

PERFORMANCE MANAGEMENT UNDER SUSTAINABLE DEVELOPMENT APPROACH

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Abstract. *Performance management is a broader concept whose evolution receives new values over the latest 60 years. Nowadays, societies are confronted with economical, environmental, ethical and moral crisis, thus more and more the sustainability concept is the key element. The question is how the two concepts can stand one each other and what the result of their mix is. This paper aims to clarify the definition of performance management and its key elements from a human resources management perspective. We will also follow on the links between performance management and sustainability and how in practice a small company can evaluate from a performance management system to a sustainable performance management one.*

Keywords: *Economy, Management, Firm objectives.*

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1. Introduction

The global economy as of 2012 appears to be different from the one existed forty years ago, and this is due obviously to the progress registered in every area of activity from the education to the economy, from the way of living to heavy industry. The early warnings of the actual situation were raised up by the experts of Club of Rome, 40 years ago, but were not followed massively in the socio-economic development strategy, thus globally, our society, arrived in a moment in which without radical actions, the existence of the Earth himself and the people is in danger. Nowadays, the financial crisis reopened these discussions. Although the ecologists’

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work started to be recognised, a series of laws and projects taking into consideration the environment protection, there is not yet a major change on the global mentality. We are facing, today, global crisis, which, no matter how we call it: “financial-economical crisis”, “energy crisis”, “urban crisis” or “demographic crisis”, “all have the roots in a bigger crisis of our narrow perceptions, inadequate over the reality” (F. Capra, 2004, p. 273, quoted by Carmen Costea, Popescu and Taşnadi, 2010, p. 448). Societies and “companies today must pay careful attention to what they produce and how they produce it” (D. Esty, 2009, p. 51). The society based on consumption and the business performance management objectives targeting important profits year by year without paying any attention to the environment and social responsibility brought the society to what we call the biggest crisis since 1929-1933 one. The good news is that there is still space for improvements with one condition: to change the paradigm of performance from the profit in itself to the profit harmonized with a healthy environment and a healthy society.

Obviously a sustainable development implies a new paradigm of performance and a new leadership approach based on a new defined (eco) vision focused also on social and environment different from the old monetary vision oriented on money, wealth and poverty which appears today obsolete. The years to come might bring over new green strategies to create new values for money.

As the concept of Performance Management is described in the literature in different ways and there are still different understandings of what it is, we consider necessarily on the scope of this paper to start with a conceptual approach on the above mentioned concept and then to integrate it with the sustainable development concept. In the end we will propose a study case performed on a small company that implemented a performance management system based on a sustainable approach.

1. Performance Management. How do we define it?

According to the Romanian Explicative Dictionary (DEX), the word “management” has the roots in the English language and has multiple understandings out of which we keep the one as “the activity and the art of conducting”¹ whilst the word “performance” comes from the French

¹ DEX, Encyclopaedic Universe Gold Publishing, 2009, p. 614

language and is “the result (outstanding) obtained by someone in a sport competition or an outstanding result in an area of activity².”

Putting together the two above mentioned words results that the performance management is the art of conducting an organization through outstanding results. As stated before the economic literature brings over multiple approaches and definitions of the concept of performance management both at the theoretical and practical level. Performance Management appears to be a derivate of the general management.

The general management literature considers that performance management is based on the “management by objectives” concept, introduced in 1954 by Peter Drucker. This is defined as “a management system that integrates systematically the main managerial activities focused towards meeting the organisational and individual agreed objectives in conditions of efficiency and efficacy”. (C. Russu, 1993, p. 321). It is than, about a technique of setting individual performance objectives that have to be tangibles, measurable and appraisable. These objectives are derivate or cascade from the organisational objectives.

The term performance management was first introduced in 1976 by Beer and Ruh. “Their thesis was that ”Performance is best developed through practical challenges and experiences on the job, with guidance and feedback from superiors”” (M. Beer and R. A. Ruh, 1976, p. 60 quoted by M. Armstrong, Angela Baron, 2005, p. 7). It is important, though, in approaching performance management to think both to the employees but also to their managers and the flow of communication between the two categories.

Employees are not performing alone, they are part of teams and thus, the whole ethos of performance management rests on the assumption that if you can raise the performance levels of individuals, better organisational performance will follow (M. Armstrong, Angela Baron, 2005, p. 7).

