

MANAGING EMPLOYEES' PERFORMANCE IN CONDITIONS OF SLOVAK ECONOMY

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Abstract

Emphasizing employees' performance management importance as one of the latest tendencies in human resource management the paper focuses on leadership and employees' motivation in unison with current claims on improvement of the performance of individual employees and/or teams, as well as the whole organization. The paper focuses on practical use of employees' performance management, in particular its methods and procedures applied in Slovak organizations, and their impact on business results of an organization. The paper findings are based on the questionnaire survey carried out by the department of Human Resource Management on the Faculty of Management at the University of Economics in Bratislava. Survey covers period 2006-2008. Based on the survey results within the research we may state that only a minority of Slovak organizations applies performance management as a concept in human resource management (in the year 2006 it was 28.8% organizations). However, we do not consider the situation negative, since there has been increase of performance management application taken note of in monitored period of time. In three years trail the number of organizations stating performance management application as the whole concept has risen by 7.8%. We have detected the greatest increase in the period of 2007-2008, by 6.1%. Based on the tendency, we have made assumption that current financial crisis doesn't affect organizations in the extent great enough, so that they would question the need of performance management application within they human resource management.

Key words: performance management, human resource, employee's performance, improvement, performance triad, business performance, productivity, employees' appraisal, rewarding.

Classification JEL: M12 Personnel Management

1. Introduction

In current business environment conditions the importance of human resource management as the discipline of management focusing on the most valuable organizations' potential, strongly grows. Organizations are aware of various influences which determine their success on the market, understanding the irreplaceable significance of human resource influence. Any failures in managing this potential will reflect affecting the performance of whole organization, influencing its flexibility and business results. This is the reason there is a need to search for methods, means and procedures for effective performance management in order to strengthen the performance of an organization as the whole. One of ways of the employees' performance improvement enhancement is the concept of performance management.

The concept of performance management is relatively new concept within the discipline of management meanwhile it is recently considered one of the most important innovations in the field of human resource management. Performance management contains agreed on continuous individual performance improvement, professional skills improvement and adjustment to corporate value, all leading to improvement of total organization's results (Koubek, 2003, p. 132). One of the essential goals of managing employees' performance is to focus on corporate culture formation which would encourage individuals and teams of employees to take over the responsibility for improvement of business processes within the organization as well as for the continuous improvement of their professional skills and capabilities via which they contribute to business results and competitiveness of their organization (Philpott, Sheppard, 1992, p. 16).

Performance management may be understood as the *process of sharing and understanding* of what is to be achieved within an organization. Based on that, human resources

are being managed and developed the way, which would lead to achieving better business results.

The aim of the paper is to focus on practical application of performance management concept in Slovak organizations, therefore it is based on questionnaire survey carried out at the Department of Management, University of Economics in Bratislava, within the Cranfield project and VEGA-grant projects in years 2006-2008. The main objective within the survey is to review procedures, methods and techniques of managing human resources in Slovak organizations. The paper is based on the partial research within projects mentioned above, focused on the area of performance management.

2. Theoretical foundation of the research

Within the research in the area of performance management in Slovak organizations, the paper is in theoretical aspect mainly grounded on the work results of F. Hroník. The author determines three key activities in the process of performance management: employees' appraisal, rewarding and training and development, calling them the performance triad. He also suggests that performance management may only be effective if there is sufficient connection among applied systems of employees' training and development, employees' appraisal and the reward system, as visualized at Figure 1.

