FACTORS THAT INFLUENCE THE EFFECTIVENESS OF PERFORMANCE MANAGEMENT SYSTEM ADOPTION IN ORGANISATION

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ABSTRACT: The focus of this paper is to review and discuss the main factors that influence the effectiveness of Performance Management System in organisation. Performance Management System can be viewed as one of the most important and constructive developments that has gained momentum in the recent years. Consequently, it has become crucial for many organisations in their quest to improve and enhance their competitiveness through its introduction and implementation. Public and private organisations are gradually moving towards the adoption of Performance Management System as it provides an integrated and coherent range of Human Resources processes which can be supportive in terms of contributing to the overall improvement of organisational and individual performance. A number of key factors are responsible for the effectiveness of Performance Management System and they are critically discussed in this literature study. The study reveals that factors such as balance scorecard, training, top management commitment, employee engagement, reward management, enterprise resource planning, culture and behaviour influence the effectiveness of a Performance management System adoption in organisation.

KEYWORDS: Factors, Performance Management System, Effectiveness

INTRODUCTION

The idea of Performance Management System (PMS) constitutes one of the important and positive developments that has gained momentum in the domain of Human Resource Management (HRM) recently (Armstrong, 1994; Ratnawat and Jha, 2013). At the very outset, it is worthwhile to point out that there is nothing new in the concept of PMS as its origin can be traced back as early as 221-265 AD (Chamberlin, 2011). The various forms in which PMS has existed were Performance Appraisal System (PAS), Merit Rating (MR) and Management by Objective (MBO) (McGregor, 1957; Drucker, 1964; Fowler, 1990; Armstrong and Baron, 1998; Armstrong, 1999; Armstrong, Brown and Reilly, 2011). These concepts have contributed to the enhancement of performance both at the individual and organisational levels. Studies have revealed that these systems have been discredited in the public and private sectors throughout the world as a result of which much emphasis and attention is being directed towards PMS (McGregor, 1957; Drucker, 1964; Levinson, 1970; Boyatzis, 1982; Fowler, 1990; Armstrong and Baron, 1998; Baird, Schoch and Chen, 2012; Ramgutty-Wong, 2014; Upadhaya, Munir and Blount, 2014; Akhtar and Mittal, 2015).

Numerous attempts were made by researchers in their quest to evaluate the effectiveness of PMS by making use of the contingency factors (Chan, 2004; Cheng, Dainty and Moore, 2007; Hoque and Adams, 2008; Burney, Henle and Widener, 2009). However, the studies were not conclusive since the analysis of the related factors was made in isolation, that is, an integrated approach was missing.
Purpose of the Paper

The purpose of the paper is to review the literature on the key factors that influence the effectiveness of PMS adoption. The reason for choosing these critical factors identified for this paper is based on the fact that they have been widely acclaimed as key success factors that have a positive influence on the effectiveness of a PMS (Elzinga, Albronda and Kluijtmans, 2009; Tung, Baird and Schoch, 2011; Baird et al., 2012; Hao, Kasper and Muehlbacher, 2012; Dermol and Cater, 2013; Murphy, Cooke and Lopez, 2013). Despite the good intention and efforts made by organisations, examining the effectiveness of PMS remains an area that requires considerable attention and it is the subject matter that will be discussed.

LITERATURE REVIEW

With the evolution of the PMS concept, researchers have provided a set of multi-dimensional measures in the form of the balanced scorecard and the organisational factors that can be used to evaluate the PMS effectiveness (Tung et al., 2011; Baird et al., 2012; Ratnawat et al., 2013). As mentioned earlier, this paper aims at examining the factors that influence the effectiveness of PMS and will incorporate work used by Tung et al. (2011), Baird et al. (2012) and Hawke (2012) to fill the gap in the literature. However, few studies have examined the factors influencing the effectiveness of PMS (Lawler, 2003; Padovani, Yetano, Orelli, 2010; Biron, Farndale and Paauwe, 2011; Tung et al., 2011; Baird et al., 2012; Hawke, 2012). The factors that have emerged focuses on the multi-dimensional factors namely balanced scorecard (BSC) and organisational factors such as training, top management support, employee engagement, reward management, enterprise resource planning, culture and behaviour.

