

MICHAEL ARMSTRONG

6TH EDITION

ARMSTRONG'S HANDBOOK OF PERFORMANCE MANAGEMENT

AN EVIDENCE-BASED GUIDE
TO DELIVERING HIGH
PERFORMANCE



PRAISE FOR ARMSTRONG'S HANDBOOK OF PERFORMANCE MANAGEMENT

'If you need advice on managing performance at the organizational or individual level, this is the book for you. It gives solid explanations and offers advice you can use.' **John Heap, Managing Director, Institute of Productivity, and President of the World Confederation of Productivity Science**

'There is a reason why Michael Armstrong's HR books represent a gold standard: they are both thorough and academically rigorous but benefit from real-world experience and an informed perspective on practice. This book reflects the latest thinking on performance management but also points out, quite rightly, that the annual appraisal has in itself never been a catch-all solution.' **Robert Jeffrey, Editor, People Management**

'A well-researched, cogent and real-world look at the practice, pros and cons of modern performance management.' **Jamie Lawrence, Managing Editor, HRZone.com**

'If you come from the school of thought that believes appraisals should be swapped for something a little more holistic, then Armstrong will give you much food for thought. There's enough here to keep the most pnickety HR manager happy.' **Management Today**

'It should be required reading for all line managers who propose that performance management is solely the job of the HR department, and for all those HR "dinosaurs" who say the same.' **Training Journal**

'The timing of this book is perfect, as the shift from appraisal schemes to performance managing is hitting its stride.' **Personnel Today**

'Wealth of practical advice... [Armstrong] uses charts, subheadings and bullet points to make his ideas clear.' **getAbstract.com**

THIS PAGE IS INTENTIONALLY LEFT BLANK

Sixth edition

Armstrong's Handbook of Performance Management

An evidence-based guide to delivering
high performance

Michael Armstrong



Publisher's note

Every possible effort has been made to ensure that the information contained in this book is accurate at the time of going to press, and the publishers and authors cannot accept responsibility for any errors or omissions, however caused. No responsibility for loss or damage occasioned to any person acting, or refraining from action, as a result of the material in this publication can be accepted by the editor, the publisher or the author.

First published in Great Britain and the United States in 1994 by Kogan Page Limited as *Performance Management*
 Fourth edition published in 2009 as *Armstrong's Handbook of Performance Management*
 Sixth edition published in 2018

Apart from any fair dealing for the purposes of research or private study, or criticism or review, as permitted under the Copyright, Designs and Patents Act 1988, this publication may only be reproduced, stored or transmitted, in any form or by any means, with the prior permission in writing of the publishers, or in the case of reprographic reproduction in accordance with the terms and licences issued by the CLA. Enquiries concerning reproduction outside these terms should be sent to the publishers at the undermentioned addresses:

2nd Floor, 45 Gee Street
 London
 EC1V 3RS
 United Kingdom

c/o Martin P Hill Consulting
 122 W 27th St, 10th Floor
 New York, NY 10001
 USA

4737/23 Ansari Road
 Daryaganj
 New Delhi 110002
 India

www.koganpage.com

© Michael Armstrong, 1994, 2000, 2006, 2009, 2015, 2018

The right of Michael Armstrong to be identified as the author of this work has been asserted by him in accordance with the Copyright, Designs and Patents Act 1988.

ISBN 978 0 7494 8120 9
 E-ISBN 978 0 7494 8121 6

British Library Cataloguing-in-Publication Data

A CIP record for this book is available from the British Library.

Library of Congress Cataloguing-in-Publication Data

Names: Armstrong, Michael, 1928- author.

Title: Armstrong's handbook of performance management : an evidence-based guide to delivering high performance / Michael Armstrong.

Other titles: Handbook of performance management

Description: Sixth edition. | London ; New York : Kogan Page, 2017. | Includes index.

Identifiers: LCCN 2017038109 (print) | LCCN 2017025746 (ebook) | ISBN 9780749481216 (ebook) | ISBN 9780749481209 (pbk.)

Subjects: LCSH: Employees--Rating of. | Performance standards. | Performance.

Classification: LCC HF5549.5.R3 (print) | LCC HF5549.5.R3 A758 2017 (ebook) | DDC 658.3/125--dc23

LC record available at <https://locn.loc.gov/2017025746>

Typeset by Integra Software Services, Pondicherry

Print production managed by Jellyfish

Printed and bound by CPI Group (UK) Ltd, Croydon, CR0 4YY

CONTENTS

Preface xi

Introduction 1

PART ONE The basis of performance management 5

01 The concept of performance management 7

Performance management defined 7

The conceptual framework 8

Aims of performance management 19

Principles of performance management 22

Examples of approaches to performance management 24

Arguments for formal performance management systems 25

Requirements for success 26

References 27

02 Performance management systems 30

Performance and development planning 30

Monitoring performance 31

Reviewing performance 33

Performance management models 33

The reality of performance management systems 34

References 42

03 The impact of performance management 43

How performance management is expected to improve
organizational performance 43

Establishing the impact on organizational performance 44

Evidence of the impact on organizational performance 45

Impact on individual performance 47

Conclusions on impact 49

References 50

PART TWO Performance management practice – the ideal and the reality 53

04 Performance and development agreements 55

Performance and development planning – the traditional approach 55

Defining roles 56

Setting objectives 59

Development planning 63

References 65

05 The balanced scorecard 67

References 69

06 Performance reviews 70

Purposes 70

Method 71

How the ideal review should be conducted 71

Problems with the traditional annual performance review 75

Strength-based reviews 77

What can be done about performance reviews? 77

References 78

07 Analysing and assessing performance 79

Performance analysis 79

Performance assessment 81

Conclusions 104

References 106

08 Managing underperformance 109

The problem of underperformance 109

Approaches to managing underperformance 110

The five basic steps 111

Handling challenging conversations about performance 113

Use of a capability procedure 114

References 116

09 Providing feedback 117

Feedback defined 117

The nature of feedback 118

Use of feedback 119

How effective is feedback? 120

Guidelines on providing feedback 120

Continuous feedback 121

Providing constructive feedback 122

An alternative approach – the ‘feedforward’ interview 123

360-degree feedback 124

References 131

10 Coaching 133

Coaching defined 133

The process of coaching 134

Approach to coaching 134

Techniques of coaching 135

Coaching skills 135

Developing a coaching culture 136

References 137

PART THREE Applications of performance management 139

11 Managing organizational performance 141

The process of managing organizational performance 141

The strategic approach to managing organizational performance 143

Business performance management systems 147

Organizational capability 149

Performance management and human capital management 150

Developing a high-performance culture 151

Measuring performance 153

References 161

- 12 Managing team performance 163**
Teams and performance 163
Team competencies 164
Performance measures for teams 165
Team performance management processes 166
Reviewing the performance of individual team members 168
References 169
- 13 Performance management and employee engagement 170**
What is employee engagement? 171
Why is engagement important? 171
What are the enablers of engagement? 172
What part is played by performance management? 172
How can an organization ensure that performance management plays its part? 176
References 177
- 14 Performance management and reward 179**
Performance management and non-financial rewards 179
Performance management and performance pay 180
References 184
- 15 International performance management 185**
Performance management in the subsidiaries of multinationals 185
Performance management for expatriates 191
References 193
- PART FOUR Performance management – reality and reinvention 195**
-
- 16 What's wrong with performance management and how it is being put right 197**
How well is performance management working? 198
Why does performance management fail? 202
Putting performance management right 211
References 218

17 Reinventing performance management 221

Areas for reinvention 222

The reinvention programme 222

A radical way ahead 229

References 231

Appendix: IBM case study 233

Author index 251

Subject index 254

THIS PAGE IS INTENTIONALLY LEFT BLANK

PREFACE

Purpose and plan of the book

Performance management is defined as a systematic and continuous process for improving organizational performance by developing the performance of individuals and teams. The purpose of this book is to explain how it can and should work. Particular attention is paid to what Cappelli and Tavis (2016) have dubbed the ‘performance management revolution’ – the move to ‘reinvent’ it.

In the introduction to this book the nature of this so-called revolution is examined. Consideration is given to the question of the extent to which the changes that are undoubtedly being made in many organizations, especially in the US, amount to a revolution or could be better designated as a *revelation* of the faults of the traditional approach to performance management which have been evident over many years.

The traditional, ideal version of performance management as a system and the extent to which it makes an impact on performance is described in Part One. The different aspects of its operation – ideally and in practice – are considered in Part Two. How organizations attempt to apply the ideal version is dealt with in Part Three. Part Four of the book explains what is believed by many people to be wrong with the traditional approach and why the rhetoric has not been matched by the reality (Chapter 16) and makes out the case for reinventing performance management and how this might be done (Chapter 17).

Reference

Cappelli, P and Tavis, A (2016) The performance management revolution, *Harvard Business Review*, October, pp 59–67

THIS PAGE IS INTENTIONALLY LEFT BLANK

Introduction

Performance management: the ideal and the reality

An ideal and aspirational concept of performance management emerged towards the end of the 20th century from its origins in merit rating, management by objectives and performance appraisal. But the reality is different. As the CIPD reported in 2016:

An increasing number of employers appear to be questioning the value and relevance of traditional performance management processes. If employers were once enamoured with performance appraisals, they clearly aren't now, and following various high-profile organisations, many seem to be looking for change.

A chorus of disapproval has recently emerged. Many commentators have joined in to deliver the message that the performance management systems that lots of people have known and loved are broken. In the influential *Harvard Business Review* (October 2016), Peter Cappelli and Anna Tavis described this as a 'revolution' and commented that: 'To better support employee development, many organizations are dropping or radically changing their annual review systems in favour of giving people less formal, more frequent feedback that follows the natural cycle of work.' The revolution in a number of firms in the US has included dropping much criticized forced ranking systems, some even abandoning rating altogether.

Some commentators have complained that this is no more than a passing fashion, although Cappelli and Tavis claim that: 'This shift isn't just a fad – real business needs are driving it.' And the roots of the current climate of hostility to traditional performance management go deep – the length of time they have been there is so long and the message they have delivered is so strong that what is happening now can in no way be regarded as transient. What has happened is a revelation rather than a revolution. At last notice has been taken of the objections made over the years. As Kinley (2016) has argued, performance management is not dead, but revived.

Doubts about performance appraisal (the precursor to performance management) started some time ago. It was Douglas McGregor in a 1957 *Harvard Business Review* article titled 'An uneasy look at performance appraisal' who suggested that the emphasis should be shifted from appraisal to analysis and the focus should be on the future rather than the past in order to establish realistic targets and to seek more effective ways of meeting them.