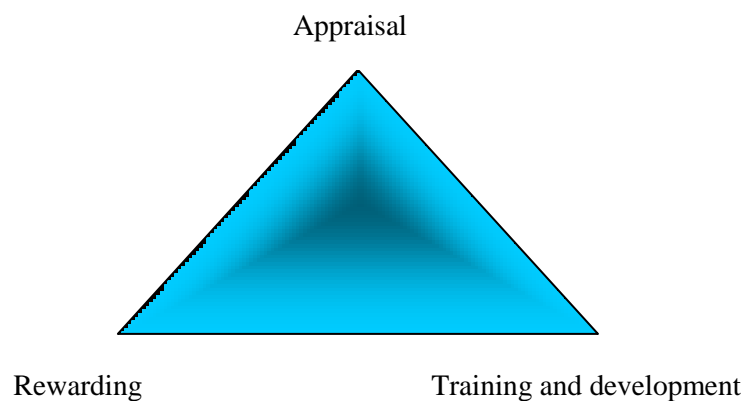


Figure 1: Performance triad

Source: Hroník, 2007

It is obvious, that to manage performance effectively and with expected results, it is not sufficient to focus only on mentioned human resources management functions, however they may be considered pillars of successful performance management, which is the reason we have focused in particular on these functions in our research. Thus, based on Hroník's performance triad, we consider appraisal, rewarding and training and development the basic features of the performance management concept. Therefore we've chosen researching these areas as indicators of the quality of performance management concept application in Slovak organizations and its influence on their business results and competitiveness.

3. Cranfield project and the basic characteristics of researched dataset

As mentioned above the situation in application of human resources management practices, procedures, methods and techniques in Slovak organizations is being continuously monitored by survey performed on annual basis. Since 2001 the research team for Human Resources Management at the Department of Management (University of Economics in Bratislava) has joined the CRANET (Cranfield Network), where participate many research teams in Universities

of different countries and where similar monitoring is carried out (once per three years) in various countries worldwide, we've been able to review the collected data in international context.

Within the survey there is also the area of performance management being researched. The research has been carried out by questionnaire survey and subsequently results have been statistically analyzed and evaluated. There were only organizations which employ more than 50 employees involved into the survey. The size of the dataset sample is shown in following table (Table 1):

Table 1: Size of the dataset sample

Year	Number of analyzed organizations
2006	162
2007	152
2008	225

Source: own

The analysis of performance management application in Slovak organizations

To research the extent of application of performance management in Slovak organizations, we have initially focused on organizations which stated they have created systems of appraising their employees' performance. We also have determined the need to have the formalized performance appraisal system applied on at least two categories of employees, to be considered an organization applying employees' performance appraisal system. We have considered the fact that not every organization strictly distinguishes its employees into four categories, as we did in the survey (managerial, specialists, clerical, workers). However we searched for organizations which apply systematic approach to appraising their employees' performance grounded on formalized approach, supported by procedures and methodology created and applied in unison of personal strategy. Following table (Table 2) shows the amount of such organizations:

Table 2: Percentage of organizations formally appraising their employees' performance

Year/ organizations applying appraisal system	2006	2007	2008
	63.1%	70.7%	70%

Source: own

Further on, we researched the extent of performance management application based on the linkage among employees' appraisal system and the system of training and development and the reward system, as the association of these systems. Organizations which only have two of these systems related (i.e. employees' appraisal to rewarding or employees' appraisal to training and development) we consider organizations with only partial application of performance management, which may be explained as the beginning of the process of performance management development, and would be a positive explanation. However, in other case such approach would not reflect latest tendencies in this area of human resource management. We may consider organizations applying performance management, only in case they have transparent, coherent and corporate strategy related performance triad applied.