Robert Bacal, in his book “Performance Management” defines de concept as “an ongoing communication process, undertaken in partnership, between an employee and his or her immediate supervisor that involves establishing clear expectations and understanding about the job to be done” (R. Bacal, 1999, p. 4)

Another definition that kept our attention was that performance management is managing the business (Mohrman A. M. and Mohrman S. A., 1995, p. 71). We deduct from this definition that performance management is ultimately the management in itself.

² DEX, Encyclopaedic Universe Gold Publishing, 2009, p. 802

As the management concept and theories evolved, in time, the human resources management evolved as well as a standalone concept. During the last years, although the concept of performance management is a broader concept linked as well to the one of general management, the implementation of the performance systems were more and more associated with the human resources management. As a result of our research on the concept, we have identified some key elements of the performance management system, which appears to be:

- essential, which aim is to maximize individual and organisational performance;
- integrated, that ensures the link between the organisational business objectives and individual objectives;
- an ongoing communication system, based on permanent feedback between actors (employees, line managers, executive managers, shareholders);
- dynamic, with challenges and experiences linked to the job;
- synthetic, that translates the organisation's strategy and values into measurable actions and results based on common understandings;
- developmental, ensuring competency development and increasing motivation through employees;
- hierarchical, that defines a clear management structure;
- linked to human resources policies;
- scalable, being implemented non regarding of the industry or size and type of an organisation.

2. Sustainable development and its influences over the performance management system

Sustainable development is a very fashioned term, everybody likes it, some are going further to understand it but far less are going to implement it. It is used on the academic papers, it is used on strategies and policies written at all society's level but the issue is not to remain at the statements' level. It is to rapidly progress.

It was defined by the Brundtland Commission of the United Nations, in March 20, 1987 as “meeting the needs of the present without compromising the ability of future generations to meet their own needs”. Since then, this definition became the starting point in developing on this concept.

Referring to sustainable development issue, at the G8+5 Conference held in London in 2009, professor Johnston, representative of Club of Rome considered that the last global financial-economic crisis highlighted the necessity of a common effort, “a concerted approach, worldwide, to stimulate investment in infrastructures and services for an energy-diverse and low-carbon economy which offers new opportunities for prosperity for all”, and that all these efforts must be integrated “into a holistic strategy for the world's future prosperity and stability”(Johnston, 2009, p. 1). On the same idea, at the Amsterdam Conference, Professor Mohan Munasinghe (2009, p. 33) talked about the *sustainomic* as a framework for a more sustainable world “with balanced consideration of sustainable development triangle (economic, social and environmental elements)” that “transcend conventional boundaries using innovative, holistic, integrative approach”.

The challenge is to develop a sustainable global economy. People started to feel the effects of pollution, which is the result of the deep intervention of humans on the natural ecosystem without any equilibrium. Sustainability though is more than this; it is a bigger picture on which stopping and preventing the pollution become more urgent than ever. On the other hand just taking care of the environment without taking care of the social (humans) will not lead to the sustainability of the concept.

Any big change needs a revolution. It is about a mind revolution through which a shift to the new paradigm of sustainability might occur. In order to create a new culture of performance, to implement and maintain this new paradigm, it is needed the design of a new management approach to move forward the concept from performance management to sustainable performance management at each level of the economy.

In this regard, implementation of new business objectives harmonised with environmental and social responsibility objectives is a must, thus the business objectives must be defined as e **SMARTEST** where the acronym stands for (Pelinescu Elena, Radulescu Madalina, 2011):

- S Specific/ Significant/ Simple
- M Measurable/ Meaningful/ Motivational
- A Attainable/ Achievable/ Agreed
- R Realistic/Relevant
- T Time-Bound/ Time limited/ Timetabled
- E Environmental / Ecological**
- S Social responsibility**
- T Team oriented**

The ecological factors already influence the markets and create impact on the all business. It is forecasted that their impact will be bigger and bigger in the near future, on the costs structure and on ROI. The companies acting sustainable, present the following features on their financials: the cost of investment in green technologies is higher than on traditional technologies; the cost with raw materials might increase also because of the higher quality; the cost of green certification is present; the operational costs with water, energy and gas consumption is decreasing; the revenues are increasing due to the quality increase.

