

# Analysis of the Aspects of Performance Management System

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**Abstract** - After examining the business practices of a large part of domestic economic operators, a low level of achieved economic success can be noticed. This state of the economy consequently results from the partial or even complete absence of organizational performance management. The research presented in this paper was conducted on a sample of two hundred companies in the food industry of the Republic of Serbia through a carefully created questionnaire. The existence of the system, coverage, frequency, level of satisfaction with the effects, the analysis of communication, training and accountability in the performance management system are the subject of this research. The main objectives of the study are the identification of existing practices of organizational performance management and the suggested methodology for future improvements. The results of the research will provide theoretical and practical contribution to researchers in this field and a help for companies to improve their performance.

**Keywords** - performance management system, food industry, efficiency.

## 1. Introduction

It is often heard that, compared to companies from developed countries, the economic success of domestic companies is at a very low level. The following causes of such situation are usually mentioned: unfavorable macroeconomic environment, insufficiently developed institutional infrastructure,

lack of skilled labor, etc. However, there is a much deeper and far more important reason – local businesses are not aware enough of the importance of performance management that is systematic and based on scientific principles. That is exactly the main motive of this research - uncovering the causes of uncontrolled performance management and suggesting a set of measures that will lead to improved performance management, both in Serbian companies of food industry and in other industries of Serbia. Thus, the research area consists of food processing companies in the Republic of Serbia. The importance of the food industry for the national economy is remarkable. As one of the most important branches of the secondary sector of the economy, the food industry accounts for about 20% in the domestic product of the Republic of Serbia and provides employment for almost 10% of the economically active population in Serbia. Together with the agricultural production, the food industry accounts for about 25% of the export value. All of this implies that the food industry is the lifeline of the local economy and more than a frame reference for research on performance management in local economic practice.

In developed market economies, especially in Anglo-Saxon speaking countries, performance management is raised to a level of scientific disciplines [6]. For over half a century, performance management has been the subject of systematic study, for scientists, and practical business people. This is supported by a variety of technical literature in this area, especially a wide range of models of organizational performance management, which were developed more than several decades [9][20]. Contrary to the practices of the developed countries, performance management in most domestic companies is chaotic, and not based on scientific principles and methods. It directly affects the comparatively low level of overall economic success of domestic companies. The conclusion is more than obvious: the overall growth of economic success is not possible without the systematic performance management. With improvements in the level of performance

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management of companies, the general success of domestic companies will increase. All this shows the importance of researching the issue of systematical performance management of companies in domestic businesses.

In accordance with the defined problem framework, the following research objectives have been set: 1) assessment of the current practices of performance management in domestic businesses in the food industry of the Republic of Serbia and 2) a draft program to improve the existing performance management system in companies. In assessing the current practice of performance management in domestic businesses in the food industry, descriptive statistical indicators have been used. In testing the correlation between certain variables chi-square method has been used. The research should result in a pragmatic reference control framework in terms of drafting a set of measures to improve the performance management system in domestic economic practice. On that basis, a general increase in the economic success of local companies could be expected.

## 2. Theoretical Framework

The essence of management as a set of complex procedures and activities is influencing on a particular system in order to change the system towards achieving defined development objectives. In this sense, it is still the current definition of management, which was established by Mary Parker Follett. This classical theorist of management defines management as the ability to get the job done by efforts of people. In modern theory, there are many definitions of the term "management" [15]:

- achieving results through the effort of people;
- creating and maintaining an internal environment in a company where individuals, working in groups may operate efficiently and effectively in order to achieve common goals;
- the process of planning, organizing, leadership and controlling in order to formulate and achieve the objectives on the basis of human labor and use of resources;
- the process in which managers create, implement and manage the organization through a systematic, coordinated and cooperative human effort;

- coordination of all resources in the process of planning, organizing, leading and controlling in order to achieve the set goals;
- the task of planning, coordinating, motivating and controlling the efforts of others towards achieving the specific objectives;
- the art of knowing what you want to do and accomplishing that in the best and cheapest way;
- the process of decision-making and control over the efficiency of employees with the obvious intention of achieving predetermined goals;
- the process of planning, organizing, staffing, leading and controlling in order to achieve organizational goals through coordinated use of human and material resources [18].