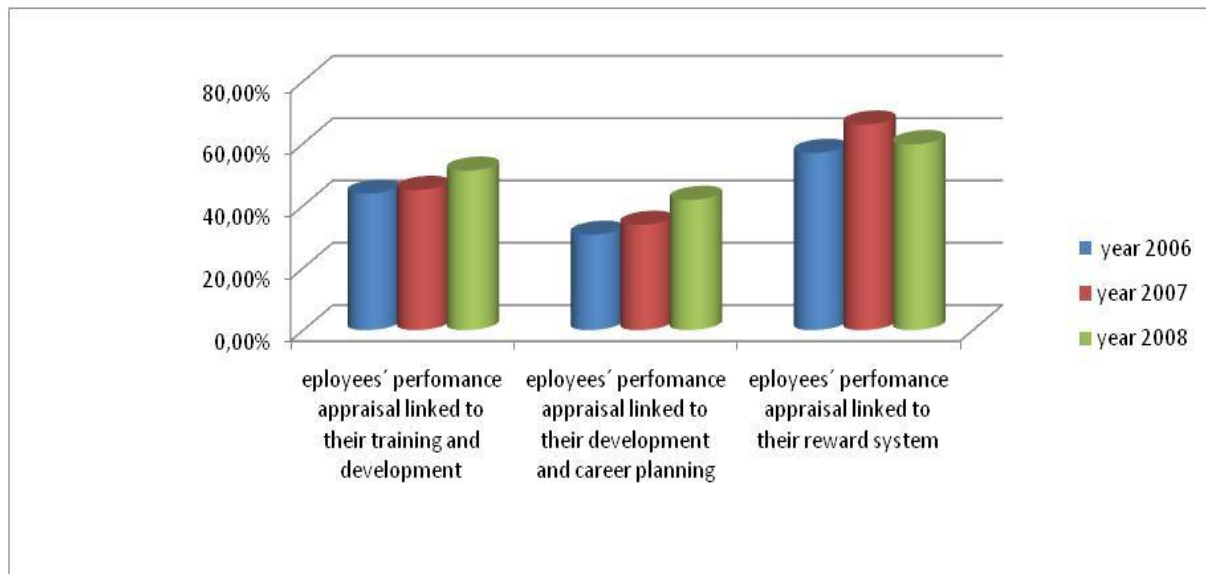


Figure 2: Percentage of organizations applying partial performance management

Source: own

As Figure 2 represents, not all organizations, which realize employees' performance appraisal use the information further on in employees' training and development, career planning, and rewarding. Based on the analysis we can observe that majority of organizations in the sample apply their performance management by relating employees' appraisal and the reward system (in year 2008 it was 59.7%). Less of organizations apply their performance management by creating linkage between employees' appraisal and their training and development (in year 2008 it was 51.2%). There is minority of organizations which stated connection of employees' appraisal to career planning and promotion (in year 2008 it was only 41.8%).

Graphical interpretation of survey results detects **positive tendencies in performance management application** in terms of growing trend. This tendency may be proved by observed increase (11.2%) in number of organizations which link employees' appraisal and training and development system and career planning, as well as the increase (7.4%) in number of employees realizing their training and development systems based on the process of employees' appraisal and its results.

However we need to mention also observing negative tendency, which has appeared in only slight increase in number of organizations linking their reward system to employees' appraisal results (2.8%). This tendency may be explained by the increase of number of organizations within the sample by 9.1%, and decrease in 2007-2008 by 6.3%. We believe it is one of the first signs of the impact of economical crises affecting business environment in Slovakia.

Following figure (Figure 3) shows number of organizations which apply the concept of performance management, i.e. organizations which realize the association among employees' appraisal, their training and development linked to career planning and the reward system.

As the figure above shows, in three year trail, we may observe slight increase in percentage of organizations where we recognize performance management application (7.8%). Despite the influence of financial crises in Slovak economy, we may announce positive tendency in researched area.