Separating pay reviews from performance reviews (decoupling) has become popular recently but the writer was advocating this in 1976 in these words:

It is undesirable to have a direct link between the performance review and the reward review. The former must aim primarily at improving performance and, possibly, assessing potential. If this is confused with a salary review, everyone becomes over-concerned about the impact of the assessment on the increment... It is better to separate the two.

W Edwards Deming, the quality guru, claimed in his diatribe *The Annual Appraisal: Destroyer of People* (1987) that:

The performance appraisal nourishes short-term performance, annihilates long-term planning, builds fear, demolishes teamwork, nourishes rivalry and politics... it leaves people bitter, crushed, bruised, battered, desolate, despondent, dejected, feeling inferior, some even depressed, unfit for work for weeks after receipt of rating, unable to comprehend why they are inferior. It is unfair, as it ascribes to the people in a group differences that may be caused totally by the system that they work in.

This may be rather hard on performance appraisal but in 1993 Keith Grint asserted, famously, that: 'Rarely in the history of business can such a system [performance appraisal] have promised so much and delivered so little.'

Tom Coens and Mary Jenkins delivered the following judgement in 2002:

Throughout our work lives, most of us have struggled with performance appraisal. No matter how many times we redesign it, retrain the supervisors, or give it a new name, it never comes out right. Again and again, we see supervisors procrastinate or just go through the motions, with little taken to heart. And the supervisors who do take it to heart and give it their best mostly meet disappointment.

Two of the most important features of the 'revolution' are the replacement of the annual performance review and, less frequently, the abolition of ratings (although forced ranking systems have frequently been abandoned). On the

annual review Helen Murlis and the writer referred in 2004 to recent developments and commented that there had been:

... a realization that performance management was not much help as a once a year event – at worst it was a ‘dishonest annual ritual’. The concept of continuous process became important, typically marked by provisions for more frequent review.

Earlier, in 1998, Angela Baron and the writer delivered a judgement on rating based on an extensive research project sponsored by the CIPD. They argued that ‘Rating turns what may – should have been – an open, positive and constructive discussion into a top-down judgemental exercise’ and that ‘the positive developmental aspects of the review may be overshadowed by the knowledge that the end-product will be a rating that will inform a pay decision’. A group HR director said to them that: ‘It denigrates the whole performance management process.’ A team-leader member of a focus group exclaimed: ‘The rating system is crap really – excuse me!’ And a senior manager in a large financial services firm that had abolished ratings told the researchers that: ‘In the old system one number was your life. Every other HR process was locked in behind the appraisal.’

So there is little that is new in the current developments in performance management. But because at last a number of major organizations have ‘seen the light’ the views of commentators over the years have been realized. But the path towards this realization as charted in this book starts with the ideal version of performance management described in Chapter 1.

References

- Armstrong, M (1976) *A Handbook of Personnel Management Practice*, 1st edn, Kogan Page, London
- Armstrong, M and Baron, A (1998) *Performance Management: The new realities*, CIPD, London
- Armstrong, M and Murlis, H (2004) *Reward Management*, 5th edn, Kogan Page, London
- Cappelli, P and Tavis, A (2016) The performance management revolution, *Harvard Business Review*, October, pp 59–67
- CIPD (2016) *Could Do Better: What works in performance management* <https://www.cipd.co.uk/knowledge/fundamentals/people/performance/what-works-in-performance-management-report> [accessed 3 March 2017]

- Coens, T and Jenkins, M (2002) *Abolishing Performance Appraisals: Why they backfire and what to do instead*, Berrett-Koehler, San Francisco
- Deming, W E (1987) *The Annual Appraisal: Destroyer of people*, quoted by J M Ossini (2013) *The Essential Deming*, The W Edmunds Deming institute, Ketchum, ID
- Grint, K (1993) What's wrong with performance appraisal? A critique and a suggestion, *Human Resource Management Journal*, 3 (3), pp 61–77
- Kinley, N (2016) The end of performance management: sorting the facts from the hype, *Strategic HR Review*, 15 (2), pp 90–94
- McGregor, D (1957) An uneasy look at performance appraisal, *Harvard Business Review*, May–June, pp 89–94

PART ONE

**The basis of
performance
management**

THIS PAGE IS INTENTIONALLY LEFT BLANK

The concept of performance management

01

The purpose of this chapter is to define the conceptual framework of performance management, its aims, the principles that influence how it is supposed to work and the requirements for success.

Performance management defined

Performance management is the continuous process of improving performance by setting individual and team goals which are aligned to the strategic goals of the organization, planning performance to achieve the goals, reviewing and assessing progress, and developing the knowledge, skills and abilities of people.

Here are some other definitions:

- 'Performance management is a continuous process of identifying, measuring and developing the performance of individuals and teams and aligning performance with the strategic goals of the organization.' (Aguinis, 2005)
- 'Performance management is the system through which organizations set work goals, determine performance standards, assign and evaluate work, provide performance feedback, determine training and development needs and distribute rewards.' (Briscoe and Claus, 2008)
- 'Performance management is a broad set of activities aimed at improving employee performance.' (DeNisi and Pritchard, 2006)
- 'Performance management is the key process through which work gets done. It's how organizations communicate expectations and drive behaviour to achieve important goals; it's also about how organizations identify

ineffective performers for development programmes or other personnel actions.’ (Pulakos, 2009)

- ‘Performance management is regarded as a continuous, future-orientated and participative system; as an ongoing cycle of criteria setting, monitoring, informal feedback from supervisors and peers, formal multi-source assessment, diagnosis and review, action-planning and developmental resourcing.’ (Shields, 2007)

Managing performance is what line managers do and performance management is supposed to help them do it. Performance management is managing the business. It should be a powerful means of ensuring that the organization’s strategic goals are achieved. It should contribute to the achievement of culture change and be integrated with other key HR activities, especially human capital management, talent management, learning and development and reward management. Thus performance management helps to achieve horizontal integration and the ‘bundling’ of HR practices so that they are interrelated and therefore complement and reinforce each other. An effective system of performance management can play an important part in increasing levels of employee engagement.

The conceptual framework

The theoretical basis of performance management is discussed below under the following headings:

- the meaning of performance;
- the factors affecting performance;
- underpinning theories;
- performance management and the psychological contract.

The meaning of performance

It can be said that if you can’t define performance you can’t measure or manage it. Bates and Holton (1995) pointed out that: ‘Performance is a multidimensional construct, the measurement of which varies depending on a variety of factors.’ They also stated that it is important to determine whether the measurement objective is to assess performance outcomes or behaviour or both.

Latham et al (2007) emphasized that an appropriate definition of performance is a prerequisite for feedback and goal setting processes. They stated that a performance theory is needed which stipulates:

- the relevant performance dimensions;
- the performance standards or expectations associated with different performance levels;
- how situational constraints should be weighed (if at all) when evaluating performance;
- the number of performance levels or gradients;
- the extent to which performance should be based on absolute or comparative standards.

There are different views on what performance is. It could just mean outputs – the results obtained. Or it could mean behaviour – how the results were obtained. Or it could be both results and behaviour.

Performance as outcomes

Kane (1996) argued that performance 'is something that the person leaves behind and that exists apart from the purpose'. Bernadin et al (1995) were concerned that:

Performance should be defined as the outcomes of work because they provide the strongest linkage to the strategic goals of the organisation, customer satisfaction, and economic contributions.

Performance as behaviour

Campbell (1990) explained that: 'Performance is behaviour and should be distinguished from the outcomes because they can be contaminated by systems factors.' Aguinis (2005) was positive that: 'Performance is about behaviour or what employees do, and not about what employees produce or the outcomes of their work.'

Campbell et al (1993) focused on the measurement of performance which they defined as behaviour or action relevant to the attainment of the organization's goals that can be scaled, that is, measured. They suggested that performance is multidimensional and that each dimension is characterized by a category of similar behaviour or actions. The components consist of: (1) job-specific task proficiency, (2) non-job specific proficiency (eg organizational citizenship behaviour), (3) written and oral communication

proficiency, (4) demonstration of effort, (5) maintenance of personal discipline, (6) facilitation of peer and team performance, (7) supervision/leadership and (8) management/administration.

Borman and Motowidlo (1993) suggested the notion of contextual performance, which covers non-job specific behaviours such as cooperation, dedication, enthusiasm and persistence and is differentiated from task performance covering job specific behaviours. As Fletcher (2001) mentioned, contextual performance deals with attributes that go beyond task competence and which foster behaviours that enhance the climate and effectiveness of the organization.

Performance as both outcomes and behaviour

It can be argued that a more comprehensive view of performance is achieved if it is defined as embracing both behaviour and outcomes. When people are said to be performing well it does not solely refer to what results they deliver; it is also concerned with how they deliver them. As Brumbach (1988) put it:

Performance means both behaviours and results. Behaviours emanate from the performer and transform performance from abstraction to action. Not just the instruments for results, behaviours are also outcomes in their own right – the product of mental and physical effort applied to tasks – and can be judged apart from results.

Defining performance like this leads to the conclusion that when managing the performance of individuals and teams both outputs (results) and inputs (behaviour) need to be considered. This is the generally accepted ‘mixed model’ of performance management, which is concerned with both the ‘what’ and the ‘how’.

Levels of individual performance are affected by a number of influences and factors as discussed below.

Factors affecting performance

Four major influences on performance were identified by Harrison (1997):

- *the learner*, who needs the right level of competence, motivation, support and incentives in order to perform effectively;
- *the learner's work group*, whose members will exercise a strong positive or negative influence on the attitudes, behaviour and performance of the learner;

- *the learner's manager*, who needs to provide continuing support and act as a role model, coach and stimulator related to performance;
- *the organization*, which may produce barriers to effective performance if there is no powerful, cohering vision; ineffective structure, culture or work systems; unsupportive employee relations policy and systems, or inappropriate leadership and management style.

These can be analysed into individual, systems and contextual factors.

Individual factors

Vroom (1964) suggested that performance is a function of ability and motivation as shown in the formula: $\text{Performance} = f(\text{Ability} \times \text{Motivation})$. The effects of ability and motivation on performance are not additive but multiplicative. People need both ability and motivation to perform well and if either ability or motivation is zero there will be no effective performance.

A formula for performance was produced by Blumberg and Pringle (1982) that emphasized the importance of the organizational context. Their equation was:

$$\text{Performance} = \text{Individual Attributes} \times \text{Work Effort} \\ \times \text{Organizational Support}$$

A variation on the above was offered by McCloy et al (1994). They proposed that a combination of three factors enables some people to perform at higher levels than others:

- 1 *Declarative knowledge* (about facts concerning task requirements and goals).
- 2 *Procedural knowledge* (a combination of knowing what to do and how to do it).
- 3 *Motivation* (level and persistence of effort).