Balanced Scorecard

Research has shown that organisations are more and more eager to implement an upgraded PMS, one which concentrates on various aspects of the organisation and is in line with the organisational strategy (Tardivo and Viassone, 2010). As a result, this has given rise to the development of numerous multi-dimensional performance measurement systems such as the BSC, performance pyramid and the determinants framework. There is growing evidence within the literature which has demonstrated that the use of multidimensional measures contributes to the PMS effectiveness (Malina and Selto, 2001; Ittner, Larcker and Randall, 2003; Braam and Nijssen, 2004; Crabtree and DeBusk, 2008; Baird et al., 2012). The usage of BSC as part of a PMS has been highly recommended by Baird et al. (2012) because of its cascading effect. It facilitates in the provision of accurate and meaningful measurement of performance which in turn encourages appropriate employee behaviour within the workforce, thus, providing better and reliable information to management in their decision-making process. The BSC concept has been introduced by Kaplan and Norton (1992) and recently celebrated its 25-year anniversary (Madsen and Stenheim, 2015). It is worthy to point out that the first cohort of BSC was principally a PMS which provided a specific structure for the measurement of tangible and intangible elements (Kaplan and Norton, 1996). The BSC in this context constitutes one of the most popular and widely used tools to increase and improve the performance of employees in both the private and public sectors as it encompasses the strategic objectives of a business into a distinct and balanced framework (Baird et al., 2012). A study carried out by Baird et al. (2012) revealed that the adoption rate in the Australian local government was 13.8%. However, other studies carried out in the private sector by Speckbacher, Bischof and Pfeiffer (2003),

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26%; Chung, Gibbons and Schoch (2006), 31%; Rigby and Bilodeau (2009) showed an adoption rate of 53%. Furthermore, a research conducted by Tung et al. (2011) on the factors influencing the effectiveness of PMS concluded that only 33.1% of organisations were using the BSC, which is in line with prior findings namely: Whorter (2003), 35%, and Crabtree and DeBusk (2008), 35%. According to Kaplan and Norton (1996) and Horvath and Partners (2002), the concept of BSC is made up of four perspectives namely: financial, customer, internal business processes, learning and growth. Through the four components of the BSC, an organisation tries to achieve equilibrium between its short-term and long-term objectives, performance drivers, desired results and hard and soft measures. According to De Geuser, Mooraj and Oyon (2009), a BSC in practice may serve as a strategic management system that encourages managers across the organisation to make decisions based on the common strategies of the company. It helps employees to understand the cause and effect relationships of the various tasks they undertake (Papalexandris, Ioannou and Prastacos, 2004). Afande (2015) indicated that benefits from using BSC in organisations include linking targets and annual budgets to the strategic objectives, align departmental and personal goals to the strategy, identify and align strategic initiatives. According to Madsen and Stenheim (2015), research on BSC is not only confined to discipline-based journals in accounting and management, but can also be found in context-specific journals covering hotels and tourism (Vila, Costa and Rovira, 2010; Sainaghi, Phillips and Corti, 2013; Palatkova, 2015), education (Sayed, 2013), health sector (Trotta, Cardamone, Cavallaro and Mauro, 2012) and the public sector (Northcott and Taulapapa, 2012).

**Training**

Various approaches linking human resource practices and performance have been provided in the literature (Delery and Doty, 1996; McMahan, Virick and Wright, 1999). They have been developed and categorised into universalist, contingent and configurational. The universalist style proved to be better than others as it highlights the existence of HRM practices, thus, organisations adopting the universalist approach and providing training will be more effective (Wright, Gardner and Moynihan, 2003). However, the contingent stand specifies that an organisation’s training policy will depend on their strategic approach (Bae and Lawler, 2000; Chan, Shaffer and Snape, 2004; Pena and Villasalero, 2010). The configurational approach, on the other hand, lays emphasis on the concept of complementarities between the different HRM practices. It advocates that training improves organisational effectiveness to a large extent when combined with other corresponding human resource practices (Ostroff and Bowen, 2000).