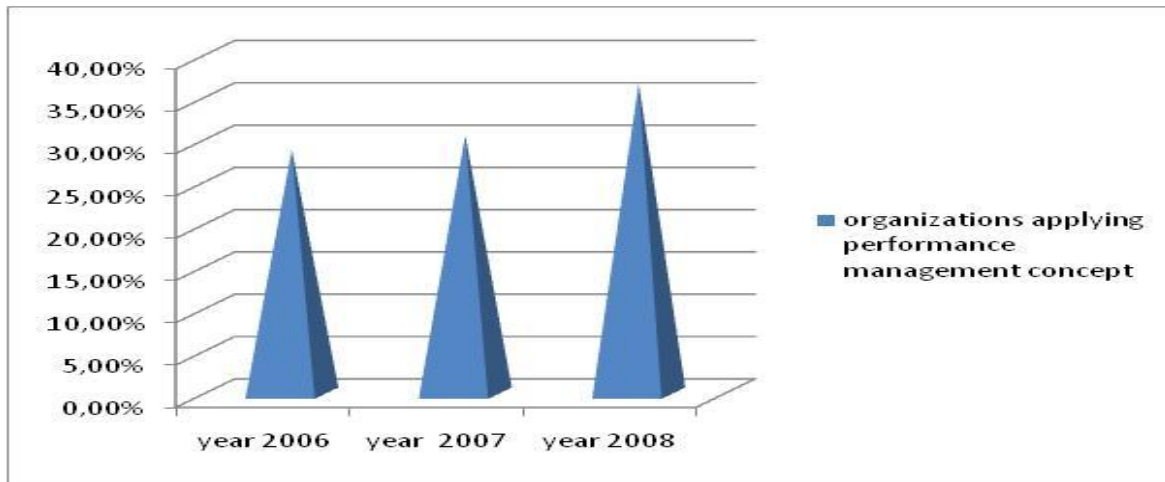


Figure 3: Percentage of organizations applying the concept of performance management

Source: own

We may support such conclusion by the fact that in years 2007-2008 the number of organizations stating to be applying performance management has increased by 6.1% (in 2006-2007 it was 1.7% increase).

4. The analysis of an influence of performance management application on business results

Further on within our researched we have focused on the influence of performance management application on business results of whole organization, which we assumed would be positive. First of all we were eager whether organizations applying their performance management in the concept of performance triad, are more likely to be profitable. To search answer to this question we assumed that the performance management concept was created to improve individual as well as the collective performance in an organization. Considering the assumption we anticipated organizations with applied concept of performance management would obtain positive business results in terms of their profitability. To confirm our assumption we've split the dataset according to whether the performance management is applied as the whole concept, or it is rather applied partially. Thus, we could examine the business results as well as other characteristics of organizations in the context of their approach to managing their individual and collective performance.

The analysis results (Figure 4) confirm that organizations with applied performance management in the concept of performance triad are more likely to reach better business results in terms of revenue compared to those which use only partial concept or no performance management at all. The analysis proves significant differences especially in first two years of the survey. Organizations with the revenue sufficient enough to cover expected profits were doing better in 2006 if applying the concept of performance management. This proves the fact that there have been 20.5% more organizations in the group of applying performance management than in the group of non-applying organizations. We may observe similar tendency in the year 2007, even if the difference between the two categories of organizations was less significant. There is of 12.6% more organizations in category of those which apply performance management concept, producing revenue sufficient enough to cover the profit. We observe *less significant differences* in the last compared to other periods of survey. In 2008 the difference makes only 2%, but still in favor of organizations which apply performance management as the systematic and coherent approach within their human resource management.