Research carried out by Bailey et al (2001) focused on another factor affecting performance – participation. They noted that ‘organizing the work process so that non-managerial employees have the opportunity to contribute discretionary effort is the central feature of a high performance work system’. (This was one of the earlier uses of the term ‘discretionary effort’.) The ‘AMO’ formula put forward by Boxall and Purcell (2003) is a combination of the Vroom and the Bailey et al ideas. This model states that performance is a

function of Ability + Motivation + Opportunity to Participate (note that the relationship is additive not multiplicative).

These formulas focus mainly on individual performance but systems factors are also important.

Systems factors

Individual performance is influenced by systems factors as well as person factors (Cardy and Dobbins, 1994). Systems theory as formulated by Miller and Rice (1967) states that organizations should be treated as open systems that transform inputs into outputs within the environments (external and internal) upon which they are dependent. Systems theory is the basis of the input-process-output-outcome model of managing performance which assesses the entire contribution that an individual makes within the system in carrying out his or her allotted tasks. Inputs are the skills and knowledge that an individual brings to a job. Process is how people actually perform their jobs. Outputs are the results of performance expressed in quantified terms such as sales volume, income generated or units of production, and outcomes are a visible effect which is the result of effort but cannot necessarily be measured in quantified terms. The input-process-output-outcome model of managing performance is important first, because it provides the basis for measuring performance and second, because all the factors that influence performance, including the system and the context, can be taken into account when assessing it.

It was claimed by Deming (1986) that differences in performance were largely due to systems variations. Gladwell (2008) also argued that success isn't primarily down to the individual, but to his or her context. Coens and Jenkins (2002) made the following comments on the impact of systems.

An organizational system is composed of the people who do the work, but far more than that. It also includes the organization's methods, structure, support, materials, equipment, customers, work culture, internal and external environments (such as markets, the community, governments), *and* the interaction of these components. Each part of the system has its own purpose but at the same time is dependent on the other parts.

Because of the interdependency of the parts, improvement strategies aimed at the parts, such as appraisal, do little or nothing to improve the system...

Individual performance is mostly determined by the system in which the work is done rather than by the individual's initiative, abilities and efforts.

Because of these effects and the low yield benefit of improving the parts, it makes little sense to design organizational improvement systems around appraisal while the leveraging power of improving the system is ignored... The myopic focus on *individual* improvement equates to a religious dogma that is manifested through the rituals and rites of ranking and rating.

However, Coens and Jenkins also stated that: 'We do not advocate abandoning all strategies aimed at individual improvement, personal development and goal attainment. When combined with serious efforts toward improving the system and work environment, such initiatives can significantly bolster organizational transformation.'

Systems factors include the support people get from the organization and other factors outside the control of individuals. Jones (1995) proposed that the aim should be to 'manage context not performance' and went on to explain that:

In this equation, the role of management focuses on clear, coherent support for employees by providing information about organization goals, resources, technology, structure, and policy, thus creating a context that has multiplicative impact on the employees, their individual attributes (competency to perform), and their work effort (willingness to perform). In short, managing context is entirely about helping people understand; it is about turning on the lights.

Contextual factors

Systems operate within the context of the organization. Nadler and Tushman (1980) commented that:

The manager needs to understand the patterns of behaviour that are observed to predict in what direction behaviour will move (particularly in the light of management action) and to use this knowledge to control behaviour over the course of time. Effective managerial action requires that the manager be able to diagnose the situation he or she is working in.

This point should be extended to include the people managers manage – they equally want to know and are entitled to know the situation *they* are working in.

The situation or context in which people work and the way performance can be measured can be described in terms of systems theory as described earlier. More specifically, the context includes the organizational culture, the

employee relations climate, the people involved and the internal environment in terms of the organization's structure, its size and its technology and working practices.

Organizational culture

Organizational culture is the pattern of shared beliefs, norms and values in an organization that shape the way people act and interact and strongly influence the ways in which things get done. From the performance management viewpoint one of the most important manifestations of organizational culture is management style. This refers to the ways in which managers behave in managing people and how they exercise authority and use their power. If the prevailing management style in a command and control type structure is autocratic, directive, task-orientated, distant and tough, then a 'caring and sharing' philosophy of performance management is not likely to work, even if it were felt to be desirable, which is unlikely. Alternatively, a non-directive, participative and considerate style is more likely to support a 'partnership' approach to performance management, with an emphasis on involvement, empowerment and ownership.

It is vital to take account of cultural considerations when developing and implementing performance management. The aim must be to achieve a high degree of fit between the performance management processes and the corporate culture when the latter is embedded and appropriate. However, performance management is one of the instruments that could possibly be used in a cultural change programme where the focus is on high performance, engagement, commitment and involvement. But it needs to be effective performance management and many commentators (see Chapter 16) believe that there is not very much of that about.

Employee relations climate

The employee relations climate of an organization represents the perceptions of employees and their representatives about the ways in which relationships between management and employees are maintained. It refers to the ways in which formal or informal employee relations are conducted and how the various parties (managers, employees and trade unions or staff associations) behave when interacting with one another. The climate can be good, bad or indifferent according to perceptions about the extent to which:

- the parties trust one another;
- management treats employees fairly and with consideration;

- management is open and honest about its actions and intentions;
- harmonious relationships exist; management treats employees as stakeholders;
- employees are committed to the interests of the organization;
- what management does is consistent with what it says it will do.

Clearly, a good climate will be conducive to the design and operation of effective performance management processes as long as these are developed jointly by the stakeholders and take account of the interests of all involved. An improved employee relations climate may also result from pursuing the development and implementation of performance management in accordance with the ethical principles set out later in this chapter.

People

Performance management processes will vary in accordance with the composition of the workforce. For example, a firm employing mainly knowledge workers is likely to adopt a different approach than a manufacturing firm. Within the organization, approaches may vary between different groups of employees. In the Victoria and Albert Museum, for example, it is recognized that the way in which objectives are agreed by a curator will be different from how the standards of performance are agreed for security guards.

Structure

A hierarchical or functional organization structure with well-defined layers of authority is more likely to support a directive, top-down approach to setting objectives and reviewing performance. A flatter, process-based structure will encourage more flexible participative approaches with an emphasis on teamwork and the management of performance by self-directed teams.

A structure in which responsibility and authority are devolved close to the scenes of action will probably foster a flexible approach to performance management. A highly centralized organization may attempt to impose a monolithic performance management system, and fail.

Technology and working practices

There is no conclusive evidence that advanced technology and working practices are associated with advanced approaches to performance management. But it is reasonable to assume that high technology firms or sophisticated organizations are more likely to innovate in this field. Another aspect of work

practices is the extent to which the work is computer or machine controlled, or routine. Computerized performance monitoring (CPM) provides an entirely different method of measuring performance that is related directly to outputs and/or errors. As Bates and Holton (1995) noted as a result of their research, this can have detrimental effects by transforming a helpful supervisory style into one that is more coercive.

But research conducted by Earley (1986) found that employees trusted feedback from a computer more than feedback from a supervisor. He claimed that CPM could have a greater impact on performance because of higher self-efficacy (ie the individual's self-belief that he or she will be able to accomplish certain tasks).

Bureaucratic methods of working may also affect the design and operation of performance management. Organizations that function as bureaucracies, appropriately or inappropriately, are more likely to have a formalized performance management system. The system may be centrally controlled by HR and the emphasis will be on the annual appraisal carried out in accordance with strictly defined rules. The appraisal may be a top-down judgemental affair referring to personality traits. Performance and potential will be rated.

Organizations which work flexibly with an emphasis on horizontal processes and teamwork are more likely to have a less formal process of performance management, leaving more scope for managers and teams to manage their own processes in accordance with agreed principles.

Size

Research carried out by Beaver and Harris (1995) into performance management in small firms came to the conclusion that:

The performance management systems of large firms simply cannot be scaled down to fit the smaller enterprise which often exhibits a radically different management process and operation.

They described the management process in small firms as likely to be characterized by the highly personalized preferences, prejudices and attitudes of the firm's entrepreneur or owner, who will probably work close to the operating process.

The external environment

If the external competitive, business, economic and political environment is turbulent – which it usually is – organizations have to learn to respond and

adapt rapidly. This will influence the ways in which business strategies and plans are developed and the sort of objectives people are expected to achieve. Performance management has to function flexibly in tune with the constant changes in demands and expectations to which the organization is subject. A business that operates in a fairly steady state as far as its external environment is concerned (rare, but they do exist) can adopt more structured and orderly performance management systems.

Underpinning theories

Performance management practice is underpinned and explained by the theories summarized below. Goal theory has perhaps been the most influential because setting goals and assessing performance against the goals are such a significant part of a conventional performance management system. But other theories are relevant such as those relating to control and reinforcement that explain the fundamental mechanism of feedback, and expectancy theory that indicates how performance management can help to motivate people. Social learning theory links reinforcement and expectancy theory, and self-efficacy theory highlights the importance of helping people to believe in themselves and their ability to improve.

Goal theory

Goal theory as developed by Latham and Locke (1979) highlights four mechanisms that connect goals to performance outcomes: (1) they direct attention to priorities; (2) they stimulate effort; (3) they challenge people to bring their knowledge and skills to bear to increase their chances of success and (4) the more challenging the goal, the more people will draw on their full repertoire of skills. This theory underpins the emphasis in performance management on setting and agreeing goals against which performance can be measured and managed.

Robertson et al (1992) on goal theory

Goals inform individuals to achieve particular levels of performance, in order for them to direct and evaluate their actions; while performance feedback allows the individual to track how well he or she has been doing in relation to the goal so that, if necessary, adjustments in effort, direction or possibly task strategies can be made.

Expectancy theory

Expectancy theory as originally formulated by Vroom (1964) states that effort (motivation) depends on the extent to which people expect that rewards will follow effort and that the reward is worthwhile

Performance management is concerned with influencing behaviour to achieve better results. It operates in line with expectancy theory by defining the relationship between effort, achievement and reward thus motivating people and providing them with a sense of direction. Positive feedback provides a reward in the shape of the recognition of work well done. This is intrinsic motivation provided by the work itself, which arises when work satisfies needs for accomplishment, provides opportunities for growth and the scope to use and develop abilities, and fosters self-belief.

An expectancy-based motivational model for individual performance improvement was devised by DeNisi and Pritchard (2006). It is based on the belief that people allocate energy to actions in a way that will maximize their anticipated need satisfaction. The sequence is illustrated in Figure 1.1.

The key for performance management is to ensure that evaluations and outcomes are structured so that employees will focus their actions in the ways desired by the organization, resulting in the kind of performance that is needed and appropriate rewards. The stronger the links between each element in the motivation process, the greater will be the motivation of employees to improve their performance. The process should aim to strengthen the perceived connection between actions and outcomes.

