

# Performance Measurement and Performance Management

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## Abstract:

Many organizations believe they have implemented a performance management system when in reality they have actually installed a performance measurement system. There is a word of difference between the two - and only one will help the organization achieve its strategic goals. Performance management and performance measurement are two key processes that cannot be separated from one another, as they both proceed and follow each other but they are entirely separate strategic practices. Performance management is the process of identifying, measuring, managing, and developing the performance of the human resources in an organization. On the other hand, Performance measurement is the ongoing process of evaluating employee performance. This article briefly reviews the theoretical concept about performance measurement and performance management, its advantages & disadvantages and the differences between them. In last, the paper concluded that Performance measurements are great; but they are not enough. They offer a very good way to track progress, but they do not provide with a process for doing anything about results.

## Introduction:

In today's competitive business environment, to achieve organizational goals is highly challenging for any organization (be it private, public or nonprofit). In meeting these challenges, organizations are spending a considerable amount of time, energy and resources in setting goals and objectives, developing strategic plans, formulating strategies and devising strategic control mechanisms. The idea is to clarify the organization's goals and objectives, prepare a road map for achieving those objectives, be able to monitor the organization's progress on a periodic basis, compare the actual results with the planned targets and take any managerial action if necessary. However, many organizations struggle with this process. For example, developing an acceptable performance measurement system is not an easy task as it is confronted with a large number of intricacies from different interest groups. Some of these issues include, what to measure (whether inputs, outputs or outcome), how to measure and the difficulty of the quantification of performance measures particularly in the case of public and non-profit organizations. It is important that the system is capable of providing accurate information in a timely manner, is easy to operate with least cost, is easy to understand by the relevant employees and is easy to implement. Consequently, a large number of organizations are in the quest of an effective performance management and performance measurement suitable for meeting their strategic and operational objectives. Performance management and performance measurement are two key processes that cannot be separated from one another, as they both proceed and follow each other.

## 2. Performance measurement:

Performance measurement is the process of collecting, analyzing and/or reporting information regarding the performance of an individual, group, organization, system or component. It can involve studying processes/strategies within organizations, or studying engineering processes, to see whether output are in line with what was intended or should have been achieved.<sup>1</sup>

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<sup>1</sup> (Upadhaya, B., Munir, R., & Blount, Y. (2014). Association between Performance Measurement Systems and Organizational Effectiveness. *International Journal of Operations & Production Management*, 34(7), 2-2.)

Performance measurement is a sub process or a part of performance management that focuses on the identification, tracking and communication of performance results by the use of performance indicators. It deals with the evaluation of results, while performance management deals with taking action based on the results of the evaluation and ensuring the target results are achieved. Performance measurement focuses on results and allows users to analyze those results through charts, grids and trends and by drilling-down to even greater depths of detail.

A performance measurement is an evaluation done on an employee's job performance over a specific period. It is the equivalent of a report card on an employee and how their manager assessed their performance over the prior year.<sup>2</sup>

Anyone who has worked in more than one department or at more than one organization can attest to the fact that not all performance measurement processes are the same. The varying systems and processes are all over the map. Unfortunately, some are done so poorly that they are not only designed to fail, but also to create a negative experience for both the manager as well as the employee. So, some advantages and disadvantages of performance measurement are here:

Advantages of performance measurements:

- They provide a document of employee performance over a specific period of time.
- They provide a structure where a manager can meet and discuss performance with an employee.
- They allow a manager the opportunity to provide the employee with feedback about their performance and discuss how well the employee goals were accomplished.
- They provide a structured process for an employee to clarify expectations and discuss issues with their manager.
- They provide a structure for thinking through and planning the upcoming year and developing employee goals.
- They can motivate employees if supported by a good merit increase and compensation system.

Disadvantages of performance measurements:

- If not done right, they can create a negative experience.
- Performance measurements are very time consuming and can be overwhelming to managers with many employees.
- They are based on human assessment and are subject to rater errors and biases.
- Performance measurement can be a waste of time if not done appropriately.
- They can create a very stressful environment for everyone involved.

3. Performance management:

Performance management is a ubiquitous term in today's business environment, being embedded in the body of knowledge of various disciplines and being used at all organizational levels (Brudan, 2010). It reflects the approach one entity has towards performance and it includes sub processes such as: strategy definition (planning / goal setting), strategy implementation, initiatives design and performance measurement. Performance management creates the larger context to plan, organize, coordinate, communicate and control performance. It applies at three different levels: strategic, operational and individual performance management.<sup>3</sup>

To achieve effective performance management, systems must possess sophisticated process control capabilities that constantly track organizational activities and invoke user involvement as required. They combine strategy maps, dashboards and financial statements with the achievement of milestones and strategic goals. They direct users via automated 'To do' lists

according to their individual roles and responsibilities, and provide automated escalation paths when targets look as though they will be missed.

