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Do Romanian small and medium-sized enterprises use performance management? An empirical study

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Abstract

Small and medium-sized enterprises (SMEs) represent a source of entrepreneurial skills, innovation, and new jobs creation. Despite the recognition of the importance of human factor in obtaining performances as the organizational level (especially during crises) relatively few managers from SMEs pay attention to implementation and utilization of a performance management system. This paper aims to evaluate the level the Romanian small and medium-sized enterprises use performance management tools and techniques in their activities.

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1. Introduction

1.1. The importance of small and medium-sized enterprises and their human resources for any economy

The small and medium-sized enterprises (SMEs) represent an important component of the economic activities. After a modest start at the beginning of the 90s, their number significantly increased both from a statistical point of view and from the diversity of their activity.

The SMEs represent an important source for job (approximately two thirds of the new created jobs).

The labor climate allows successful experimentation of different systems, methods, and techniques took from the management theory. This kind of companies offers the favorable framework not only for applying the scientific management but also to conceive new management methods and procedures. Therefore, the SME activities, solving

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different concrete problems they are facing with in different moments of their economic evolution enrich the management tools and, by default, increase the organizational efficiency.

Relatively recent studies (European Commission, 2009) indicate that approximately 91% of the European SMEs are in fact micro enterprises (with one to nine employees). Trying to rebalance the situation, the European Commission placed SMEs in the centre of its industrial policy, consciously that, in order to have a significant impact on the European economy, they must increase their size (increase the number of employees, diversify their products, their markets, increase their incomes).

In this context, no company can deny the importance of each employee’s performance for the long-term success of a business. That performance is no longer a result of loyalty or workplace security but of individual objectives.

Finally, the success of a company means to obtain the assent of everybody on the objectives and to fulfill them. This is not an easy task given the large variety of the jobs in an organization and the frequent changes of roles and responsibilities of the employees. Therefore, the management must have a procedure, a performance management system.

1.2. The performance management concept

Not long ago the concept “performance management” was assimilated to performance appraisals consisting mainly in assessing the degree an employee fulfilled the task and responsibilities of his/her job.

In the modern approach (at least in theory), performance appraisal becomes a part of performance management, a very complex process. This system consists also of defining the role of each department/individual, setting performance indicators and standards, communicating those roles, indicators and standards and, finally, creating a favorable environment for success.

Right from the beginning, the methods for setting objectives started from the idea that the individual performance will increase by focusing it on setting and monitoring objectives achievement, and harmonizing individual development and rewards with the growth potential and development of new skills. Performance management assumes that the increasing of individual performance will improve the organizational performance, even if there is no proof of such a connection so far.

Only the practices from human resources domain will not lead to a certain level of organizational performance but will contribute to development of capable, dedicated and motivated employees who, when they have the opportunity, will probably work harder than necessary to fulfill their tasks.

A study from Bath University (Purcell, Kinnie, Hutchinson, Rayton & Swart, 2003) defined performance management as one of the main policies of an organization. The results of the study allowed identifying five important factors that may influence the employees’ behavior towards the attempted performance: manager’s respect, work satisfaction, career opportunities, training, and openness.

Most often, the human resource department designs the mechanism of the performance management to be used by line managers. Gradually, performance management became the most important management tool that allows managers to be sure that all the human resources aspects from their activities are correctly interpreted. This allows line managers to be sure that their subordinates know what to do, have the necessary competences for that, and fulfill their tasks according to standards (Mohrman & Mohrman, 1995).

The human resource side of line managers’ role was investigated in a study conducted by Professor John Purcell from Bath University (Purcell, Kinnie, Hutchinson, Rayton & Swart, 2003). He found that the most important factor that influences the individual desire in obtaining performance is his/her relation with the line managers. He drew the conclusion that line managers play a crucial role in implementing the human resource policies, moreover the performance management. Starting from those findings, he defined performance management as one of the most important processes that define the connection between human resource management and organizational performance. Therefore, this process becomes the main tool for running a
business by significantly influencing the individual behavior and directing it towards achievement of the strategic organizational objectives.

Researchers Allan and Susan Mohrman from Center for Effective Organizations, Marshall School of Business, University of Southern California emphasized that performance management means to run a business, what line managers do every day (Mohrman & Mohrman, 1995).

In their book from 1998, the expert in human resource management, Michael Armstrong and his co-worker, Angela Baron from Croydon College defined performance management as “a process which contributes to the effective management of individuals and teams in order to achieve high levels of organizational performance. As such, it establishes shared understanding about what is to be achieved and an approach to leading and developing people, which will ensure that it is achieved. …A strategy that relates to every activity of the organization set in the context of its human resource policies, culture, style, and communications systems. The nature of the strategy depends on the organizational context and can vary from organization to organization” (Armstrong & Baron, 2009).

In other words performance management must be efficient (be sure that employees have the necessary competences for performance), integrated (assure the connections between different aspects of business, human resource management, individuals, and teams), and strategic (refer to long term objectives.

This process helps the employees to understand the way they may contribute to the achievement of the organizational strategic objectives and ensure the use of the most appropriate competences for activities useful to the organization, that have an important impact on its performance.