Control theory

Control theory focuses attention on feedback as a means of shaping behaviour. As people receive feedback they appreciate the discrepancy between what they are doing and what they are expected to do and take corrective action to overcome the discrepancy. Feedback is recognized as a crucial part of performance management processes.

Control theory provides the basis for feedback intervention theory as formulated by Kluger and DeNisi (1996) – this theory focuses attention on feedback as a means of shaping behaviour.

Figure 1.1 Expectancy-based motivational model for performance



Reinforcement theory

Reinforcement theory (Hull, 1951) states that successes in achieving goals and rewards act as positive incentives and reinforce the successful behaviour that is repeated the next time a similar need arises. Positive feedback therefore provides for positive reinforcement. Constructive feedback can also reinforce behaviours, which seek alternative means of achieving goals.

Social learning theory

Social learning theory, as formulated by Bandura (1977), combines aspects of reinforcement and expectancy theory. It recognizes the significance of the basic concept of reinforcement as a determinant of future behaviour but also emphasizes the importance of internal psychological factors, especially expectations about the values of goals and the ability of individuals to reach them.

Self-efficacy theory

Self-efficacy theory as also developed by Bandura (1982) indicates that self-motivation will be directly linked to the self-belief of individuals that they will be able to accomplish certain tasks, achieve certain goals or learn certain things. An important aim of performance management is to increase self-efficacy by giving individuals the opportunity to consider and discuss with their managers how they can do more. But the onus is on managers to encourage self-belief in the minds of those with whom they discuss performance and development.

Performance management and the psychological contract

The psychological contract is the set of reciprocal but unwritten expectations, which exist between individual employees and their employers. A psychological contract is implied and inferred rather than stated and agreed. It cannot necessarily be spelt out in detail because it evolves over time. But performance management processes can be used to ensure that performance expectations are agreed and reviewed regularly. And this should contribute to the clarification of the psychological contract and the employment relationship.

Aims of performance management

Ideally, the overall objective of performance management is to develop and improve the performance of individuals and teams and therefore organizations. When done well, it ensures that people are clear about what success

looks like and the part they play in delivering this success. A strategic approach means that performance management processes such as setting objectives are explicitly designed to align individual objectives with the organization's strategic objectives.

As noted by VerWeir and Van Den Berghe (2004) performance management involves creating motivation and commitment to achieve objectives. Shields (2007) pointed out that 'it provides performance direction and recognition without which employees will be at a loss as to the nature and level of work effort required'. Performance management aims to develop the capacity of people to meet and exceed expectations and to achieve their full potential to the benefit of themselves and the organization. It is about ensuring that the support and guidance people need to develop and improve are readily available.

A definition of what performance management systems are there to do was provided by Lee (2005):

The real goals of any performance management system are threefold – to correct poor performance, to sustain good performance and to improve performance... All performance management systems should be designed to generate information and data exchange so that the individuals involved can properly dissect performance, discuss it, understand it, and agree on its character and quality.

As explained by Shields (2007) effective performance management has two other important purposes. First, it can communicate to employees the strategic goals of the enterprise and specify what the organization expects from them in terms of behaviour and results in order to achieve those goals. This means defining what doing a good job entails. Second, it can help with relationship building between employees and their managers. Involving both managers and their staff in performance planning and review can widen the dialogue between them and enhance interpersonal trust.

A summary of what management and individuals can gain from effective performance management is given in Table 1.1.

Respondents to the e-reward 2014 survey of performance management reported that their most important performance management objective was:

- to improve organizational performance – 33 per cent;
- to align individual and organizational objectives – 22 per cent;
- to develop a performance culture – 17 per cent;
- to improve individual performance – 14 per cent;

Table 1.1 What management and individuals can gain from performance management

What management can gain	What individuals can gain
The opportunity to: • integrate individual, team and corporate objectives; • guide individual and team effort to meeting overall business needs; • motivate and engage employees; • recognize individual contribution; • plan individual careers (talent management); • introduce relevant and effective learning and development programmes to meet identified needs.	They will: • know what is expected of them; • know how they stand; • know what they need to do to reach their goals; • be able to discuss with their manager their present job, their development and training needs and their future.

- to align individual behaviour to organizational values – 6 per cent;
- to provide the basis for personal development – 3 per cent;
- to inform performance pay decisions – 3 per cent.

Note the low priority given to informing performance pay decisions.

Here is a typical statement of objectives from one respondent to the e-reward 2005 survey:

To support culture change by creating a performance culture and reinforcing the values of the organization with an emphasis on the importance of these in getting a balance between 'what' is delivered and 'how' it is delivered.

The Lloyds Banking Group produced the following definition of the purpose of its performance management system.

The aim is to improve performance. Rather than just saying that somebody's been very effective and ticking a box, the process is actually to sit down and have a discussion around the requirements of the role, dealing with what aspects are being done well and what aspects are not so good. Overall the purpose is to make it clear to people how their performance links in with the performance of the business.

Managing performance is about coaching, guiding, appraising, motivating and rewarding colleagues to help unleash potential and improve organizational performance. Where it works well it is built on excellent leadership and high quality coaching relationships between managers and teams. Through all this our colleagues should be able to answer three straightforward questions:

- 1 What is expected of me? How will I be clear about what is expected of me in terms of both results and behaviour?
- 2 How am I doing? What ongoing coaching and feedback will I receive to tell me how I am doing and how I can improve?
- 3 What does it mean for me? How will my individual contribution, potential and aspirations be recognized and rewarded?

The following description of the purpose of performance management was produced by Hitachi Europe:

The process is as much about building relationships with employees in order to agree what is reasonably attainable in the year as it is about setting objectives. It is effective because it focuses people's intentions and produces new thinking on the way they work rather than simply continuing to perform at the same level, day in, day out.

Principles of performance management

The overarching principles governing the ideal approach to performance management were defined well by Egan (1995):

Most employees want direction, freedom to get their work done, and encouragement not control. The performance management system should be a control system only by exception. The solution is to make it a collaborative development system, in two ways. First, the entire performance management process – coaching, counselling, feedback, tracking, recognition, and so forth – should encourage development. Ideally, team members grow and develop through these interactions. Second, when managers and team members ask what they need to be able to do to do bigger and better things, they move to strategic development.

The views of practitioners on the principles of performance management as identified in the research conducted by Armstrong and Baron (1998, 2005) were as follows:

- 'Performance management is what managers do: a natural process of management.'
- 'A management tool which helps managers to manage.'
- 'It's about how we manage people – it's not a system.'

- 'Driven by corporate purpose and values.'
- 'To obtain solutions that work.'
- 'Only interested in things you can do something about and get a visible improvement.'
- 'Focus on changing behaviour rather than paperwork.'
- 'Based on accepted principles but operates flexibly.'
- 'Focus on development not pay.'
- 'Success depends on what the organization is and needs to be in its performance culture.'

Two further important principles were suggested by Sparrow and Hiltrop (1994): first, that top management must support and be committed to the system, and second, that it should be owned and driven by line management. It is evident that managers down the line will only take performance management seriously if it is clear to them that top managers believe in it and act accordingly. And performance management will only work if line managers want it to work and are capable of making it do so. Both these principles emphasize that the bad old days of performance appraisal as the property of the personnel or HR department should be over although they often aren't.

Ethical principles

Performance management should also operate in accordance with agreed and understood ethical principles. These have been defined by Winstanley and Stuart-Smith (1996) as follows:

- 1 *Respect for the individual* – people should be treated as 'ends in themselves' and not merely as 'means to other ends'.
- 2 *Mutual respect* – the parties involved in performance management should respect each other's needs and preoccupations.
- 3 *Procedural fairness* – the procedures incorporated in performance management should be operated fairly in accordance with the principles of procedural justice.
- 4 *Transparency* – people affected by decisions emerging from performance management processes should be given the opportunity to scrutinize the basis upon which decisions were made.

Procedural justice requires that performance management decisions are made in accordance with principles which safeguard fairness, accuracy,

consistency, transparency and freedom from bias, and properly consider the views and needs of employees. Folger et al (1992) set out the benefits of procedurally just performance management based on the components of due process. They labelled such systems 'due process performance management' and argued that they do not bring about gross reallocations of power between managers and employees, but rather require only that managers be open to employees' input and responsive to justifiable questions and concerns about performance standards and judgements.

Organizational researchers such as Taylor et al (1995) have gathered a strong body of evidence showing that employees care a great deal about the justice of performance management practices. This evidence has found that the more just or fair employees consider such systems to be, the more satisfied and accepting they are of the resultant outcomes, even when those outcomes are less than desirable. They found that procedurally just performance systems may also increase managers' own positive outcomes. The strength of these findings has led some researchers such as Folger and Cropanzano (1998) to propose that the provision of fair procedures is a more powerful foundation for the management of employees than is the provision of financial rewards.

Examples of approaches to performance management

Performance management stages in AstraZeneca

- 1 *Business role clarification* – clear statement of agreed role and objectives.
- 2 *Performance planning* – agreement of targets to achieve the 'plan-do-evaluate' elements of managing performance.
- 3 *Performance development* – agree skills required and prepare individual development plan.
- 4 *Performance measurement* – provide ongoing feedback and an annual summary of an employee's performance (no overall ratings).

Civil Service basic design principles

- Stretching objectives agreed at the beginning of the year.
- Individuals know the competencies and behaviours they are expected to demonstrate.

- Regular discussions during year between individuals and their managers to discuss progress.
- Formal meeting at the end of the year to record whether objectives have been achieved and levels of competence demonstrated.

What makes good performance management – Scottish Parliament

- New staff know what is expected of them from the outset.
- Everyone is clear about corporate goals and works towards them.
- Objectives are SMART.
- A system exists to accommodate day-to-day performance feedback.
- Evidence is available to support assessments.
- The personal development plan is used to help self-developmental activities or improve performance.
- The line manager provides and the jobholder undertakes the training needed to support the individual and the organization.

Thames Valley Police performance and development review process

- Key to the performance management strategy.
- Establishes strong employment relationships.
- Provides a route to individual, team and organizational performance planning.
- Secures future training and development.

Arguments for formal performance management systems

The arguments for having a formal system of performance management are that it provides the means for management to:

- improve individual, team and therefore business performance;
- develop a performance culture;

- integrate individual and corporate objectives;
- guide individual and team effort to meeting overall business needs;
- motivate and engage employees;
- recognize individual contribution;
- plan individual careers (talent management);
- introduce relevant and effective learning and development programmes to meet identified needs.

But there is a lot of evidence that traditional formal performance management systems with their elaborate processes for setting objectives, once-a year performance reviews, ratings and box-ticking procedures often fail because they are too complex and too bureaucratic and are irrelevant (they cannot do for a manager what he or she is expected to do, ie manage performance continually).