According to Kreitner, management is a working process, in which, with the help of others, organizational goals in a changing environment could be achieved [13][4]. Effective and efficient use of limited resources is a key aspect in the management process. Management is effective if the set up goals are achieved and efficient if limited resources are exploited rationally. Armstrong and Murlis indicate that the philosophy of performance management is strictly linked to the belief that it is the natural and fundamental process of management [3]. In performance management, emphasis is placed on planning, monitoring, measuring and improving performance. Therefore, it should be viewed as a process driven by the management, which becomes part of their everyday working practices, rather than as an annual bureaucratic task imposed by the Department of Human Resources. Authors Beardwell and Claydon point out that the performance management is a mechanism for controlling the values [5]. Skills that a manager needs in order to carry out the process of organizational performance management are often underestimated. Managers must know how to set clear, measurable and achievable objectives and how to define and assess capability requirements. In addition, managers must know how to provide useful feedback and to know not only how to praise or criticize employees about their achievements, but also to educate them and help them recognize where their performance was below plan/standards and what should be improved [3]. According to Aguinis, performance management is a continuous process of identifying, measuring, developing and harmonization of a company performance with strategic goals [1]. Hartle and

Weiss claim that performance management is the process of establishing a common agreement on what we want to achieve and how it should be achieved, as well as the approach to managing and developing people in a way that increases the likelihood of achieving organizational goals [11]. Van der Waldt believes that performance management can be defined as an approach to management that combines individual managers and employees towards a common achievement of the strategic goals of the company. It is an integrated set of techniques and methods aimed at improving the productivity, the quality of the relationship between inputs, activities and outputs of company and as a management approach based on individual contribution of managers and employees in achieving the strategic goals [23]. Eckerson identifies performance management with the term "performance dashboards" where both of the processes are observed as a system designed to manage the performance of the organization. Performance dashboards is defined as a multi-layered application based on business intelligence and data integration that enables the organization to effectively measure, monitor and manage business performance [8]. Group of authors identifies three basic purposes of performance management [16]: first, it is the process of implementing the strategy; secondly, it is a means of cultural change; and third, it provides development and reward. Therefore, the performance management of the company is extremely comprehensive and complex topic. Brief overview of performance management can be summarized in the following few items [2]:

- Performance management is linked to outputs (achievement of results) and outcomes (realized impacts on performance). In addition, this refers to the processes needed to achieve these results, and inputs, in terms of capacity (knowledge, skills and competencies) that is expected from teams and individuals.
- Performance management relates to planning, which is the initial step in achieving future success. This refers to the definition of expectations in the form of the goals and business plans.
- Performance management is related to measuring results and controlling the progress of achieving the objectives, because if there is something you cannot measure, you cannot manage it. In addition, "performance measurement system consists of three components: data collection and processing, analysis and action" [14].
- Enterprise performance management refers to continuous improvement. This correlation is based on the fact that continuous striving for achieving high standards in every part of the organization consequently provides a series of incremental gains that will create superior performance. This means clarifying what is meant by organizational, team and individual effectiveness, and taking the necessary measures in order to achieve defined levels of effectiveness [19]. According to Armstrong and Murlis this means: "establishing a culture in which managers, individuals and groups take responsibility for continuous improvement of business processes and their own skills, abilities and contributions" [3].
- Performance management is associated with the continuous development. It is linked to the creation of a culture in which the organizational and individual learning and development are continuous process. The really goal of performance management system is that it puts the focus on continuous development of company's employees [17].
- Performance management is connected with communication. This is achieved by creating the organizational atmosphere in which the focus is on creating an ongoing dialogue between managers and their teams, who together define expectations and share information about organizational mission, values and goals.
- Performance management is associated with stakeholders. This means meeting the needs and expectations of all stakeholders of a company - the owners, managers, employees, customers, suppliers and the publicity. In particular, employees are treated as partners in a company whose interests are respected, whose proposals are seeking and listening and who are encouraged to contribute to the formulation of their personal and team goals and plans.
- Performance management refers to fairness and transparency [17]. As suggested by Winstanley and Stuart-Smith, the four ethical principles that should govern the activities within the performance management are [24]: respect for the individual, mutual respect, procedural fairness and transparency of decision-making.