It is a useful tool for line managers by helping them to lead their subordinates in an efficient manner strongly linked to the organizational objectives. Through it, managers assure that:

- Know and understand the expectations
- Know and understand the expectations
- Have the support of the organization in developing the capacity to meet the expectations
- Receive feedback regarding their achievements, and
- Have the opportunity to discuss and contribute to individual and group objectives setting.

Therefore, the process must be clear and concise, understandable for all those involved. Both, managers and employees must understand not only the way to implement the performance management systems but also what will be the expected results of its implementation. It has to align the activities and objectives of every employee with those at the organizational level. Furthermore, the activities and objectives of all the employees, no matter his or her position within the organization, must be lined-up to the organization’s objectives.

Finally, it allows everyone to understand the way the results will be used and the advantages generated for employees and the organization itself.

Correctly used performance management is a powerful tool for focusing activities and efforts that will lead to an increasing of the business performance. Misunderstanding the mechanism or an improper usage of it may lead to a poor involvement of the employees, appearance of unproductive activities, and a wrong rewards management.

2. An empirical study regarding the usage of performance management in Romanian SMEs

The development of such a study was hard to do because, based on author’s knowledge, there are no precedents regarding the performance management strictly within SMEs, in Romania or abroad. Therefore, we developed a questionnaire for identifying the main aspects of performance management PM in the Romanian SMEs, starting from two previous studies carried on by Chartered Institute of Personnel and Development from London even if those studies referred to a large variety of company, especially large size (Chartered Institute of Personnel and Development, 2005, 2009).
The main issues covered by the questions referred to the understanding of the concept, the activities actually developed within the performance management process, the main beneficiaries of the system, the results of its implementation, other human resources processes that must be linked to performance management, and the ways to evaluate its efficiency.

2.1. The sample

We established the sample stating from a previous study developed in 2012 (Stanciu, 2012, Stanciu & Pârgaru, 2013) and analyzing the initial sample based on five questions relevant from the point of view of performance management, regarding the existence of a human resource department, a human resource planning system, job description for all the work places from the organization, training plans, and a performance appraisal system. We picked the companies that gave an affirmative answer to at least three of those questions. The resulted sample consists of fifty-five SMEs from which seventeen were micro enterprises, twenty small enterprises and sixteen medium-sized enterprises with a total number of 2165 employees.

The sample contains all the medium-sized enterprises and two thirds of the small enterprises from the initial sample. This is natural, as long as you may speak about performance management when you have number of employees large enough. Even so, we did not totally left away the micro enterprises, which represent around one third of the sample.

2.2. The main results of the survey

The first four questions referred to the activities that should be and really are included in the performance management system.

Forty-nine of the respondents indicated performance appraisal as main activity that must be part of such a system, followed by progress monitoring (forty-three), objectives setting (forty-one), and performance compensation (forty). The majority of the respondents declared that a performance management system must have at least four activities: performance appraisal, objective setting, performance compensation, and monitoring the progress of the employees.

A significant difference appeared in the case of activities really included in performance management system. Forty-eight entrepreneurs indicate the appraisal systems but on the second place came performance compensation (thirty-six), then objectives setting (twenty-five). Only eighteen respondents make a periodical monitoring of progress of their employees (approximately one third). The situation differs also in the case of the number of the activities that form the performance management system. Only forty percentages of the companies declare that they use four or more activities.

Next two questions refer to the establishment of the performance standards for employees’ appraisal.

More than three quarters of the respondents declared that top management establishes the standards mostly in cooperation with other entities (forty-nine percentages indicated supervisors as such an entity).

Regarding the entities consulted in designing and developing a performance management system, the majority of the respondents (68%) indicated top management in collaboration with human resource department (36%), supervisors (31%), or employees’ representatives (26%).

Then, the individuals from the analyzed sample were asked to give their opinions about the expected results of the implementation of a performance management system. Table 1 presents the synthesis of the answers.

As one may observe, there are great differences between answers. It seems that the impact on individuals and organization as a whole got the most answers.

Almost fifty-five percentages agreed that the usage of such a system will have a positive impact on individual performance, while forty-five percentages considered that the system will help employees to understand better their tasks and the ways to fulfill them.
In addition, almost fifty-seven percentages of the respondents considered that a performance management system will have a positive impact on organizational performance. In the same time, more than one third of them nor agree or disagree with those sentences.