Requirements for success

Strebler et al (2001) suggested that for performance management to work well it should:

- have clear aims and measurable success criteria;
- be designed and implemented with appropriate employee involvement;
- be simple to understand and operate;
- play a major part in the achievement of management goals;
- allow employees a clear 'line of sight' between their performance goals and those of the organization;
- focus on role clarity and performance improvement;
- be closely allied to a clear and adequately resourced training and development infrastructure;
- make crystal clear the purpose of any direct link to reward and build in proper equity and transparency safeguards;
- be regularly and openly reviewed against its success criteria.

Performance management also needs to be evidence-based. Assessments of performance and feedback should be based on facts not opinions. Evidence-based performance management refers to results, events, critical incidents and significant behaviours that have affected performance in specific ways.

It compares what has actually happened with what was supposed to have happened. It refers to agreed objectives, goals, success criteria and performance measures, and uses the latter to establish outcomes.

References

- Aguinis, H (2005) *Performance Management*, Pearson Education, Upper Saddle River NJ
- Armstrong, M and Baron, A (1998) *Performance Management: The new realities*, CIPD, London
- Armstrong, M and Baron, A (2005) *Managing Performance: Performance management in action*, CIPD, London
- Bailey, T, Berg, P and Sandy, C (2001) The effect of high performance work practices on employee earnings in the steel, apparel and medical electronics and imaging industries, *Industrial and Labor Relations Review*, 54 (2A), pp 525–43
- Bandura, A (1977) *Social Learning Theory*, Prentice Hall, Englewood Cliffs NJ
- Bandura, A (1982) Self-efficacy mechanism in human agency, *American Psychologist*, 37, pp 122–47
- Bates, R A and Holton, E F (1995) Computerized performance monitoring: a review of human resource issues, *Human Resource Management Review*, Winter, pp 267–88
- Beaver, G and Harris, L (1995) Performance management and the small firm: dilemmas, tensions and paradoxes, *Journal of Strategic Change*, 4, pp 109–19
- Bernadin, H K, Kane, J S, Ross, S, Spina, J D and Johnson, D L (1995) Performance appraisal design, development and implementation, in *Handbook of Human Resource Management*, eds G R Ferris, S D Rosen, and D J Barnum, Blackwell, Cambridge MA
- Blumberg, M and Pringle, C (1982) The missing opportunity in organizational research: some implications for a theory of work performance, *Academy of Management Review*, 7 (4), pp 560–69
- Borman, W C and Motowidlo, S J (1993) Expanding the criterion domain to include elements of contextual performance, in *Personnel Selection in Organizations*, eds N Schmitt and W C Borman, Jossey-Bass, San Francisco
- Boxall, P F and Purcell, J (2003) *Strategy and Human Resource Management*, Palgrave Macmillan, Basingstoke
- Briscoe, D B and Claus, L M (2008) Employee performance management: policies and practices in multinational enterprises, in *Performance Management Systems: A global perspective*, eds P W Budwah and A DeNisi, Routledge, Abingdon
- Brumbach, G B (1988) Some ideas, issues and predictions about performance management, *Public Personnel Management*, 17 (4), pp 387–402

- Campbell, J P (1990) Modelling the performance prediction problem in industrial and organizational psychology, in *Handbook of Industrial and Organizational Psychology*, eds M P Dunnette and L M Hugh, Blackwell, Cambridge MA
- Campbell, J P, McCloy, R A, Oppler, S H and Sager, C E (1993) A theory of performance, in *Personnel Selection in Organizations*, eds N Schmitt and W Borman, Jossey-Bass, San Francisco
- Cardy, R L and Dobbins, G H (1994) *Performance Appraisal: Alternative perspectives*, South-Western Publishing, Cincinnati OH
- Coens, T and Jenkins, M (2002) *Abolishing Performance Appraisals: Why they backfire and what to do instead*, Berrett-Koehler, San Francisco
- Deming, W E (1986) *Out of the Crisis*, Massachusetts Institute of Technology Centre for Advanced Engineering Studies, Cambridge MA
- DeNisi, A S and Pritchard, R D (2006) Performance appraisal, performance management and improving individual performance: a motivational framework, *Management and Organization Review*, 2 (2), pp 253–77
- Earley, D C (1986) Computer-generated performance feedback in the magazine industry, *Organisation Behaviour and Human Decision Processes*, 41, pp 50–64
- Egan, G (1995) A clear path to peak performance, *People Management*, 18 May, pp 34–37
- e-reward (2005) *Survey of Performance Management Practice*, e-reward, Stockport
- e-reward (2014) *Survey of Performance Management*, e-reward, Stockport
- Fletcher, C (2001) Performance appraisal and management: the developing research agenda, *Journal of Occupational and Organizational Psychology*, 74 (4), pp 473–87
- Folger, R and Cropanzano, R (1998) *Organizational Justice and Human Resource Management*, Sage, Thousand Oaks CA
- Folger, R, Konovsky, M A and Cropanzano, R (1992), A due process metaphor for performance appraisal, in *Research in Organizational Behavior*, eds B M Staw and L L Cummings, JAI Press, Greenwich CT
- Gladwell, M (2008) *Outliers: The story of success*, Allen Lane, London
- Harrison, R (1997) *Employee Development*, IPM, London
- Hull, C (1951) *Essentials of Behaviour*, Yale University Press, New Haven CT
- Jones, T W (1995) Performance management in a changing context, *Human Resource Management*, 34 (3), pp 425–42
- Kane, J S (1996) The conceptualization and representation of total performance effectiveness, *Human Resource Management Review*, Summer, pp 123–45
- Kluger, A N and DeNisi, A (1996) The effects of feedback interventions on performance: a historical review, a meta-analysis, and a preliminary feedback intervention theory, *Psychological Bulletin*, 119 (2), pp 254–84
- Latham, G P and Locke, E A (1979) Goal Setting – a motivational technique that works, *Organizational Dynamics*, Autumn, pp 442–47

- Latham, G, Sulsky, L M and Macdonald, H (2007) Performance management, in *Oxford Handbook of Human Resource Management*, eds P Boxall, J Purcell and P Wright, Oxford University Press, Oxford
- Lee, C D (2005) Rethinking the goals of your performance management system, *Employment Relations Today*, 32 (3), pp 53–60
- McCloy, R A, Campbell, J P and Cudeck, R (1994) A confirmatory test of performance determinants, *Journal of Applied Psychology*, 79, pp 493–505
- Miller, E and Rice, A (1967) *Systems of Organization*, Tavistock, London
- Nadler, D A and Tushman, M (1980) A congruence model for diagnosing organizational behaviour', in *Resource Book in Macro-Organizational Behaviour*, ed R H Miles, Goodyear Publishing, Santa Monica CA
- Pulakos, E D (2009) *Performance Management: A new approach for driving business results*, Wiley-Blackwell, Malden MA
- Robertson, I T, Smith, M and Cooper, C L (1992) *Motivation*, Institute of Personnel and Development, London
- Shields, J (2007) *Managing Employee Performance and Reward*, Cambridge University Press, Port Melbourne
- Sparrow, P and Hiltrop, J M (1994) *European Human Resource Management in Transition*, Prentice Hall, Harlow
- Strebler, M T, Bevan, S and Robertson D (2001) *Performance Review: Balancing objectives and content*, Institute for Employment Studies, Brighton
- Taylor, M S, Tracy, K B, Renard, M K, Harrison, J K and Carroll, S J (1995) Due process in performance appraisal: a quasi-experiment in procedural justice, *Administrative Science Quarterly*, 40, pp 495–523
- VerWeire, K and Van Den Berghe, L (2004) Integrated performance management: new hype or new paradigm? in *Integrated performance Management*, eds K VerWeire and L Van Den Bergh, pp 1–14, Sage Publications, Thousand islands CA
- Vroom, V (1964) *Work and Motivation*, Wiley, New York
- Winstanley, D and Stuart-Smith, K (1996) Policing performance: the ethics of performance management, *Personnel Review*, 25 (6), pp 66–84

Performance management systems

02

A performance management system is the defined set of procedures – planning, monitoring and reviewing performance – that in sequence constitute an organization's formal approach to performance management. Ideally, the system flows from the organization's objectives and then operates as a continuous and self-renewing cycle as shown in Figure 2.1. The three key activities are planning, monitoring and reviewing. These are summarized below and described in more detail in Chapters 4, 5 and 6 respectively. There are other ways of modelling the system that are illustrated later in this chapter. Some organizations represent it as a cycle and others as a flow chart but they all contain the basic elements of the model used here and all illustrate the ways in which these elements are expected to form a continuous process.

A model of how a performance management system functions over a year is shown in Figure 2.2.

These models depict an apparently logical sequence of activities each of which contributes cumulatively to the achievement of the objective of improved performance. There is nothing wrong with the logic. But the success of the process depends on each stage being conducted properly. And this makes demands on the participants – managers and their team members – that can be very hard to meet.

Performance and development planning

A performance and development plan or agreement is the outcome of the decisions made jointly by the manager and the individual during the planning part of the performance management sequence. It should provide a foundation for managing performance throughout the year and for guiding

Figure 2.1 The performance management cycle

improvement and development activities. It can be used as a reference point when planning and reviewing performance and is therefore a key component of an ideal performance management system. It contains agreements on expectations in the form of performance and learning objectives, and on action plans to develop performance and abilities. The basis for these agreements is a role profile that is jointly developed by the two parties. Performance and development planning is described fully in Chapter 4.

Monitoring performance

An ideal performance management system takes the form of a continuous process which can be described as ongoing performance management or 'managing performance throughout the year'. This means regularly monitoring outcomes against agreed objectives or, as described in Chapter 5, balanced scorecard headings, and ensuring that corrective action is taken when necessary. Individuals monitor and manage their own performance and managers give feedback, support and guidance. Feedback and the recognition of good work

Figure 2.2 The sequence of performance management activities over a year

Start of year ↓ Continuing dialogue ↓ End of year	Performance agreement • Define role profile, updating as necessary • Ensure that role profiles set out updated key result areas and competency requirements • Define objectives and standards of performance • Identify and define key performance indicators • Draw up performance development plans • Draw up personal improvement plans
	Monitor – manage performance throughout the year • Monitor progress and review evidence of achievements • Provide informal feedback as required • Provide coaching as required • Update role profiles and goals as necessary
	Performance review • Prepare for performance review by analysing achievements (work and learning) against goals and plans • Identify specific strengths and weaknesses on the basis of evidence • Assess overall performance • Provide feedback • Use conclusions of performance review as the basis for next year's performance agreement

by the manager is provided as and when appropriate, which means at the time or immediately after an event has occurred rather than being saved up for a later formal performance review session. It also means updating objectives, and continuous learning on the job or through coaching. Another requirement is to deal with underperformers in good time so that improvements can take place.