### 3. Methodology

Based on the theoretical framework of performance management system and the set objectives, empirical research was conducted among the business entities within the food industry of the Republic of Serbia in the period from August to December 2014. A survey was used as a method for gathering the necessary data. The respondents were sent a questionnaire that consisted of five sections [21]: aspects of performance management system in the company, performance planning, execution of performance, performance measurement and report about them, and, developing the compensation system and the possibilities to improve the performance of the company.

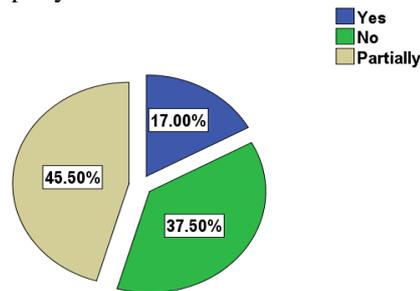
In this paper, the results of the first section are given. That includes information on aspects of performance management system in the organization (the existence of the system, coverage, frequency, level of satisfaction with the effects, the analysis of communication, training and accountability in the performance management system). The questionnaire was emailed to 804 companies, of which 200 completed questionnaires were returned (return rate 25%). The data were analyzed using the statistical program SPSS IBM 21.

### 4. Results and Discussion

In order to assess aspects of the performance management system within the food industry in Serbia [22] an analysis of survey data has been carried out, showing the descriptive statistical indicators of the five groups of questions. These groups are: 1) existence of a performance management system; 2) coverage; 3) the frequency of reviews; 4) the level of satisfaction with the effects of performance management system, and 5) analysis of communication, training and accountability in the performance management system. In order to obtain descriptive statistical indicators, frequencies of their values were used. To test the correlation between certain variables chi-square method was used.

In the first group of questions, respondents needed to assess the existence of performance management system in the company (Graph 1). From the results, 17.0% answered that performance management system exists in the company. Slightly less than a half, 45.5% answered that the performance management system is only partially used, while a relatively large number of respondents (45.5%) said

that performance management system does not exist in the company.



Graph 1. The existence of a performance management system

After these results, it is necessary to examine the relationship between the two variables: the existence of performance management system and company size (Table 1.). Based on cross-tabulation of two variables, at 22.2% of surveyed small companies, performance management is present, at 43.2% of small companies, performance management is partially present, while at 34.6% of small companies, performance management is not present. From the results, we can see that in a sample of 71 medium-sized companies, 15.5% of them apply performance management system, 42.3% of them do not apply it, while 42.3% of them partially use performance management system. In a sample of 48 large companies, 10.4% of them apply performance management system, 35.4% of them do not apply it, while 54.2% of them partially use performance management system.

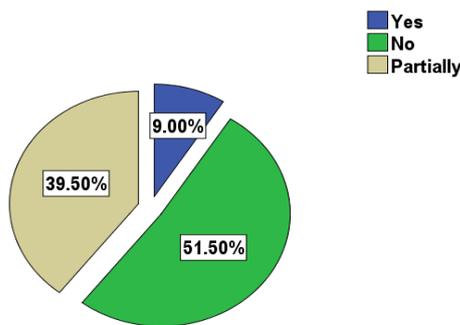
Table 1. Testing the independence of variables: the existence of performance management system and company size

Company size	The existence of performance management system			Total	
	Yes	No	Partially		
Small	Count	18	28	35	81
	Structure (%)	22,2	34,6	43,2	100,0
Medium	Count	11	30	30	71
	Structure (%)	15,5	42,3	42,3	100,0
Large	Count	5	17	26	48
	Structure (%)	10,4	35,4	54,2	100,0

Source: Author's calculations

To determine the relation between existence of a performance management system and the size of the company, Pearson's chi-square test for independence is used. It is founded that the variable "existence of a performance management system" and "company size" are not statistically significantly connected. The value of Pearson Chi-square test of independence  $\chi^2$  (4, n=200)=4,337,  $p=0.362 > p=0.05$ . This means that the proportions of small, medium and large companies are no different in terms of a performance management system. Performance management system is relatively equally present in large, medium and small companies. Therefore, existence of a performance management system is not related to the size of the company. Performance management system can be done well in any size of company as long as the resources needed to do it well are available and in place [12].