Performance related training is another form of training that has gathered momentum since the 1990’s (Armstrong, 1994). The basis of this type of training is that it makes provision for the improvement of abilities and aptitudes which have a direct effect on individual and team performance. According to Dermol et al. (2013), it is worthy to note that researchers such as Gupta and Govindarajan (2000), Lane, Salk and Lyles (2001), Conner (2002), Minbaeva (2005), Campbell (2006), Lyles and Salk (2007), Heathfield (2009) and Vyas (2010) have mainly focused their attention on exploring the current results of training at either the individual or organisational level. Though these studies have revealed that the impacts of training can improve employee flexibility and productivity, they have failed to provide empirical evidence about their links. However, the positive point is that several academics have established a relationship between training and the PMS effectiveness (Chan, 2004; Emerson, 2009). As pointed out by Baird et al. (2012), PMS related training supports employees and managers to
understand PM, procedures, objectives and the operationalisation of PMS. This can only take place if all the performance measures are clearly communicated, observed as pertinent and trustworthy in the decision-making process.

**Top management support**

According to Porter, Steers, Mowday and Boulian (1974) and Salancik and Pfeffer (1977), commitment refers to attachment and readiness to put extensive effort on behalf of the organisation. Walton (1985) has emphasised on the importance of commitment as it leads to improved performance in the event organisations decide to shift from traditional control-oriented approach to workforce management. On the other hand, Cheng *et al.* (2007) have highlighted that for the successful implementation of a PMS process, companies should have active senior management support, participation and leadership. This is mainly in the event that top management commitment and leadership acceptance for PMS implementation is absent, employees will have the tendency to give less or no priority to the new system (Krumwiede, 1998). Developing and implementing a new PMS in itself represents a major organisational change intervention that requires radical adjustments in management activities and practices (Seotlela and Miruka, 2014). The impact of these changes can in the long-run, become a cause for resistance. As rightly put forward by Pace (2011), the most critical challenges that any organisation has to face during the implementation stage of a PMS are related to poor management support. The absence of commitment from senior and line management can further complicate matters as employees from lower levels will certainly not take PMS seriously (Ochurub, Bussin and Goosen, 2012). Hence, for a PMS to be effective, it must be owned, driven and delivered by line managers (Nel, Van, Haasbrack, Schultz, Sono and Werner 2004; Armstrong and Baron, 2005; Rao, 2007).

**Employee engagement**

Markos and Sridevi (2010) view employee engagement as a vast concept that encompasses almost all the facets of HRM. It is a relatively new concept for the business and academic world (Swarnalatha and Prasanna, 2014). Although the term employee engagement is still being debated and researched by academicians and the corporate world, it has become the buzz word of the current globalised economy (Das and Mishra, 2014). On the other hand, Gruman and Saks (2011) indicated that employee engagement being a new concept, has received much attention in the past five years in the media and has been considered to be vital to an organisation’s success. From a theoretical point of view, employee engagement has been related to job performance, and this is the reason why the theme has attracted so much interest over the past decades (Albrecht, Bakker, Gruman, Macey and Saks, 2015). However, it is important to note that Kahn (1990) views that an employee is considered to be engaged in a position only when physically and psychologically present. On the other hand, Robinson, Perryman and Hayday (2004), describe employee engagement as an employees’ positive attitude towards his/her organisation and its aims, objectives and core values. In addition, Robinson *et al.* (2004) stated that an employee who is engaged is conscious about the goals of the organisation and will aim at improving job performance for the benefit of the organisation. The literature on employee engagement has also shown that low engagement and job satisfaction can lead to a number of problems such as labour turnover, absenteeism and other potential costs associated with low performance (Kahn, 1990; Gruman and Saks, 2011; Das and Mishra, 2014; Swarnalatha and Prasanna, 2014).
Reward Management

The concept of reward has gained much popularity in the previous years that it has not only captured the attention of researchers but managers as well (Mandal and Dalal, 2006). This is mainly because reward constitutes one of the key components of a PMS, which is directly linked to the motivation, performance and expected behaviour of the workforce in their quest to put additional effort for the discharge of assigned duties and responsibilities (Njanja, Maina, Kibet and Njagi, 2013). Organisations can have recourse to two types of rewards while designing their reward management strategies namely intrinsic and extrinsic (Armstrong and Murlis, 1994; Stajkovic and Luthans, 2001; Edirisooriya, 2014).