Table 1. Expected results of the implementation of performance management (in percentages)

<table>
<thead>
<tr>
<th>Result of implementation</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Nor agree or disagree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positive impact on the individual performance</td>
<td>9.43</td>
<td>45.28</td>
<td>39.63</td>
<td>3.77</td>
<td>1.89</td>
</tr>
<tr>
<td>Positive impact on organizational performance</td>
<td>9.43</td>
<td>47.17</td>
<td>33.96</td>
<td>5.66</td>
<td>3.77</td>
</tr>
<tr>
<td>Employees will better understand their jobs</td>
<td>9.43</td>
<td>35.85</td>
<td>39.62</td>
<td>7.55</td>
<td>7.55</td>
</tr>
<tr>
<td>Line managers will better manage their employees</td>
<td>7.55</td>
<td>28.30</td>
<td>45.28</td>
<td>11.32</td>
<td>7.55</td>
</tr>
<tr>
<td>Line managers improve the efficiency of their work</td>
<td>9.43</td>
<td>22.64</td>
<td>50.94</td>
<td>11.32</td>
<td>5.66</td>
</tr>
<tr>
<td>Employees will develop their competences and career opportunities</td>
<td>9.43</td>
<td>22.64</td>
<td>50.94</td>
<td>9.43</td>
<td>7.55</td>
</tr>
<tr>
<td>Improve the employees’ wellbeing</td>
<td>7.55</td>
<td>24.53</td>
<td>45.28</td>
<td>13.21</td>
<td>9.43</td>
</tr>
<tr>
<td>Employees will understand the strategic priorities of the organization</td>
<td>5.66</td>
<td>28.30</td>
<td>45.28</td>
<td>13.21</td>
<td>7.55</td>
</tr>
<tr>
<td>Employees will understand the way their actions influence the fulfillment of the strategic priorities of the organization</td>
<td>9.43</td>
<td>22.64</td>
<td>49.06</td>
<td>9.43</td>
<td>9.43</td>
</tr>
</tbody>
</table>

One may observe that there is a significant difference. Less than one third considered that a performance management system will increase the capability of line managers to improve efficiency their work while only thirty-six percentages agrees that such a system can help them to manage better their subordinates.

One may find a similar situation regarding the impact on employees’ wellbeing and development opportunities for employees offered by such a system. Only one third of the respondents agreed that performance management helps the employees to develop their competences and therefore career options and can improve their wellbeing. The number of undecided people represents almost a half while seventeen to twenty-three percentages do not agree.

Regarding the connection between employees an organizational objectives or performance, only thirty-four percentages from the respondents agreed that performance management can help the employees to understand the strategic priorities of the organization and thirty-two percentages recognized the fact that such a system may help the employees to understand the way their actions can influence the fulfillment of those. In the same time, almost half of them nor agree or disagree with those sentences.

When asking about main beneficiaries of a performance management system implementation, more than forty-three percentages indicate the employee that is good but inferior comparing with the answer at the previous question, where fifty percentages considered that such a program will have a positive impact on employee’s performance (see Fig.1). On the second place came the line manager with twenty-one percentages while over thirty percentages considered that the implementation of a performance management program will increase the capability of line managers to improve the efficiency of their activity. In the same time, those who see the organization as main beneficiary represent less than twenty percentages even if, at the previous question, almost sixty percentages agreed that the implementation of a performance management system will increase the organizational performance.
The analysis of based on the size of the company is more interesting. While approximately sixty-five percentages of the micro enterprises see the employee as main beneficiary, the answers are split between employees and line managers in the case of small enterprises (forty percentages in both cases), and forty-four percentages of the medium-sized enterprises indicate the organization as main beneficiary. This situation may be generated by the fact that respondents could pick only one option.

The next question referred to other human resources processes that must be linked to performance management process. As one may observe from Fig. 2, forty-two respondents (almost eighty percentages) indicated training activities in general, followed by coaching/mentoring activities (forty respondents) and career development (thirty-five respondents – sixty-six percentages) while only thirty-two percentages agreed that such a system will help employees to develop their competences and, as a result, their career options (see Table 1).

Almost all the respondents (fifty-two out of fifty-three) considered that performance management must be connected to more than one other human resources processes, fifty percentages indicating at least four such processes.
When they were asked about the way the efficiency of a performance management process can be assess, the respondents indicate the individual performance (eighty-seven percentages) as main indicator, followed by the level of motivation (seventy-two percentages) and work satisfaction (forty-seven percentages).

Last question referred to the degree the implementation of such a system will influence the overall performance of an organization. As one may observe from Fig. 3, sixty-eight percentages from the respondents considered that such a system will have much or very much influence, while only six percentages considered that such a system will have no influence of the organization’s performance.

2.3. Conclusions of the survey

The answers of the participants to the survey lead to the conclusion that performance management is indeed an important management tool in dealing with people. Its main goal is to harmonize the individual objectives and efforts with the organizational objectives and results by emphasizing the priorities. Such a system can be a powerful instrument in organizational communication, especially between the line managers and their employees. Therefore, is necessary that the managers from all levels understand, adopt and implement it.

The study emphasized the fact that performance management still gravitates around the objectives setting and the evaluation of their fulfillment. We also observe that this system is more often linked to other human resource management systems like training, coaching/mentoring, career development, or succession plans.

The results of the survey highlighted that the majority of the practitioners have a comprehensive image of what performance means by linking it not only to it assessment but also by the motivational systems.

When the performance management links to rewards management, managers pay attention to the way people obtain the results and which are their impact to the rest of the team rather than which are the results.

In conclusion, one may say that performance management is a complex and powerful tool that cannot be separated from other management systems. In successful companies, the implementation of such a system allows line managers to meet responsibilities in an efficient way and to obtain the best results from their employees.

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