In the second group of questions, respondents needed to assess coverage, i.e. if the performance management system applies to all employees (Graph 2). From the results, we see that only 9.0% responded that the performance management system applies to all employees. In more than a half of the surveyed companies (51.5%) performance management system does not apply to all employees, while 39.5% of respondents believe that the performance management system only partially applies to all employees.



Graph 2. Performance management system that applies to all employees

After these results, it is necessary to examine the relationship between two variables: performance management system that applies to all employees and company size (Table 2).

Table 2. Testing the independence of variables: performance management system that applies to all employees and company size

Company size		Performance management system that applies to all employees			Total
		Yes	No	Partially	
Small	Count	3	48	12	63
	Structure (%)	4.8	76.2	19.0	100.0
Medium	Count	4	38	29	71
	Structure (%)	5.6	53.5	40.8	100.0
Large	Count	11	17	38	66
	Structure (%)	16.7	25.8	57.6	100.0

Source: Author's calculations

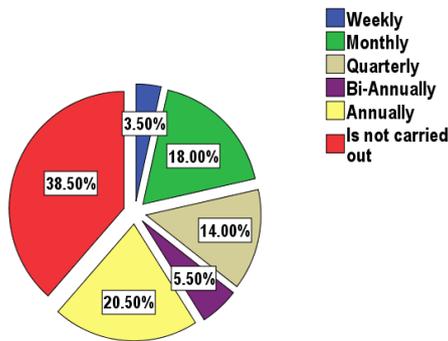
Based on cross-tabulation of two variables, at 4.8% of small companies performance management system applies to all employees, at 19.0% of small companies performance management system partially applies to all employees, while the majority (76.2%) of small companies system performance management does not apply to all employees. From the results, we can see that in the medium-sized companies, 5.6% of respondents use performance management system that applies to all employees, in 53.5% of this group, performance management system is not applied to all employees, while in 40.8% of the respondents, performance management system partially applies to all employees. In a sample of large companies, 16.7% of the respondents use performance management system that applies to all employees, at 9.0% of respondents, performance management system is not applied to all employees, while in 51.5% of the respondents, performance management system partially applies to all employees.

To determine the relation between existence of a performance management system that applies to all employees and the size of the company, Pearson's chi-square test for independence is used. It is founded that the variable "existence of a performance management system that applies to all employees" and "company size" are statistically significantly connected. The value of Pearson Chi-square test of independence  $\chi^2$  (4, n=200)=34,631,  $p=0.000 < p=0.05$ . This means that the proportions of small, medium and large companies differ in terms of existence of a performance management system that applies to all employees. Performance management system that

applies to all employees is relatively present in large companies than it is in small and medium-sized companies. Therefore, existence of a performance management system that applies to all employees is related to large companies.

In order to gain insight into the connection between the variables, Cramer's correlation coefficient is calculated (Cramer's  $V=0,294$ ). In this test, we observed the two variables, wherein each category has more than two variables. Standards for interpreting Cramer's  $V$  as proposed by Cohen [7]: small = 0.07; mid = 0.21; big = 0.35 [10]. Bearing in mind these standards, there is a medium correlation between the analyzed variables.

In the third group of questions, respondents gave the answers about the frequency of performance management system reviews (Graph 3.).