Humphrey (1987) pointed out that reward is conducive when the employees show readiness to contribute to the profitability of the organisation through additional efforts. Another pre-requisite of the reward system is that employees should see a visible link between their day to day tasks and the expected reward through enhanced motivation and improved performance (Bajorek and Bevan, 2015). Various researches have shown that employee satisfaction is caused by a properly implemented reward system, which has a direct effect on their performance (Qureshi, Hijazi, Ramey and Mohammad, 2007; Pratheepkanth, 2011). Ajila and Abiola (2004) showed that a good reward package can have a positive impact on performance of employees, while Allen and Kilmann (2001) argue that reward strategies are essential in increasing the performance of employees and to achieve the aims of the organisation. Purkayastha and Chaudhari (2011) came up with the conclusion in their research that a firm dealing in the financial services took care of its employees even in the turbulent environment since they believed that PM and reward system was responsible for this. In addition, they argued that management should give food for thought on the most effective system of reward to be devised which caters for the needs of the workforce, the specificities of the organisation and congruence between the individual interests and strategic goals of the institution. As is the case for training, the prospective reward system should be well communicated and marketed to all the employees and stakeholders irrespective of their hierarchy levels, receive top management support and commitment and above all be owned, managed and driven by line managers (Armstrong et al., 2011; Mehmood, Ramzan and Akbar, 2013; Yamoah, 2014). This will ensure that resistance from employees would be minimal and the effectiveness of the PMS is easily evaluated and measured.

Enterprise resource planning

With the rapid changes occurring in the dynamic environment, organisations can no longer avail themselves to the traditional way of doing things (Kallunki, Laitinen and Silvola, 2011; Lecic and Kupusinac, 2013). Abugabah, Sanzogni and Alfarraj (2015) are of the opinion that ERP system has become famous in a lot of companies so as to deal with environmental change and to face challenges while Panayiotou, Evangelopoulos, Katimertzzoglou and Gayalis (2013) opined that ERP implementation can provide a competitive edge to organisation and help to achieve operational excellence. According to Mabert, Soni and Venkataramanan (2003), some 30,000 firms have applied an ERP system across the world necessitating a yearly investment of US$ 10 billion. However, according to Shatat (2015), during the years 1996 to 2003, a remarkable positive growth has been noted in the number of ERP system. This was mainly because the purpose and outcome of such a system which inter alia consisted in facilitating the information flow between all the business units within and outside the boundaries of the organisation was well understood by management (Njihia and Mwirigi, 2014). An ERP system implementation can have a domino effect in an organisation as it provides a number of advantages (Akbulut and Motwani, 2005; Amid, Bagheri and Ghasrodashti, 2010; Lecic and
Kupusinac, 2013; Njihia and Mwigiri, 2014). It can lead to an increase in efficiency and hence, an improvement in the global competitiveness of the organisation can be registered. This is evidenced by the quantifiable benefits that have been derived by the Aberdeen Group due to the implementation of an ERP system: 22% reduction in operating costs, 20% reduction in administrative costs, 17% inventory reductions, 19% improvements in on-time delivery, and 17% improvements in schedule compliance. According to Yazgan, Boran and Goztepe (2009), savings in terms of time and money can be made in areas such as on-time inventory delivery, lead time, product diversity and co-ordination of the supply chain. Koh, Gunasekaran and Cooper (2009) argue that improvement in business process performance can be achieved through control and integration of the data flow into a single database accessible via a unified interface due to which problem-solving and more informed decision-making would be facilitated to a very large extent. ERP system contributes to enhanced corporate business process flows, decision-making and efficient customer service management (Shanks, Parr, Hu, Corbitt and Seddon, 2000; Woo, 2007).