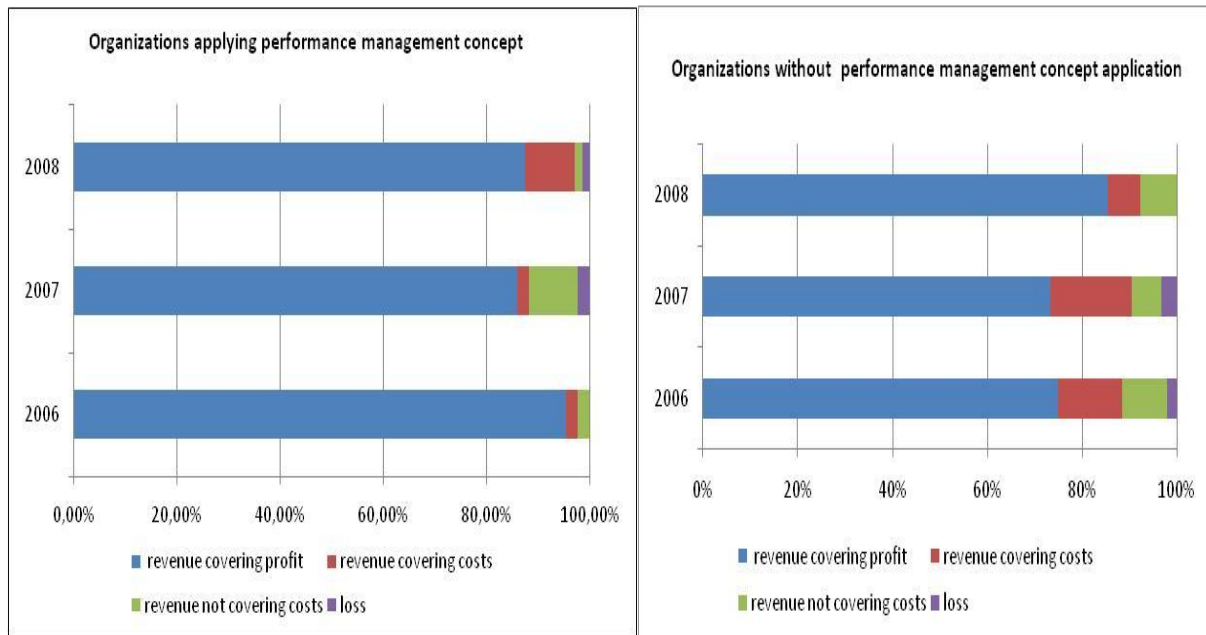


Figure 4: Comparison of business results (revenue) and its development in three years trail, based on criterion of the approach to performance management application

Source: own

Based on the tendency in performance management application development, the concept has obviously positive impact on business results of an organization. However, the decreasing difference between profitable organizations which apply the performance triad concept and those which don't, suggests that the influence of performance management shall not be overestimated when it comes to determining organizations' profitability factors. There is a need to mention, that in the time of data collection within the survey, Slovakia has experienced quite remarkable inflow of foreign investments, which has increased the pressure of competition on many markets, including the labor market. Organizations have been stimulated to undertake moves requiring extra expenses, in various areas of their business activities (e.g. marketing, R&D, workforce retention), which might have short term influence on their business results.

Further on we focused on searching how organizations apprehend themselves in comparison to their competitors, based on the fact that the ability of an organization to generate an optimal level of profit secondarily influences its competitiveness and market position. Within the survey in 2008, we asked how do organizations perceive their competitiveness in terms of profitability related to their competitors. In order to be able to observe the impact of performance management concept application on the business results and competitiveness of an organization, we have again split the dataset into two categories and compared the results. In order to examine mentioned impact we focused on business results and competitiveness in terms such as the level of quality of provided services, profitability, workforce productivity, innovation capability, etc. We estimate that organizations engaged in to their human resources development, would manage their employees' performance, participate on their professional growth, and therefore will obtain better business results compared to their competitors.

As Figure 5 denotes, 58% of organizations in the category of applying their employees' performance management provide services in the above average level of quality and 22% stated their services are at the outstanding level compared to their competitors' service quality.

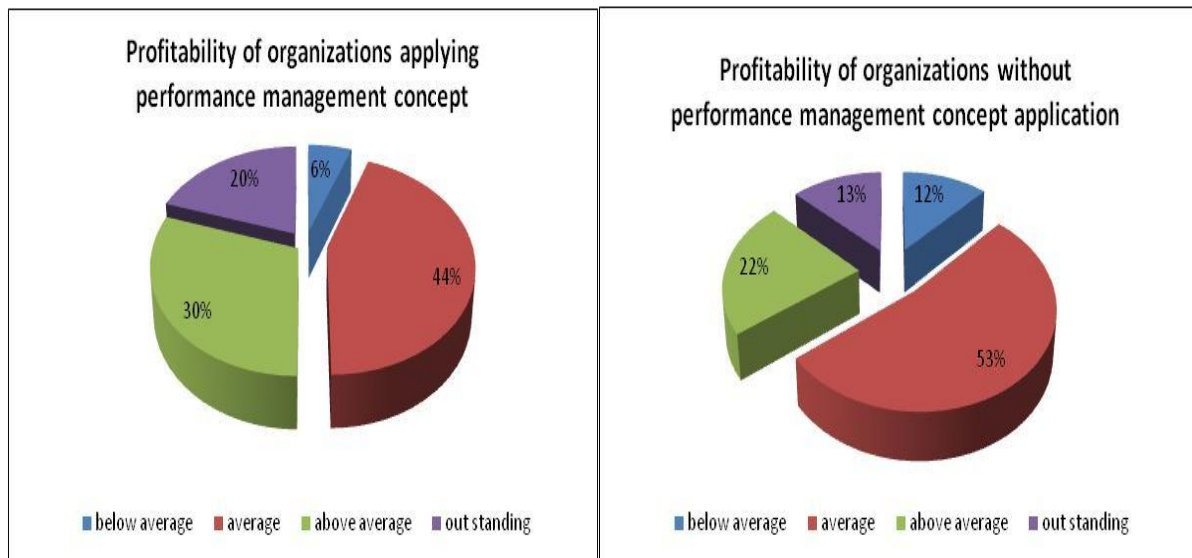


Figure 5: Profitability of organizations compared to the competition in 2008 related to the application of performance management