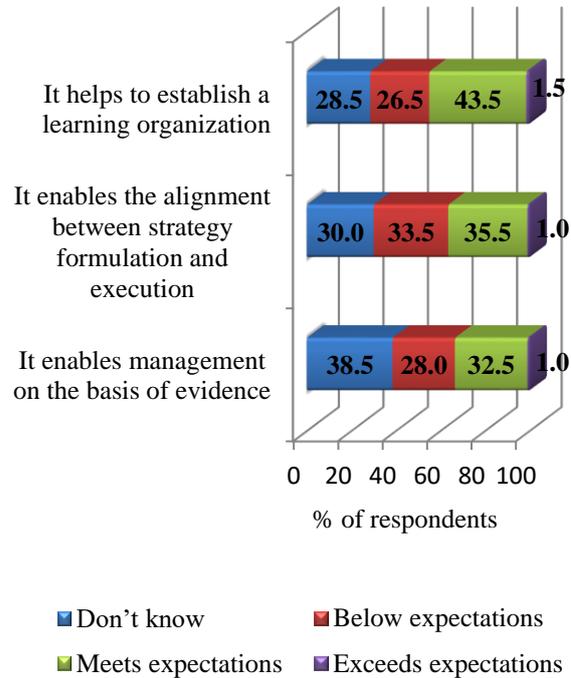


Graph 3. The frequency of performance management system review

From the results, we can see that the evaluation of performance management system is performed on a weekly basis at 3.5% respondents, on a monthly basis at 18.0% respondents, on a quarterly level at 14.0% respondents. Review of performance management system is performed on a bi-annual basis at 5.5% respondents, on annual basis at 20.5% respondents, while 38.5% respondents said that there is no evaluation of performance management system.

In the fourth group of questions, it was necessary to assess the level of satisfaction with the effects of performance management system in the company. Based on the graphic representation of the results of fourth group of questions (Graph 4.), the respondents are predominantly not satisfied with effects of performance management system. The effects of the use of performance management system meet expectations of one third of surveyed economic entities. There is a small number of cases in which performance management system exceeds expectations. However, there is a large number of cases that do not know what the effects of applying performance management system are. These results

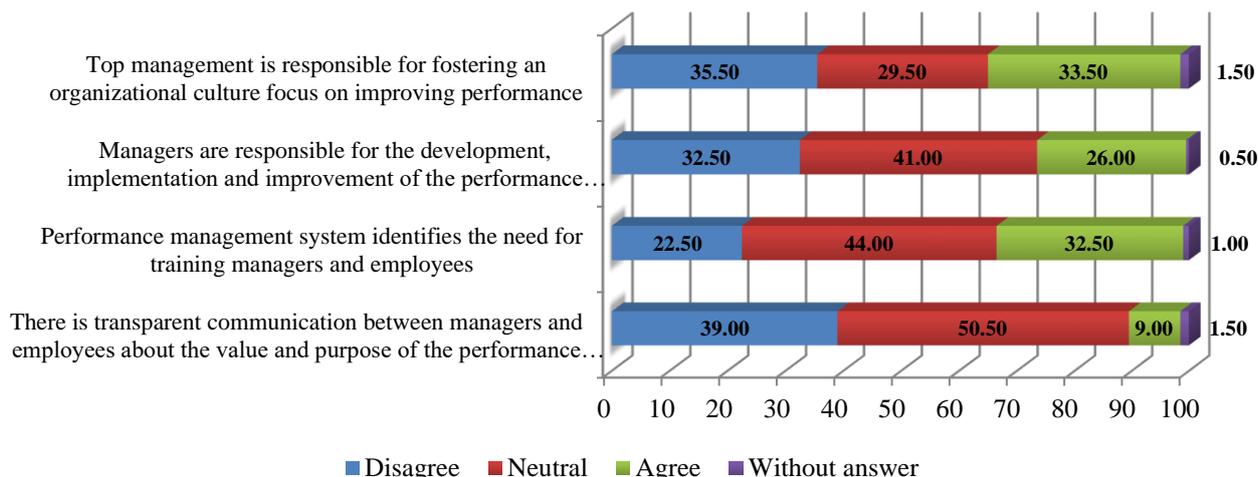
stem from the fact that most companies do not even apply performance management system, or, apply it partially. The result of this actual situation is that effects that might occur as a result of performance management system usage are unknown.



Graph 4. The level of satisfaction with the effects of performance management system

In the fifth group of questions, focus is on communication, training and accountability of managers and top managers in the implementation of performance management system.