**Culture**

Pettigrew (1979) started with the formal writing on the concept of organisational culture. There is unanimous consensus among academics and practitioners who are of the view that organisational performance depends on the extent to which the culture values are broadly shared (Ouchi, 1981). Much attention has been given to organisational culture in the past twenty years owing to its potential impact on the success of organisations (Johari and Sanbasivan, 2003). Various studies have integrated organisational culture as contingent factors that can enhance organisational performance (Kotter and Heskett, 1992; Ogbonna and Harris, 2000; Chan et al., 2004; Deshpande and Farley, 2004). The widespread popularity and interest in organisational culture stem from the common belief that corporate culture usually leads to superior organisational financial performance. Three organisational factors namely innovation, outcome orientation and teamwork have been proposed by Baird et al. (2012) in his examination relating to the impact of organisational culture on performance. According to Baird et al. (2012), innovation is merely the conception of a qualitatively new thing, through the course of learning and knowledge building which supports a culture that are responsive to new prospects, shift from prevailing paradigms, risk-taking and acceptance for mistakes. In other words, innovation is challenging the ways things are being done in an organisation. The key determinant leading to the process of innovation is none other than organisational culture (Laforet, 2008; Tellis, Prabhu and Chandy, 2009). Research has provided evidence that innovative organisations are more likely to cope with changes emanating from the external environment compared to the traditional ones (Naveh and Erez, 2004). Literature has also suggested that innovative organisations have the ability to develop and enhance performance due to the adoption of the participative approach (Mohanty, 1999). As a result, the decision-making process is eased to a very large extent. Based on the well-documented link established between culture and innovation which has been provided in the literature, several researches have confirmed that there is a positive link between innovation and organisational culture (Du and Farley, 2001; Roper and Love, 2002; Naveh and Erez, 2004; Garcia-Morales, Moreno, Llorens-Montes, 2006). Outcome orientation refers to the extent to which a competitive organisation gives consideration to actions, results, expectations and performance (Sheridan, 1992). Literature and research have pointed out that employees in outcome-oriented organisations are usually more motivated, dedicated and have a high sense of belongingness (Hofstede, 1998). Given that the aim of a PMS is to achieve enhanced organisational performance through employees’ commitment and motivation, it can be concluded that
outcome oriented organisations are more apt to attain these set objectives (Baird et al., 2012). Teamwork has gained popularity in today’s challenging business environments. Teamwork is the integration of individuals’ unique skills in view to increase performance across various tasks that could not have been attained by an employee working on his own or by employees working outside a team (Katzenbach and Smith, 1993). It is a popular concept whose main responsibility is to plan, lead, organise, control, monitor and co-ordinate the team activities to achieve the company’s goals through judicious use of resources (Pineda and Lerner, 2006).

**Behaviour**

Elzinga, Albronda and Kluijtmans (2009) highlighted that in recent years behavioural factors have played a vital role in the positive use of a PMS in organisations. Studies led by researchers have noted that although PMS has been implemented in many firms, these are not being used to their full extent (Holloway, Lewis and Mallory, 1995; Franco and Bourne, 2003). One of the main reasons that have given rise to such a state of affairs is employee behaviour (Marchand, Kettinger and Rolling, 2000). They also added that though particular attention has been given in the literature to the direct relationship between the behavioural factors and PMS, this has simply been discarded by organisations. There has been extensive debate in the literature as regards the behavioural factors and the use of PMS, the outcome of which has generated very conflicting views (De Waal, 2006; Elzinga, Albronda and Kluijtmans, 2009; De Waal, 2010; Karim, 2015). Behavioural factors are crucial for a successful PMS implementation. They have supported their argument by giving prime importance on the laying foundation of any PMS which is based on the behavioural and outcome approach or a combination of both (Karim, 2015). Lipe and Salterio (2000) and Malina and Selto (2001) highlighted that behavioural factors are key to the effective use of a PMS while on the other hand authors like Krause (2000), Vagneur and Peiperl (2000) and De Waal (2002) are of the opinion that the literature provides very little empirical evidence which indicate the effect of behavioural factors on PMS. However, they admit that though a few studies have been conducted, the focus was centred on the procedures for the design and implementation of a PMS rather than on the link between behavioural factors and the use of a PMS. Previously, there was not a direct link between PMS, human nature and outcome. This issue was tackled by Argyris (1952) and later by Simon, Guetzkow, Kozmetsky and Tyndall (1954) by exploring the human behavioural side of PMS. Holloway, Lewis and Mallory (1995), argue that effective PMS implementation depends above all on the accommodation and understanding of the human factor. Simons (2000) stated that a PMS cannot be successfully designed and implemented without considering human behaviour. Martins (2000), on the other hand, is of the opinion that many research on PMS focus on technicalities of implementation rather than on behavioural issues.

**RECOMMENDATION**

While the findings highlight the importance of adopting a PMS, it also provides management with insight into the specific factors that warrant their attention to enhance PMS effectiveness. Given that the adoption of a PMS can constitute a major change initiative, care should be taken so as to mitigate the incidence of resistance to change. The following is being recommended.