In managing the performance, to improve the performance of the organization, process and the employees. Cost information provides one of the main information to understand the efficiency of process (for example). Cost and management accounting techniques are used, as the

<sup>2</sup> <http://thethrivingsmallbusiness.com/advantages-and-disadvantages-of-performance-appraisals/>

<sup>3</sup> [http://www.fsn.co.uk/channel\\_bi\\_bpm\\_cpm/performance\\_management\\_vs\\_performance\\_measurement](http://www.fsn.co.uk/channel_bi_bpm_cpm/performance_management_vs_performance_measurement)

information provided will be useful for measuring the performance of process. Furthermore, employees' performance can also be measured through this information, for example, whether purchasing manager is able to purchase at a good price. Decision-making is directly linked to performance. A good decision will result in good outcome, leading to good performance. Therefore, decision-making is part of the syllabus of performance management. There will also be plans to achieve the company's objectives so budgets will be set. If the actual performance is meeting the budget requirement, it can be said that the performance is good. To manage performance, there should be a plan to achieve (budget) and actively ensure that company is achieving the plan. After the planning and decision making work, the performance information (such as cost variances) are collected so that control can be taken place. Performance measurement is a control procedure and this aims to measure the actual performance and determine whether it is good or bad so that new actions or changes in existing actions can be planned (which means that the procedure will start again from budgeting). Performance management covers all the above. In short, performance management involves planning, control and decision making so that the performance will improve continuously.<sup>4</sup>

Most often, the experience of performance management is not an amazing one; when someone else manages others or is being managed by another person; it is stressful and lengthy. Performance Management has both positive and negative aspects and bad performance management affects both the employees and the managers. Likewise, the proper performance management is always pleasing to both the employees and the manager; the performance management system is created for appraising the competence, output and contribution of all the workers. In this way, the managers can control the functioning of their companies and guide the employees to work in accordance to the demands and requirements of the companies. It helps to decide and produce a definite number of goods per unit of time, which will be most favorable to the business and growth of the company.

#### Advantages of Performance Management:

- A performance management process forces managers to discuss performance issues with employees. This consistent coaching affects changed behaviors and employee development.
- All employees are on a development journey and it is the organization's responsibility to be preparing them for increased responsibility. If done well, an effective performance management system can help to identify employee developmental opportunities and can be an important part of a succession planning process.
- A positive appraisal is to focus as much on what the employee is doing well while gently course correcting undesired behaviors.
- When pay increases and/or bonuses are tied to the performance measurement process, staff can see a direct correlation between performance and financial rewards. This motivates and encourages employees to perform at higher levels.
- It is very important that all organizations keep a performance record on all employees. This document should be kept in the employee's HR file. The goal is to maintain a historical record of an employee's performance and development journey.
- An effective performance management system can help an employee reach their full potential that can be a positive experience for both the employee and manager. A good manager takes pride in watching an employee grow and develop professionally.

#### Disadvantages of Performance Management:

- It is recommended that a manager spend about an hour per employee writing performance measurements and depending on the number of people being evaluated, it can take hours to write the department's performance measurement but also hours meeting with staff to review the performance measurement. Therefore, it is very time consuming.
- If the process is not a pleasant experience, it has the potential to discourage staff.
- If a manager does not keep notes and accurate records of employee behavior, they may not be successful in sending a consistent message to the employee.

<sup>4</sup> <http://intiacca.blogspot.in/2012/01/difference-between-performance.html>

- It is difficult to keep biases out of the performance measurement process and it takes a very structured, objective process and a mature manager to remain unbiased through the process. Performance measurement errors are common for managers who assess performance so understanding natural biases is an important aspect to fair evaluations.
- Performance Management involves a two-way communication system between the employers and the employees. So if the managers neglect the evaluations and are irregular in doing the performance evaluations then it will have a negative effect in the performance history of the employee and also his career success.
- Employees may suffer from low self-esteem
- Many companies commit errors while creating the guidelines and directives of evaluating the performance of their employees; this faults will make the performance management system of the company insignificant and meaningless.

#### 4. Difference between performance measurement and performance management:

Performance measurement and performance management are sound similar but there is a big difference. In short, performance measurement is just part of performance management and they are both an ongoing process. Performance management covers everything, managing the performance from day 1 to the end of the organization.

- Performance management is about what is going to do to help an employee continue in their development to become increasingly better in their performance for the organization. Performance measurement is how evaluate the progress being made by assessing or measuring the employee's actual performance on a regular basis over time.
- Another way to think of the difference between the two is that performance measurement is about the past, meaning how the employee performed in the immediate past period being reviewed during the appraisal process. Performance management, meanwhile, is focused on the present and the future. In the present, organization doing things in real-time to help make sure the employee's performance reaches the desired level. With an eye on the future, organization also planning what can be done to further develop that employee's capabilities for periods to come. Performance measurement is the process of measuring the performance, but the performance management is covering both the performance measurement and tacking a timely corrective action for the unfavorable performance.
- Performance measurement is the process of setting work standards, assessing the employees' actual performance and providing feedback to the employees. While Performance Management is a process of getting better result from the organization, team and individual by measuring and managing performance within agreed frameworks.
- Performance measurement is system of assessing and rating the employee's past/current performance relative to his/her performance standards., it is periodic and Performance management is more about setting objectives, communicating, monitoring, developing, training to support exceptional employee's for organizational success. It is an ongoing process.

A brief difference between performance measurement and performance management in table form are as under:

Performance appraisal	Performance management
Operational	Strategic
Top-down assessment	More likely to involve dialog
Retrospective for corrections	Future-oriented for growth
Typically once or twice per year	Ongoing or continuous review, interspersed with formal reviews
Often uses ratings or rankings	Less likely to involve ratings
inflexible structure/system	Flexible process
Not linked to business needs	Linked to business needs
Usually takes a quantitative approach	Combines quantitative and qualitative approaches
Individual	Collective
Often linked to compensation	Not usually linked to compensation

Often very bureaucratic with a focus on paperwork/documents	Less concerned with documentation
Usually housed in HR department	Conducted by managers and supervisors

### 5. Conclusion:

Finally, performance measurements are only as good as the performance management system it operates within. Organizations that only do performance measurements for the sake of doing them are wasting their time. But organizations that incorporate performance measurements into a comprehensive performance management system and use them to implement business goals have an advantage for accomplishing their goals and ultimately their strategic plan. Performance measurement and performance management are both important and useful for organization but effective performance management is help the organization to achieve the targeted goals. So, the organization becomes successful.

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