The ongoing management of performance is important but it is something which ought to take place whether or not there is a formal performance management system. It will not always happen even if there is a system but it will be carried out by effective managers when such a system does not exist. Examples of how such managers manage performance as part of their everyday working life are given in Chapter 17.

Reviewing performance

A defining feature of a traditional performance management system is a formal performance review, sometimes called a performance appraisal, which typically takes place annually, although some organizations require two formal reviews a year.

The main purposes performance reviews are supposed to serve are to function as a focal point for the consideration of performance and development matters and to provide a basis for updating performance agreements, thus completing the performance management cycle. But they can also be used to inform performance pay decisions, to identify potential, to provide an opportunity for coaching, to establish where action is required to deal with poor performance and in some systems to 'rank and yank' people. The latter is a mainly American approach in which employees are ranked according to their performance (sometimes called stack ranking) and a proportion of those in the lower levels (eg the bottom 10 per cent) are dismissed. It has recently become less popular.

Formal performance reviews are typically annual events in which a joint analysis of performance over the past year takes place to establish the extent to which objectives have been achieved and the development plan implemented. They usually include a rating, for example, on a five-point scale A (excellent) to E (unacceptable). Following the review a performance and development plan is agreed for the next year. The outcome is recorded online or on a paper performance management form.

As discussed in Chapter 6, in which the conduct of reviews is considered in more detail, the use of formal annual reviews has been the subject of much criticism. A number of organizations have abandoned them in favour of less formal and more frequent performance and development conversations throughout the year.

Performance management models

Models of performance management can help to communicate how a system works to employees. A number of examples, some of them rather complex, are shown in Figures 2.3 to 2.14. The models illustrated include some that resemble the performance management model shown at the beginning of this chapter. Others adopt a flow chart or diagrammatic approach. However, all contain the essential elements of the ideal version of performance management, namely: planning, review and assessment.

The reality of performance management systems

The models shown on pages 36 to 41 are interesting although some are so elaborate that the only message they will communicate is that performance management is an exceedingly complex process.

Perhaps the simple model of performance management illustrated in Figure 2.1 at the start of this chapter conveys the essence of the process. But it has its limitations. It presents an ideal picture of what a performance management system should look like and how it should function. However, in practice the system often probably does not work according to plan for reasons explained in Chapter 16.

There are four problems with the model:

- 1** The model indicates a steady progression through the stages of performance management, each of them linked together. This is both logical and desirable but in reality it may be difficult to achieve. The natural tendency of managers is to compartmentalize these activities, if they carry them out at all. They do not always appreciate how they are connected and what they should do to ensure that the cycle does work smoothly.
- 2** It can encourage an over-elaborate approach. Systems designers may be tempted to cover every aspect of the model in detail and turn what should be a natural and straightforward management process into a bureaucratic nightmare with complex procedures and intricate paper- or computer-based forms. When developing a performance management system the watchwords are 'keep it simple'. Remember that line managers may be even more reluctant to do it well if they have to follow over-elaborate procedures and understand obscure jargon. The important thing to do is to ensure that the basic processes are explained and illustrated in communications about the system and in training programmes.
- 3** The notion that there is a smooth transition from the organization's strategic goals to individual goals is more difficult to achieve than it sounds. Strategic goals at organizational level may not always translate easily into individual goals because organizational goals are not defined well enough or are too remote from the work of individual employees. Many commentators have extolled the virtue of alignment; few have made practical suggestions about how it can be achieved. It can also be argued that strategic goals will inevitably be determined by top management without consulting employees, and that simply 'cascading' goals downwards contradicts the performance management principle that people should be

involved in agreeing their own goals. The answer to this objection is that, although at individual level account should be taken of overarching goals, individuals can usefully take part in discussions on how they can further the achievement of those goals.

- 4 The success of the model will largely depend on the context in which it operates. Fletcher (1993) noted the evolution in many organizations of a number of separate but linked processes applied in different ways according to the needs of local circumstances and staff levels. Some organizations reject the concept of a bureaucratic, centrally controlled and uniform system of performance management that is implied by the model, and instead accept that, within an overall policy framework, different approaches may be appropriate in different parts of the organization and for different people. Performance management is applied in many different ways according to the context in which it is used. These ways will not necessarily conform to those prescribed by the model. The contextual factors include the type of operation and the organization's structure. Importantly they also include the organization's culture as expressed in its philosophy or norms (explicit or implicit) on how people should be managed and the prevailing management style, for example, the degree to which it is controlling or participative. As Stoskopf (2002) put it: 'A [performance management] system with the most academically correct competencies or performance measures may fail if it does not fit with the company's culture or workforce.' Pulakos et al (2008) summed this up as follows:

Performance management is often referred to as the 'Achilles heel' of HRM. All modern organizations face the challenge of how best to manage performance. That is, they must determine the best ways to set goals, evaluate work and distribute rewards in such a way that performance can be improved over time. While all firms face similar challenges, the way a firm responds to these challenges will depend on where the firm is located and the context within which it is operating. Differences in culture, technology or simply tradition make it difficult to directly apply techniques that have worked in one setting to a different setting.

Because of these problems many organizations have a performance management system, which broadly follows this model and looks good but doesn't work. Others, however, if they do anything at all, still use old-style, tick-box, top-down performance appraisal systems which provide an easy way out (managers need do little more than fill up the forms or answer the standardized questions in a web-based system) and act as a means of exercising control.

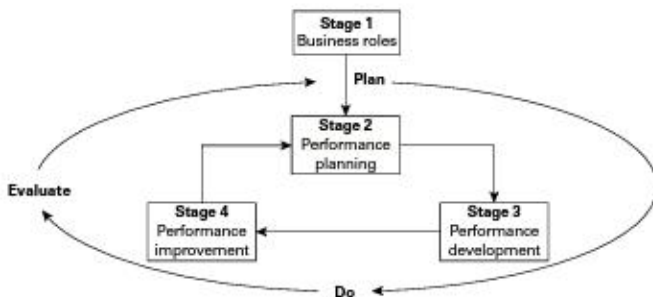
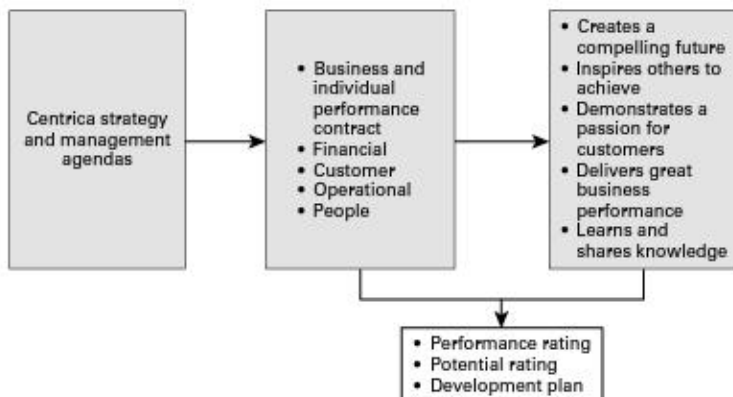
Figure 2.3 Model of the performance management system in AstraZeneca**Figure 2.4** Model of the performance management system in Cemex**Figure 2.5** Model of the performance management system in Centrica

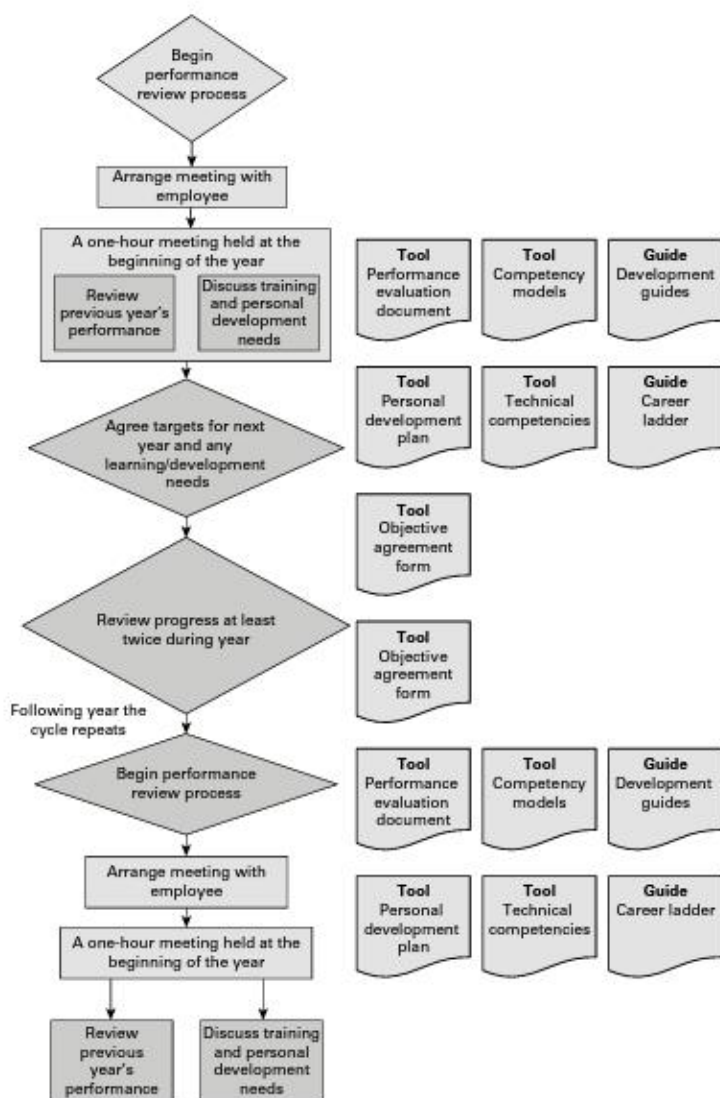
Figure 2.6 DHL's performance management cycle

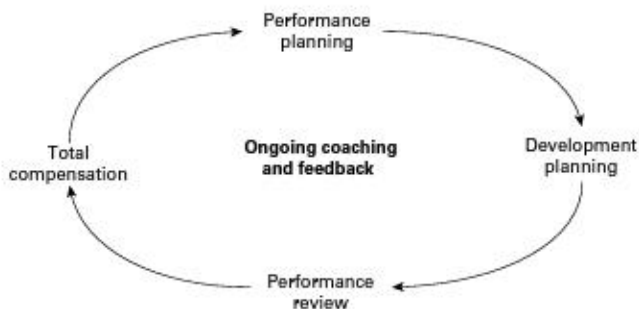
Figure 2.7 Model of the performance management system in HalifaxBOS**Figure 2.8** Model of the performance management system in Pfizer Inc**Figure 2.9** Model of the performance management system in Raytheon