Top management support, participation and leadership are pre-requisites for the PMS implementation process as studies have proven that lack of management commitment can have
a detrimental impact on the implementation process. It is worthy to note that the role of top management should not only be limited to the provision, control and monitor of financial resources, they should also show their commitment throughout the whole process from its inception, design, introduction and implementation of the PMS. Senior management support is crucial for any change initiative until it is fully established and accepted.

BSC has emerged as an important factor regarding PMS adoption. To proceed and be successful in the implementation of a BSC, it is important to have a vision and mission, perspectives, success factors, objectives, measures, strategies and action plans. This can be achieved by adopting the seven steps as advocated by Hallgarde and Johansson (1999) which consists of developing a vision, strategies, critical success factors and perspectives, corrective measures, evaluation and monitoring of performance and creation of action plans. Developing a strategy of how to achieve the mission and vision is crucial for the implementation of a BSC. The main strategy will involve the allocation of resources to achieve the objectives.

Before embarking on PMS adoption, issues such as ERP infrastructure, good management of the system, education about ERP, human resource planning, top management commitment, training facilities should be taken into consideration. A complete overhaul of the ERP infrastructure (hardware and software) will be required to meet the growing needs of the business. While considering PMS adoption, systematic ERP training should be given to the employees so that success can be assured. On the other hand, recommendation is geared towards the retention of employees so as not to lose employees who have successfully been trained in ERP.

Organisation should consider the concept of training as an investment instead of a cost and training should be an ongoing process and not a one-off exercise. A thorough needs assessment must be conducted before training is designed and delivered. This would help to set appropriate goals for training and ensure employees are ready to participate. Conducting training needs have been advocated by several authors (Fowlkes, Salas, Baker, Cannon-Bowers and Strout, 2000; Baranzini, Bacchi and Cacciabue, 2001). The approach adopted during the training process should not be selective, it should rather cater for the needs and requirements of all the employees at the different hierarchy levels.

Employee behaviour constitutes a crucial factor that should be given due attention while considering an eventual adoption of a PMS. The recommendation will be based on four instrumental dimensions namely: accountability, management style, action orientation and communication. Accountability by top management can be ensured by minimising the elements of subjectivity and bias from the PMS results generated. Management should seek a change in management style to explicitly steer on results while simultaneously giving support to help employees in obtaining the expected results. In this context, Management By Walking Around (MBWA) as advocated by (Tucker and Singer, 2013) is a very plausible alternative which top management could explore as the results in terms of employee behaviour are assured within a very short lapse of time. On the other hand, management can use the 360-degree feedback and regular face-to-face meetings so as to stimulate the clarity and visibility of the PMS to other members of the organisation. The forum can be used to hold discussions about the progress achieved and problems encountered in the course of the exercise and thereafter, come up with necessary corrective actions and measures. Employee engagement constitutes one of the cardinal elements essential for the adoption of a PMS. For an organisation to have engaged employees, the inception of its employee engagement strategy starts from day one itself, that is, on the day the newly hired employee joins the organisation. As such, senior
management should ensure that the value, mission, vision statements, policies and procedures are inculcated in the prospective employees by having recourse to an induction and orientation exercise. This can be achieved through the provision of a continuous well-crafted communication strategy from the part of top management that promotes a two-way communication. Studies have shown that when employees are cognizant of what are expected from them, they tend to show gradual commitment, engagement and a sense of belongingness to the organisation.

It has also been noted from the literature that a number of reward management strategies have not yielded the expected results though they are attractive. This is mainly because they have been imposed by top management. To avoid such a situation, management should come up with a reward management strategy that caters for the needs, specificities and requirements of the organisation. A participative approach should be adopted whereby employees at all levels are involved in the framing of the strategy. This would ensure congruence between the individual and organisational objectives, hence, a proper sense of direction for the company. In addition, management will be in a better position to incorporate the best practices regarding intrinsic and extrinsic rewards for inclusion in the PRP strategy.

**CONCLUSION**

The concept of PMS has during the past years registered prominence in both the public and private sectors. As such, the introduction and implementation of this organisation-wide intervention in public and private owned companies have encountered a rising trend because of its ability to encompass all the functional areas of organisations under one umbrella in their quest to maintain, sustain and enhance competitive advantage. The review of the literature has been very conclusive as it has led to the identification of the measures of BSC and organisational factors that are considered critical for the implementation of a PMS.

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