Source: own

Organizations in the category without the application of performance management consider themselves lower quality service providers compared to their competitors. In the category of organizations with performance management concept application no respondents have stated to provide services with below average quality, meanwhile it was two percents in the other researched category of organizations.

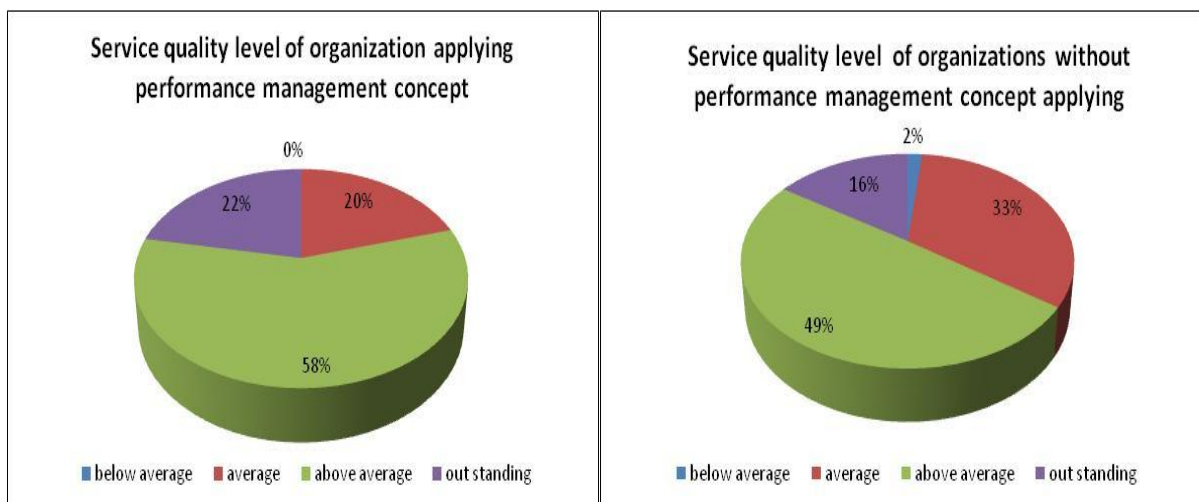


Figure 6: The level of service quality in comparison with direct competitors in 2008

Source: own

Research results, as shown in Figure 6, emerged that organizations applying the concept of performance management focusing on continuous and coherent improvement of their employees' performance, improve their overall performance as well, which indirectly reflects into the quality of provided service.