Figure 2.10 Model of the performance management system in the Royal College of Nursing

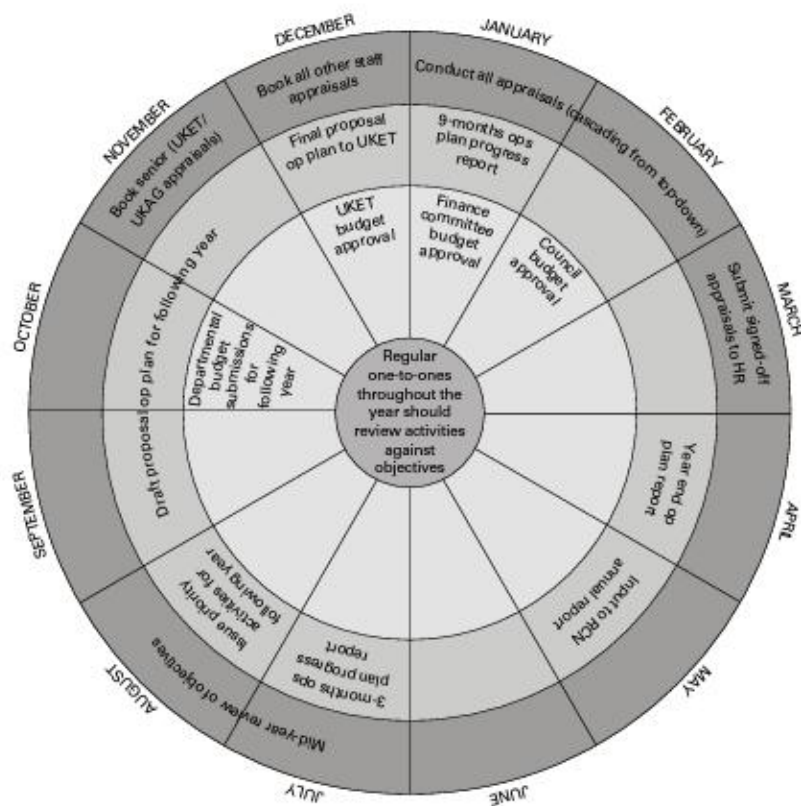


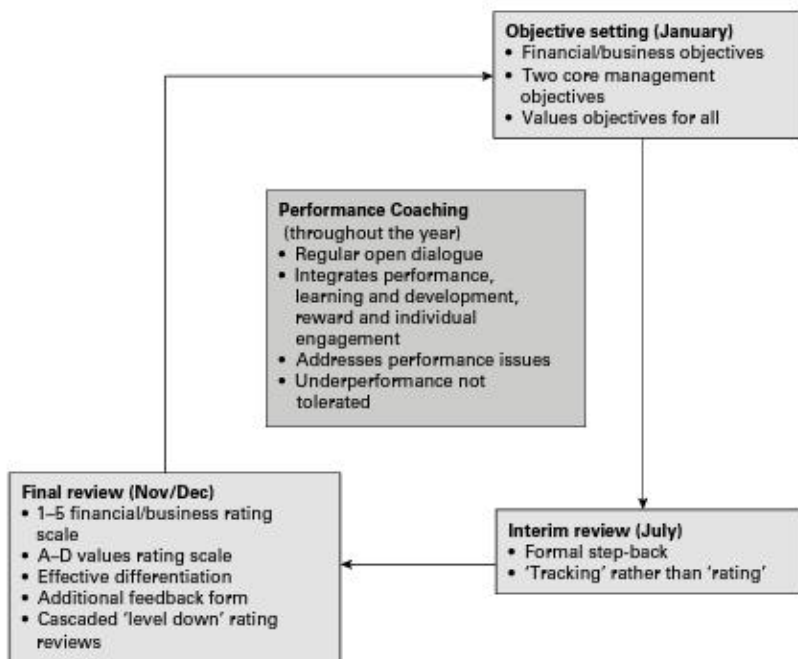
Figure 2.11 Managing for high performance model in Standard Chartered Bank**Figure 2.12** Managing for future high performance model in Standard Chartered Bank

Figure 2.13 Model of the performance management system in The Victoria and Albert Museum

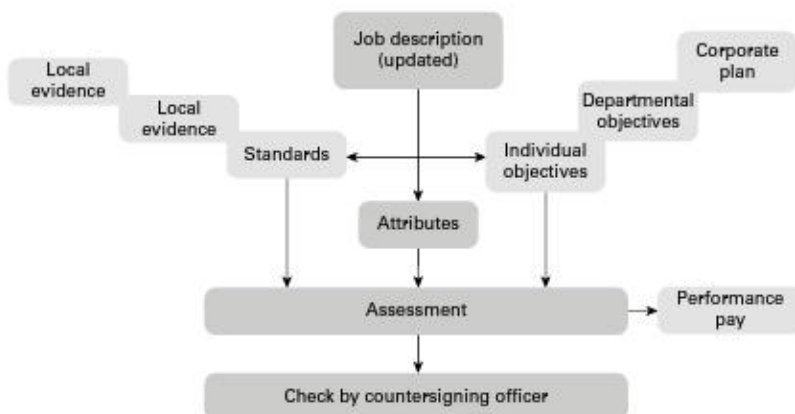
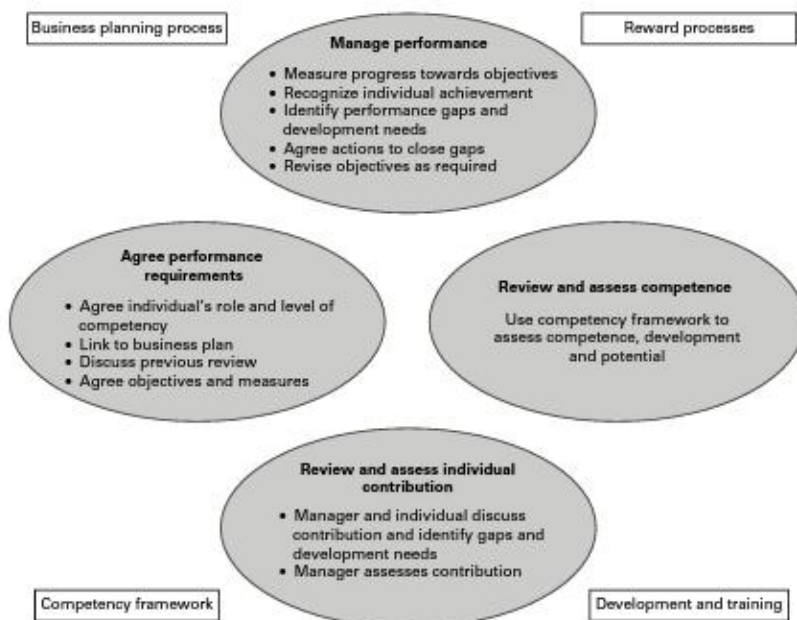


Figure 2.14 Model of the performance management system in Yorkshire Water



References

- Fletcher, C (1993) Appraisal: an idea whose time has gone? *Personnel Management*, September, pp 34–37
- Pulakos, E D, Mueller-Hanson, R A and O'Leary, R S (2008) Performance management in the US, in *Performance Management Systems: A global perspective*, eds A Varma, P S Budhwar and A DeNisi, Routledge, Abingdon
- Stoskopf, G A (2002) Taking performance management to the next level, *Workspan*, 45 (2), pp 28–30

The impact of performance management

03

If performance management processes are intended to improve performance, how well do they perform? When asked, just over a half of the respondents to the e-reward 2014 survey of performance management said that the impact of performance management was 'fairly positive' while 8 per cent believed it to be 'very positive'. In contrast 8 per cent found performance management made a negative impact while 14 per cent believed that it had no effect. It is interesting that a fifth of respondents said that they simply did not know. These results are equivocal, especially as they are probably based on opinion rather than evidence – only 31 per cent of the e-reward respondents evaluated performance management and this was mainly based on general internal attitude surveys rather than on specific analyses of its impact.

This chapter focuses on the evidence available of the impact performance management makes on organizational performance and on individual performance. It also includes summaries of research on how this impact is best achieved. As a background to this research, consideration is given first to how performance management is expected to improve performance and second to the problems of establishing the impact of performance management – the causality issue.

How performance management is expected to improve organizational performance

Performance management is expected to improve organizational performance generally by creating a performance culture in which the achievement of high performance is a way of life and by doing everything possible to improve individual performance. Individual improvement is meant to happen when

people understand what they are expected to do, receive feedback on how well they are doing it and agree and implement development plans that build on strengths and help to overcome weaknesses.

Jones (1995) suggested that performance management could:

- communicate a shared vision throughout the organization to establish and support appropriate leadership and management styles;
- define individual requirements and expectation of all employees in terms of the inputs and outputs expected from them thus reducing confusion and ambiguity;
- provide a framework and environment for teams to develop and succeed;
- provide the climate and systems which support reward and communicate how people and the organization can achieve improved performance;
- help people manage ambiguity.

It may be assumed that improvements in organizational results will be guaranteed when managers and their team members work together throughout the year in using performance management processes such as goal setting, feedback, performance analysis and coaching. The need is to provide evidence that this belief is justified. But it isn't easy for the reasons given below.

Establishing the impact on organizational performance

Any explanation of the impact of performance management on organizational performance is likely to be based on three propositions: (1) that performance management practices can make a direct impact on employee characteristics such as engagement, commitment, motivation and skill; (2) if employees have these characteristics it is probable that organizational performance in terms of productivity, quality and the delivery of high levels of customer service will improve; and (3) if such aspects of organizational performance improve, the financial results achieved by the organization will improve. This can be described as the performance management value chain.

The propositions highlight the existence of an intermediate factor between performance management and financial performance. This factor consists of the outcomes in the shape of employee characteristics affected by performance management practices. Therefore, performance management does not make a direct impact.

Establishing the impact between human resource management (HRM) practices, including performance management, and firm performance is always problematic because of causality issues. Determining the link between independent and dependent variables (cause and effect) is a major problem in research, especially in the HRM field. Correlation does not imply causation. It may be relatively easy to establish correlations in the shape of a demonstration that X is associated with Y; it is much more difficult and sometimes impossible to prove that X causes Y.

First, there is the problem of multi-causation. There may be a number of factors contributing to an outcome and it might be difficult to isolate one of those factors and assess its contribution to achieving a result.

Second, there is the phenomenon of reverse causation when a cause is pre-dated by an effect – A might have caused B but alternatively, B may have come first and be responsible for A. For example, it is possible to demonstrate that firms with effective learning and development programmes do better than those without. But it might equally be the case that it is high-performing firms that introduce effective learning and development programmes. It can be hard to be certain.