3. Study Case: Implementing a process of Sustainable Performance Management

The study case presented bellow shows how a small company acting in the hospitality field has started to implement a performance management system, once its ownership has been changed and how this system evolved to a sustainable performance management system.

Company's description:

The ownership: Founded in 2005, the company's ownership was held by two partners until mid-year 2009, when one of the partners took over the entire ownership of the company, thus becoming a family business;

Number of employees: 20 employees; the management was insured by one person.

Field of activity: hospitality, a villa classified 3 stars and a restaurant;

Location: on a city on Prahova Valley, in a neighbourhood far from the down town but close to the forest.

General context: In the same neighbourhood, there is one more restaurant, exactly across the street, one hotel classified 4 stars and several private villas for rent. The main road is not in a very good condition and appears to be in everybody's mind as the main cause for the weak development of the area, being considered that the tourists do not want to drive for approximate one km on a bad road. The opportunity for the business, still consist in the beauty of the area, the cultural heritage and the quiet zone.

Labour market: The city is a small one, people here working mostly on the tourism area. Still they are not very well trained and exposed to a market that dramatically went down between 2008 and 2011.

Issues: At the moment, the ownership changed, the company faced the following problems: a shrinking hospitality market, an overstaffed company and the absence of a performance management system, a

business with a similar offer like all the other operators in the town, a business in an area far from the downtown. The owner, considered as a visionary person, took the decision to further invest in the business and reorganize it.

The main business decisions that became the drivers of the business were:

- Long term commitment on the business with a ROI in 15 years.
- Creating a new concept for the business with a different offer for the customers, in a niche uncovered yet.
- Focus on increasing sales rather than renouncing to the employees.
- Focus on reducing “bad costs”.
- Implication on cultural events sponsorship.
- The solution for the above mentioned issues, besides the investment on new premises and refurbishment was also to implement a performance management system. The decision was to implement it in two phases:
 - Creating the general frame for the performance management system;
 - Harmonising the performance management system with a sustainable development approach.

In the scope of the present paper, we will keep just the “what” of the performance management system implementation that supposed two steps. The “how”, meaning the whole process of communication and coaching, will be the subject of another paper. The system started to be introduced in 2010 and accompanied the company during the reorganization period for two years.

The phase of creating the general frame for the performance management system took place during the year 2010 and its main objective was to create a strong team capable to support further projects. The first four months, between January and May 2010 were used to explain and train the people from the management to every single employee what a system of performance management means and what the benefits of it are both for the employee and the employer. It was a permanent communication process in itself, a process that started with the management and then cascaded to the employees. In parallel there was an effort in changing the paradigm from “Tourists do not come because of the bad road” to “Tourists are coming despite the bad road because once arriving here, they receive the best services, wealthy food, a nice and modern place and in general good value for their money”.

Once the paradigm, started to change, business objectives have been set up according with the drivers identified and presented here above. The managers received business objectives which were cascaded to all the employees. There were just objectives referring to the business performance not necessarily linked and perceived as to the environment or social responsibility.

By the end of 2010 every single employee knew that all their efforts are quantified but more than that all their results are permanently monitored and discussed in order to improve the quality of services and products provided to the customers.

A system of reporting was implemented in order to keep track of the activities on both areas: hotel and restaurant. In the same time, people were encouraged to be creative and to come with ideas to improve the business.

The main barriers identified during the creation of the performance management general frame and what were the actions to mitigate them are presented in the table 1. As a general remark they were due to the authoritarian leadership style to what they were exposed in the past:

Table 1
Barriers in implementing the performance management system
and actions to mitigate them

Barriers	Actions to mitigate
Lack of the people knowledge regarding what a performance management system means	Discussions with people Periodically staff meetings with all the team
Lack of trust in the process based on the employees' perception that evaluation will be made against them and just the negative results will be kept	Managers started to provide both positive and negative feedbacks, focusing on the benefit of the feedback.
Lack of ideas coming from people	Managers started to encourage people to come with ideas and implement them when the case

The result of the first phase of performance management system implementation during the year 2010 was a strong team used to think and act according to business objectives and thus to provide outstanding offer for the customers. The process revealed that the sales can be increased and the operational breakeven met but the business attained its maximum taking into consideration the limited offer. The results of the year 2010 compared with the year 2009 can be quantified as follows: percentage of

increasing sales in restaurant: 37%; percentage of increasing occupancy rate for the hotel: 30.16 % under the condition of keeping the same number of employees.