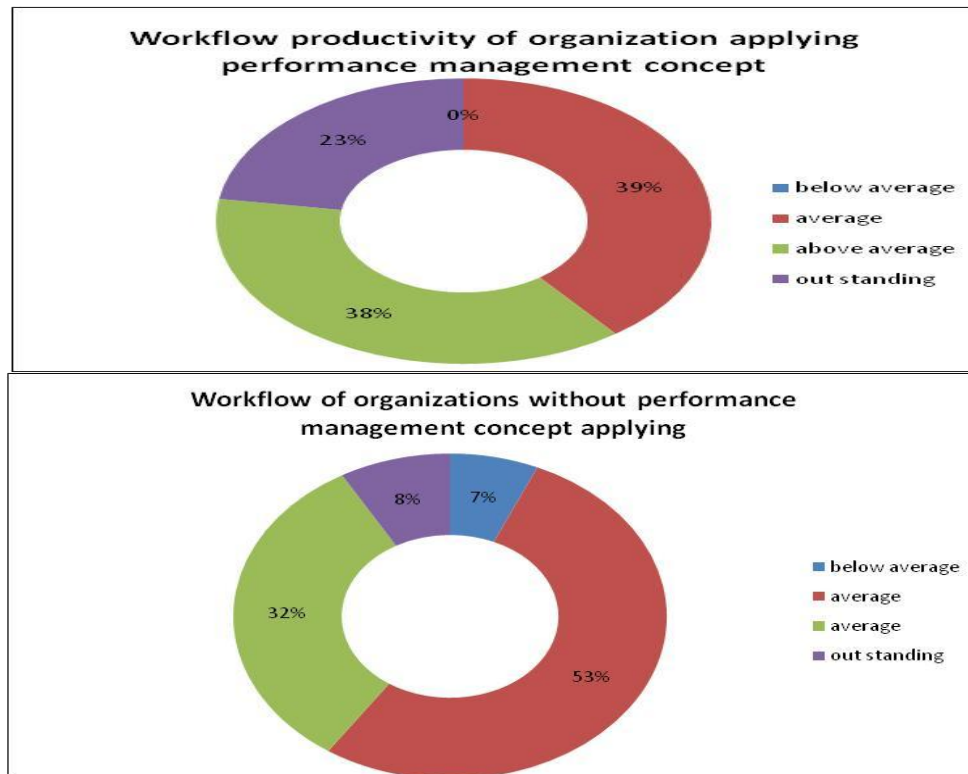


Figure 7a, b: Productivity of the workforce in analyzed organizations in comparison to direct competitors with 2008

Source: own

Further on we have focused on the issue of workforce productivity and its linkage to performance management. As affirmed in the research results and shown in Figure 7, there is relation between performance management and workforce productivity. In the survey 15% more organizations have stated outstanding productivity if applying performance management concept. We observe corresponding situation in case of lower than average productivity where the difference makes 7% in favor of organizations applying performance management concept.

We may make a conclusion that via proper *motivation, suitable leadership style, and employees' enhancement* organizations are able to positively influence their workforce productivity. Employees' continuous satisfaction would reflect into their performance, work results and productivity, as well as into their loyalty and sincere aim to participate on organizations' overall improvement and long-term competitiveness.

Also the positive impact of performance management application on innovations' launch was proved in our research. Organizations in category of those which apply performance management would state by 11% more to have outstanding innovations launch rate compared to the category of organizations, which apply performance management only partially or not at all.

