emphasis will change from the number of feedback check-ins to the quality of feedback offered; the emphasis will shift from quantity to quality. So, performance management methods of the future are expected to be easier, more flexible, more objective, and more open.

2.2. Performance management implementation during COVID

According to Aguinis and Burgi-Tan (2020), firms must maintain and develop their performance management approach throughout the current health crisis. They should give employees important information about the firm's strategic direction, collect useful business data, and give them feedback. This will help them keep their best employees and avoid legal trouble.Ngoc Su et al. (2021) emphasized that regular employee performance evaluation encourages their learning and sharing, which can aid firms in regaining lost business. Taking into account the interrelationship between HRM activities, Sembiring et al.'s study revealed that remuneration may have a substantial influence on employee performance in the COVID-19 era. Therefore, the authors advised that firms should be more concerned about the total (financial and non-financial) pay of employees, as well as its fairness, in order to sustain and enhance their performance during crises (Sembiring et al., 2020). During this ongoing epidemic, the organization's financial resources may provide the greatest obstacle.

As a result of the COVID-19 pandemic, some firms are drastically reducing or even abolishing performance management. Given the numerous aims and benefits of performance management for individuals and organizations, this decision is more detrimental than beneficial. The solution is not to stop measuring performance, but rather to adapt performance assessment to the new conditions. In such conditions, data has proven to be the only way out for performance management. Avoiding performance measurement will result in the loss of critical data at a time when information is desperately needed. Using the usual evaluation forms to measure performance takes a lot of time, which adds to the many other pressures that employees and managers are already under. So we need performance measurement tools that are shorter, clearer, and more to the point but still cover everything (Anguinis, 2020).

One of the systems that can be used by companies is the Performance Promoter Score (PPS). Performance promoter score (PPS) is a tool to collect data from multiple and various sources, such as individuals, work groups, and collectives. According to Anguinis (2020), Net Performance Promoter Score (NPPS) can be calculated from PPS, which makes it easy to compare people and groups. PPS entails simply a few straightforward but effective questions and can be used to gauge the performance of individuals (including managers and employees), work teams, functional groupings, and organizations. Organizations should gather performance information from a variety of resources, utilize PPS to assist with both administrative and developmental tasks, and conduct performance check-ins more frequently than is standard. The ability to measure the performance of both individuals and groups and collectives of varied sizes is another benefit of PPS. According to Gomez-Mejia et al. (2015), PPS can therefore be used as a mechanism to reward collectives as well as individuals.

Other than using PPS, organizations might benefit greatly from using multisource performance management systems, also known as 360-degree systems, during a crisis. A multisource feedback system contains performance information from supervisors and employees as well as peers, direct reports, partners, vendors, and consumers (Vozza, 2020). It provides developmental targets that target employee development rather than employee evaluation (Anguinis and Tian, 2020). A multisource performance feedback system encourages communication among employees when they are working remotely and strengthens their emotional ties to the group and company. Furthermore, there are times when managers must address undiscussables or uncomfortable details with employees, making virtual meetings more difficult.Since employees are less prone to getting defensive while receiving feedback from numerous sources, a multisource system enhances dialogue and feedback (Anguinis and Tian, 2020).

2.3. What is the distinction between performance management and performance appraisal?

A performance appraisal is a periodic examination of an employee's work performance and overall contribution to an organization. A performance appraisal, also known as a yearly review, performance review or evaluation, or employee appraisal, examines an employee's abilities, accomplishments, and progress, or lack thereof (Hayes, 2021).

Companies utilize performance evaluations to provide employees with comprehensive feedback on their work and to support salary increases, incentives, and termination choices. They can be done at any time, but they are usually done once a year, twice a year, or four times a year (Hayes, 2021).

A performance appraisal helps a company in allocating their limited funds to their most achieving employees and also helps the HR department in the development of the human resources of the company. However, as the usage and breadth of evaluations have expanded across industries and vocations, so have criticisms of the practice. The prevailing criticism is the framework that management uses for assessment as an "orthodox" tool that addresses the deficits while promoting appraisals as a performance development system (Bach, 2005). This "orthodox" position asserts that evaluation serves contradictory purposes (Strebler et al., 2001).

Performance assessments may motivate staff by outlining objectives and creating future targets with allowances for training and development requirements. These are opposed to analyzing past performance and awarding rewards based on past success (Bach, 2005). Employees are cautious about identifying limitations and problems with their current performance since doing so might have an impact on their merit-based income or development possibilities (Newton and Findley, 1996). Contrast this with performance appraisal as a developmental process, in which appraisers are faced with multiple roles both as auditors and reviewers of performances, as well as empathetic counselors, for which Randell (1994) claims that few managers receive training. McGregor's proof that supervisors are hesitant to make negative judgments about an employee's work performance and that it could be de-motivating, resulting in appraiser accusations of lack of management support and contributing to an individual's poor performance, also contributes to managerial reluctance to criticize (McGregor, 1957).

Managers analyze all factors at the center rating point, often known as the "central tendency," to prevent conflict. In their study of senior managers, Longenecker et al. (1987) discovered that organizational politics impacted the ratings of sixty senior executives. Possible causes of bias or inaccuracy in evaluations influenced ratings and conclusions (Longenecker and Ludwig, 1990). Longenecker's research notwithstanding, there are more methods of prejudice. Political judgments have been further distorted by over-rating some clear competencies in performance instead of being critical across a variety of measures, also recognized as the "halo effect." If some competencies are rated lower, they may bias the evaluation across the positive comments, also known as the "horns effect" (Advisory, Conciliation, and Arbitration Service, 1996). The term "recency effects" refers to judgments that consider only recent events. In this circumstance, only recent events are taken into account, as opposed to managers who gather and utilize information during the whole evaluation period. The consistency and impartiality of evaluation ratings, which may be influenced by gender, ethnicity, and the appraisers' own evaluations, are of particular relevance. Both American and British studies (Alimo-Metcalfe, 1991; White, 1999) have highlighted the subjectivity of the appraiser's gender and race (Geddes and Konrad, 2003).