Based on the graphic representation of the results of the fifth group of questions (Graph 5.), a smaller group of respondents (9.0%) confirmed that there is transparent communication between management and employees about the value and purpose of the performance management system. Communication does not exist in 39% of respondents, while almost half (50.5%) of respondents were not sure whether communication exist at all. One third of respondents (32.5%) believes that performance management system identifies the needs for training the managers and employees, 22.5% of respondents do not believe in it, while slightly less than a half (44%) are not sure whether this system identifies the needs for learning and development of managers and employees. The situation is similar when the responsibilities of managers regarding the development, implementation and improvement of performance management system are concerned. As to the claim that the top management is responsible for fostering organizational culture which is focused on performance improvement, the distribution is fairly consistent.



Graph 5. Analysis of communication, training and accountability in the performance management system

### 5. Conclusion

One of the goals of this research was to evaluate existing practice of enterprise performance management based on the results of empirical research. Based on the analysis of aspects of the performance management system in the Serbian food industry, it was found that performance management system was implemented in only 17% of the companies, while only 9% of the companies use performance management system that applies to all employees. Performance management system is relatively equally present in large, medium and small companies, i.e., not related to the size of the company, while the performance management system that applies to all employees is relatively more prevalent in large companies. When the frequency of evaluation performance management system is concerned, evaluation is not done (38.5%) or, in many cases (20.5%) done once a year.

Companies are predominantly not satisfied with the effects of performance management system, i.e. performance management system meets expectations of one third of surveyed economic entities. There is a small number of cases in which performance management system exceeds expectations, while a large number of cases do not know what the effects of performance management system application are. These results stem from the fact that most companies do not even apply performance management system, or, as they stated, apply it only partially. The result of this actual situation is that the effects that might occur as a result of performance management system usage are unknown. In a large number of the analyzed companies (39%) there is no transparent

communication, and even greater number of companies (50.5%) were not sure whether communication exists at all. The respondents were not sure how to communicate and what communication actually means. Only one third of respondents finds that performance management system identifies training needs for managers and employees. The situation is similar when it comes to the obligations of managers regarding the development, implementation and improvement of the performance management system, while one third of respondents believes that top management is responsible for fostering organizational culture focused on performance improvement.

Completed research through surveys showed the existence of significant deficiencies in the performance management in Serbian companies of food industry. The most significant shortcomings of identified domestic economic practices are: ineffective management, lack of accountability and weak implementation of performance management system. All of that causes comparatively low economic performance of domestic companies. In order to optimize the success of local companies, a set of measures for improvement of the performance management system is suggested.

Probably the most striking result of the performance management research in local economic practice was that implemented performance management system does not exist in a large number of domestic companies. Accordingly, the first imperative measures to optimize the economic success of the company is to *establish a performance management system in as many local companies as possible.*

Another important result of the research is that in the majority of companies only part of the staff - and a very small circle is familiar with elements of performance management system. In order to improve performance management, and on that basis, optimizing the success of domestic economic entities is the *inclusion of a wider circle of employees in the performance management system*.

In addition, *it is necessary that performance management system reviews become more frequent*. The reason for this lies in the fact that the frequency of performance evaluation for domestic economic entities is at a very low level. Most of our companies still predominantly rely on the annual financial statements as the main source for the assessment of realized performance. It is necessary to raise the frequency of performance evaluation, through monthly, weekly and even daily financial reports.

Furthermore, as noted above, adequate performance management depends, largely, of transparent communication between management and employees about the values and purposes of performance management system. Therefore, it is suggested that *purpose and value of performance management is explained more often to employees* and in a way that employees understand it better.

Closely related to the previous is also *constant training and education*, of both managers and employees. Improving employees' knowledge, through constant training, is one of the key measures of performance management optimization, because knowledge is one of the key resources of the company.

One of the important results of the research is that there is a low level of responsibility of managers and employees for performance management. Managers and employees should be far more responsible for the development, implementation and improvement of the performance management system. In addition, management should be less focused on control and employees should aspire to a higher degree of adaptation and innovation. In order to improve responsibility, it is suggested to *introduce motivational system* (via bonuses, etc.) for effective performance management.

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