The evolution of the main indicators is presented on table 2.

Table 2
Evolution of main indicators

Indicator	2009*	2010	2010/2009 %
Annual occupancy rate	36.70%	51.57%	30.16
Number of occupied rooms	1,930	2,635	134.01
Number of adults received in villa	3,600	5,040	140.00
Gross Sales on restaurant (in K RON)	461	634	37.51

* annualised

Source: internal data of the company

The increasing figures in 2010 vs. 2009 are due to the implementation of new processes and working procedures, new informational management and new marketing approach, all of them being part of the implemented performance management system.

With all the above, at the end of the year 2010, once having a performance management base, the second step might be approached: harmonising the performance management system with a sustainable development approach.

The main scope was to bring the business on the long term commitment, thus approaching it under the sustainable development principles focusing on its three pillars: economic, environment and social.

In view of a sustainable development approach of the businesses, new sustainable business objectives were set up from SMART to SMARTEST for each sector of activity.

The process was accompanied with an investment that took into consideration the principles of green building constructions. New technology low consuming was brought and in parallel an environment policy has been developed.

During three months, in 2011, business stopped in order to reshape it. All employees, without any exception, participated to this project.

From the environment point of view: The main objective was to obtain a green label certification. In order to do this, all staff was trained in ensuring friendly services with the environment, reducing the impact of consumption and paying attention to energy, water and gas saving but also on waste selection.

Once the frame was created, the business created the context for customers' implication by providing them information about the environmental policy applied and asking their help.

From the social responsibility point of view, the ultimate target was to sustain at least one cultural event and to organise workshops for institutionalised children. During 2011, the understanding of what social responsibility means and the awareness of this concept among the employees raised and they were implicated in different actions towards the community.

At the end of the second step, both employees and customers started to feel a new business concept. A small business became a different business. Keeping the same number of employees but reorganizing the teams, training them and performing internal promotions, the results can be quantified as follows (in order to keep data consistency, the data are provided for the months after reopening in 2011 compared with the same period of time of the year 2010).

On the economic pillar: 41% percentage of increasing sales in restaurant, constant occupancy rate as for the previous year. The reason behind these figures lays on: main focus of the business on the restaurant area and shrinking of travel industry due mainly to the decrease in business travel.

On the environmental pillar: reducing annual water consumption with 27%, keeping the same level of energy consumption but with increased sales activity and increased surface, obtaining the green label certification.

On the social pillar: obtaining a good social recognition in community for social care for own employees, sponsorship several cultural activities, support for institutionalised children, support for state institutions by donating old furniture.

While implementing the principles of sustainable development and SMARTTEST objectives, the following disadvantages have been identified: i) heavy access to European funds, despite the sustainable approach of the project (green building, green technologies), ii) the taxes perceived for building authorisation were 3 times higher for investors outside the county and they do not take into consideration the green principle approach, iii) lack of ecological raw materials providers on the county, iv) increasing cost of the green investment comparing with a traditional one, v) downsize of the main economical performance indicators on short term, vi) lack of a national culture for sustainable development.

4. Conclusions

“Competitiveness in many of today’s industries is based on the effectiveness of human assets – on the ability of employees to create, to apply their skills and accumulated knowledge, to work effectively together and to treat customers well” (Harvard Business Essentials, 2006, p. xii). Implementation of a performance management system is important when outstanding results are desired.

In the actual global context, performance management is even more important to be applied under the approach of the sustainable development. The study case presented was performed in order to validate the feasibility of introduction SMARTTEST objectives within a small company. As seen, the implementation of the performance management system was done in two steps going gradually from zero to an ecological economic approach. T

In the process of implementation it was important that the company focused on all the key elements of a performance management system: planning, communicating, monitoring and reviewing. We consider that the successful implementation was due also to the efforts put in changing the paradigm of the employees but also in correlating the business objectives with the environmental and social one.

As we stated before, the actual crisis might be the best moment ever, for those who manage societies, communities, companies, small companies, organizations, to realize that continuing degrading environment, accelerating the gap between poverty and wealth, will not allow them making business in the near future. Correctly assessing the environment and population potential development will allow managers to think of alternative green business solutions. They will be able to develop such solutions based on the interdependency of the human and natural ecosystems.

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