Chron (2020) states that employers frequently use the 1–5 performance evaluation rating scale to assess employee performance from 1 (poor) to 5 (outstanding). According to Levinson (1976), performance evaluations are frequently biased and subjective, regardless of how well-defined the standards for measuring achievement on quantitative targets are.They may be undertaken at any time, but are often conducted annually (Hayes, 2021).

2.4. Components of Performance Management

Performance management is one of the most important aspects of human resource management and is regarded as a core function for business leaders, human resource professionals, and managers to carry out. So, in order to operate performance management, there are several components that must be considered when running it. As a process, performance management incorporates aspects of strategy, planning, managing, legal, and human resources. According to Krishnan (2013), the key to a successful performance management system is identifying the hard and soft components and integrating them with best practices. The central tenet of a strong performance management program is that it can help businesses achieve greater success and assist employees in performing well and growing professionally. Additionally, it helps to build a sustainable organization and a strong brand. The seven most important components of performance management are performance target setting, continuous feedback, evaluation, and feedback, competency evaluation and development, career planning and development, and outcome management, followed by culture, process, and systems (Krishnan, 2013).

The success of performance measurement and management is primarily dependent on the selection of appropriate performance measures, an instrument to measure the degree to which they are met, and their potential application to corporate management. According to Dluhosova (2007), there are several diverse indicators that can be used to evaluate a company's performance. Therefore, it is essential to focus on the elements that lead to the quality of the system. Research done by Kenerley and Neely (2003) indicates that a good performance management process requires four basic components: the skills and knowledge of people; adaptable systems; and cultures. Atkinson (2012) cites the same four essential elements for the creation and execution of a performance management system (PMS): culture, systems, people, and process. Finally, the most important factors are senior leadership that actively encourages the use of PMS, a culture focused on performance, development, and learning, and a PMS that is constantly evaluated and updated in order to remain dynamic, adaptable, and credible.Kozena and Jelinkova (2014) also recognized three identical components, namely processes, people, and systems.

People, the employee's ability to constantly assess and adjust the performance management system (PMS), and the commitment of top management are the most influential determinants of performance management quality. The organizations also listed supervision of processes, their measurement, and information transfer via contemporary information technologies, as well as expenses, as other key aspects. In addition to planning work expectations, monitoring employee performance, developing performance, rating employee performance, and rewarding good performance, for employee performance management to be effective, a company must also implement the following: rating employee performance and rewarding good performance. In conclusion, Kennerly and Neely (2003) and Atkinson (2002) selected people, processes, and systems as the three most significant components of the four identified critical elements. They failed to address the importance of company culture to performance management at all. Effective performance management requires a culture that is open to evaluating performance, constant communication, the honest use of metrics, and the ability to learn from mistakes.

2.5. Use of Performance Management in Indonesia

As of now, the performance management method is commonly used in many companies around the world, including in Indonesia and the Netherlands. Usually, the purpose of using performance management is to facilitate an open dialogue between employees, management, and the entire company. This increases confidence and ensures that everyone feels supported and involved. Without this, employees are more likely to feel disconnected from their work and its role within the organization, which is likely to result in a higher turnover rate (Brudan, 2010).

One of the companies in Indonesia that use electronic performance management is the Indonesia Port I Belawan Branch.Electronic Performance Management is a digital system for evaluating employee performance. Every month, the performance management contains all work plans, objectives for each work unit, guidance, training, and employee performance evaluations. In addition, the supervisor must evaluate the employee's work report at the end of the month (Sanusi at al, 2019). The system has also resulted in different employee salaries, as they are now based on performance and goal attainment. Employee achievement is the condition in which an employee performs work of sufficient quality and quantity in accordance with the responsibilities assigned to them. With this system, the work of all employees, from the highest to the lowest level, can be monitored quantitatively and openly. According to Sanusi et al. (2019), it can be inferred based on the results of the author's study and discussion with the personnel of PT. Indonesian Port I Belawan Branch Load Unloading Business Division (UBM) that electronic performance management is capable of explaining the overall employee’s performance by 64%. It can also be concluded that electronic performance management has a moderate impact on workplace productivity. If electronic performance management is increased, it has a positive value and a correlative relationship on employee performance (Sanusi et al., 2019).

2.6. Previous research on performance management

According to Gruman and Saks (2011), an essential component of organizational effectiveness is performance management. Since it is the primary method of carrying out work, it is regarded as the "Achilles Heel" of managing human capital and needs to be a top focus for managers. Although performance management frequently rates among the least popular topics in employee satisfaction surveys, less than a third of employees believe that their company's performance management strategy helps them improve their performance (Pulakos, 2009). According to Mone and London (2010), well implemented performance management will help you develop and sustain high levels of employee engagement, which leads to higher levels of performance. Gruman and Saks (2011) also stated that there are 12 important stages in integrating performance management, which are: performance agreement; goal setting; psychological contracts; engagement facilitation; job design; coaching and social support; leadership; training; performance and engagement appraisal and feedback; trust and justice during performance appraisals; engagement appraisal; and feedback.