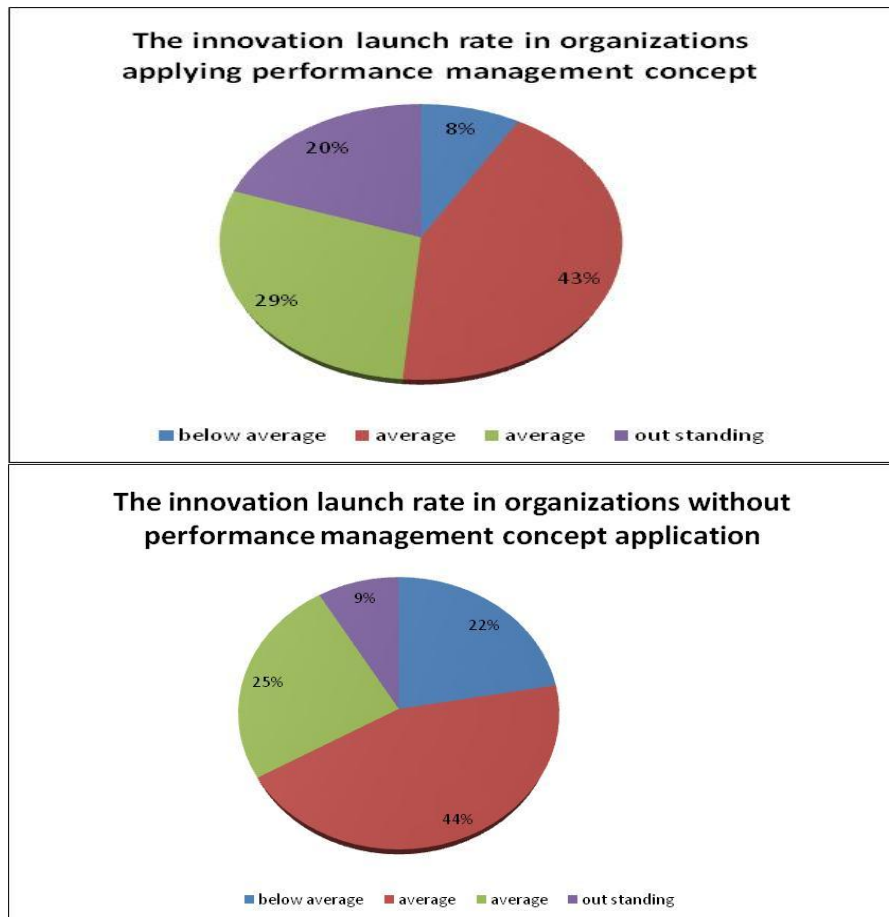


Figure 8a, b: Innovations launch rate in organizations in comparison with direct competitors in 2008

Source: own

Research results conclusion

Based on the survey results within the research we may state that only a minority of Slovak organizations applies performance management as a concept in human resource management (in the year 2006 it was 28.8% organizations). However, we do not consider the situation negative, since there has been increase of performance management application taken note of in monitored period of time. In three years trail the number of organizations stating performance management application as the whole concept has risen by 7.8%. We have detected the greatest increase in the period of 2007-2008, by 6.1%. Based on the tendency, we have made assumption that current financial crisis doesn't affect organizations in the extent great enough, so that they would question the need of performance management application within they human resource management. On the contrary, we think that organizations can meet the opportunity in the performance management concept, to manage their human resources more effectively in terms of improving their employees' performance, which could mean one of the ways how to deal with unfavorable business environment nowadays.

Further on the survey shows, that there is much more organizations **applying performance management only partially**, either in the form of linking employees' appraisal and reward system, or by linking employees' appraisal to their training and development. The research results confirms that most organizations most often use results from employees' appraisal process further on in deciding about rewarding their employees as the approach to performance management (59.7%). Performance management as creating some kind of

connection between employees' appraisal and their training and development is applied in 41.8% organizations within the sample.

The analysis also proves that organizations applying performance management are more likely to be more successful on the market in many aspects compared to those, which have stated not applying the performance management concept. This finding is confirmed by the fact that during whole period of monitoring more than 86% of those organizations which apply performance management concept have stated reaching revenue sufficient enough to create a profit, meanwhile in category of organizations not applying the performance management concept it was 73% organizations have stated so.

Research findings also prove that organizations via managing their employees' performance, simulative leadership and aim oriented behavior encouragement, organizations improve their productivity (by 15% more organizations reach outstanding productivity level if applying performance management concept compared to organizations without the performance management application). Also the quality level of providing services and innovation launching is influenced by performance management application. Based on the research results, we may declare that there is dependency of the prosperity of an organization on performance management application, reflecting into its profitability and competitiveness.

5. Conclusion

Performance management is an integrative process of human resource management which is linked to the productivity of an organization but also to other processes such as skill and competency development, improvement of effective management and feed back, reward and compensation management, etc. (Wagnerová, 2008, p. 34). As the conclusion there is a need to emphasize, that performance management *should be aimed at especially following areas*:

- More effective and efficient employees' training and development activities.
- Individual and organizational performance improvement.
- Competitiveness enhancement.
- Dealing with financial crisis impact and preparing on future position on the market.
- Improvement of challenging and innovative workplace atmosphere.
- Supporting individual employees' ambitions in unison with the corporate strategy.
- Focusing on employees' satisfaction and their loyalty reinforcement.

By examining the linkage among appraisal system, reward system and training and development system in organizations within our research we have identified a category of organizations which apply performance management as the whole concept and also a category of organizations which have chosen partial approach to managing their employees' performance. Despite the category of performance management applying organizations is in minority, we find very important to discover, that in the three years trail the percentage has been increasing, and this tendency has neither changed by the influence of financial crises.

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