In the light of these problems it is hardly surprising that there is not much if any convincing research evidence of a causal link between performance management and firm performance. However, it is easier to establish the extent to which performance management improves individual performance (reverse causation is not an issue; it is easier to isolate the factors involved and it is possible to use rigorous research methods to provide evidence).

Evidence of the impact on organizational performance

Research projects that have examined the impact of performance management on overall firm performance are summarized below.

Bernardin et al (1995) found no changes in customer ratings or sales volume following 360-degree feedback.

Gallup as reported by Risher (2005) analysed its Q 12 survey and found that employers with a formal performance review process have more engaged employees (33 per cent versus 21 per cent) and fewer disengaged employees (12 per cent versus 29 per cent).

Guest and Conway (1998) carried out an analysis of the impact of performance management in the 388 organizations with performance management

surveyed by the IPD in 1997. The key criteria used for determining the impact were the achievement of financial targets, development of skills, development of competence, improved customer care and improved quality. Against these criteria, over 90 per cent of respondents rated performance management as being moderately or highly effective. But there were caveats. The analysis indicated that the views of respondents to the survey should all be viewed with extreme caution since they were often based on a very limited form of formal evaluation, or on an absence of any formal evaluation. This raised serious questions about the basis for the generally positive assessment of performance management. Further, more detailed statistical analysis of the replies to the questionnaire failed to demonstrate consistent evidence of any link between the practice of performance management and outcomes such as the achievement of financial targets, achievement of quality and customer service goals and employee development goals. The conclusion reached was that this survey has produced no convincing evidence that performance management has an impact on overall organizational performance.

The Institute of Personnel Management's (1992) extensive research found no evidence that improved performance in the private sector is associated with the pursuit of formal performance management programmes. Poor financial performers were as likely to introduce performance management as good performers. There were no readily available and comparable measures of performance in the public sector to test this link even though performance management is more likely to be adopted in the public sector. However, one positive theme that was traced throughout the research was the extent to which performance management raised awareness of the pressures on the organization to perform.

McDonald and Smith (1991) conducted research covering 437 publicly quoted US companies. The findings were that the 205 respondents with performance management as opposed to the others without had:

- higher profits, better cash flows, stronger stock market performance and higher stock value;
- significant gains over three years in financial performance and productivity;
- higher sales growth per employee;
- lower real growth in number of employees.

The researchers commented that: 'In the successful companies the difference in managing employee performance seems to be that it is regarded as a

mainstream business issue, not an isolated “personnel problem”.’ This looks like a classic case of reversed causality. Performance management systems may have generated successful companies but it is just as likely that the successful companies were the ones with the inclination and money to introduce sophisticated practices such as performance management.

Rodgers and Hunter (1991) carried out a meta-analysis of 70 studies in goal setting, participation in decision-making and objective feedback (as included in typical management-by-objectives programmes) and found that 68 of them showed productivity gains and only two showed productivity losses. They concluded that when properly implemented and when supported by top management such programmes had an almost universal positive effect on productivity.

Sibson and WorlDatWork as reported by Kochanski (2007) conducted a survey which found that high-performing firms have strong leadership support for performance management. An analysis of total return to shareholders over a three-year period revealed that 64 per cent of the top performing companies had performance management systems that were rated as effective compared to only 36 per cent of the of bottom performing companies. The companies that excelled at performance management (1) used their systems as the primary way to manage individual performance throughout the company, (2) have strong leadership support and (3) have more line champions. This may be a case of reversed causation.

Impact on individual performance

The impact of performance management on individual performance is easier to establish and research has produced convincing evidence that it does have a positive effect.

The CIPD analysis

A comprehensive review by the CIPD (2016) cited the following research projects on the relationship between various aspects of performance management and individual performance, covering both the impact on performance and the factors affecting it.

Brown and Latham (2002) established that in complex jobs, what consistently leads to higher performance are the vaguer, more general ‘do-your-best’

outcome goals. The reason for this is that 'do-your-best' goals encourage people to focus on task-relevant ways to attain the goal, whereas specific challenging goals focus them on the potential negative consequences of failure.

Budworth et al (2015) conducted research which showed that employees' perceptions of fairness had an effect on the relationship between feedback and overall subsequent performance.

Corgnet et al (2015) compared the responses of lower-ability and higher-ability workers to the same goals and found that the differences are marked. Workers who were likely to find the goals challenging increased their performance by 40 per cent compared with the baseline control group, whereas those who were likely to find them easy achieved the same level of performance as if they had not been presented with any goals.

Harkin et al (2016) conducted research which showed that monitoring goal progress is a crucial step from setting to attaining a goal.

Harkins and Lowe (2000) found that goals set by a boss are more effective than self-set goals in driving performance.

Jaeger et al (2015) established that clear and specific goals are shown to lead to higher performance for negotiation outcomes.

Jeffrey et al (2012) did a randomized controlled study which showed that 'ability-based' goals are more effective at improving performance than a one-size-fits-all approach, where everyone is assigned the same performance target. This was particularly the case for lower- and moderate-ability participants, who always achieved more when goals were tailored to their level.

Kleingeld et al (2011) conducted a meta-analysis of controlled trials and found that goal setting – including specific challenging goals, moderate goals and easy goals – had only a moderate effect on group performance.

Kluger and DeNisi (1996) reviewed about 3,000 research papers and identified 607 high-quality studies or tests from 107 papers, and found that overall, feedback had a moderate-sized positive impact on performance. However, they pointed out that the results varied considerably. In some cases there was no significant impact and in a third of cases, feedback actually decreased performance. As the CIPD (2016) pointed out: 'This difference in results reflects the complex picture of giving feedback in different performance scenarios and, in particular, of different approaches to giving feedback.'

Mesmer-Magnus and Viswesvaran (2007) reviewed 61 studies and established that setting objectives made a very large impact on learning outcomes.

Other researchers

The impact of performance management on performance has been studied by other researchers as follows:

Latham and Locke (1979) reported that: 'In a 14-year programme of research, we have found that goal setting does not necessarily have to be part of a wider management system to motivate performance effectively. It can be used as a technique in its own right.' Laboratory research established that 'individuals assigned hard goals persistently performed better than people assigned moderately difficult or easy goals'. Furthermore, individuals who had specific, challenging goals outperformed those who were given such vague goals as 'do your best'. Field research in a logging company involving 292 supervisors established that those who set specific production goals achieved the highest productivity. A further study of 892 supervisors produced the same result.

Pulakos et al (2008) cited recent Watson Wyatt research which found that only 30 per cent of workers felt that their performance management system helped to improve performance. Less than 40 per cent said that the system established clear performance goals or generated honest feedback.

West et al (2002) carried out a study of the relationship between human resource management practices and organizational performance in hospitals. They noted that: 'There is considerable evidence that the extensiveness and sophistication of appraisal are linked to changes in individual performance.'

Conclusions on impact

The results of the impact on organizational studies are mixed although the research on the impact on individuals is more promising. But it is still possible to believe in the benefits of performance management to organizations. This belief rests on the assumption that people are more likely to respond positively and are more likely to work to improve their performance and develop their capabilities if they receive feedback and encouragement from their manager, share in the processes of defining expectations and reviewing performance with reference to those expectations, and are involved in creating and implementing plans for developing their skills and abilities. If this happens generally (admittedly often a big if), and if the organization provides

the managerial and systems support necessary, than the presumption that this will contribute to overall performance improvement is not unreasonable, even if it cannot be proved.

References

- Bernardin, H J, Hagan, C and Kane, J (1995) The effects of a 360 degree appraisal system on managerial performance, *Proceedings at the 10th annual conference of the Society for Industrial and Organizational Psychology*, Orlando FL
- Brown, TC and Latham, G P (2002) The effects of behavioural outcome goals, learning goals, and urging people to do their best on an individual's teamwork behaviour in a group problem-solving task, *Canadian Journal of Behavioural Science*, 34 (4), pp 276–85
- Budworth, M, Latham, G and Manroop, L (2015) Looking forward to performance improvement: a field test of the feedforward interview for performance management, *Human Resource Management*, 54 (1), pp 45–54
- Chartered Institute of Personnel and Development (2016) *Could Do Better: What works in Performance Management* <https://www.cipd.co.uk/knowledge/fundamentals/people/performance/what-works-in-performance-management-report> [accessed 3 March 2017]
- Corgnet, B, Gómez-Miñambres, J and Hernán-Gonzalez, R (2015) Goal setting and monetary incentives: when large stakes are not enough, *Management Science*, 61 (12), pp 2926–44
- e-reward (2014) *Survey of Performance Management*, Stockport, e-reward
- Guest, D E and Conway, N (1998) An analysis of the results of the IPD performance management survey, in *Performance Management: The new realities*, eds M Armstrong and A Baron, IPD, London
- Harkin, B, Webb, T L, Chang, B P, Prestwich, A, Conner, M, Keller, I, Benn, Y and Sheeran, P (2016) Does monitoring goal progress promote goal attainment? A meta-analysis of the experimental evidence, *Psychological Bulletin*, 142 (2), pp 198–229
- Harkins, S G and Lowe, M D (2000) The effects of self-set goals on task performance. *Journal of Applied Social Psychology*, 30 (1), pp 1–40
- Institute of Personnel Management (1992) *Performance Management in the UK: An analysis of the issues*, London, London
- Jaeger, A, Loschelder, D D and Friese, M (2015) How self-regulation helps to master negotiation challenges: an overview, integration, and outlook, *European Review of Social Psychology*, 26 (1), pp 203–46
- Jeffrey, S A, Schulz, A and Webb, A (2012) The performance effects of an ability-based approach to goal assignment, *Journal of Organizational Behavior Management*, 32 (3), pp 221–41

- Jones, T W (1995) Performance management in a changing context, *Human Resource Management*, 34 (3), pp 425–42
- Kleingeld, A, Van Mierlo, H and Arends, L (2011) The effect of goal setting on group performance: a meta-analysis, *Journal of Applied Psychology*, 96 (6), pp 1289–304
- Kluger, A N and DeNisi, A (1996) The effects of feedback interventions on performance: a historical review, a meta-analysis, and a preliminary feedback intervention theory, *Psychological Bulletin*, 119 (2), pp 254–84
- Kochanski, J (2007) Sibson reveals secrets of successful performance management, *Employee Benefit News*, September, pp 22–23
- Latham, G P and Locke, E A (1979) Goal setting – a motivational technique that works, *Organizational Dynamics*, Autumn, pp 442–47
- McDonald, D and Smith, A (1991) A proven connection: performance management and business results, *Compensation & Benefits Review*, January–February, pp 59–64
- Mesmer-Magnus, J and Viswesvaran, C (2007) Inducing maximal versus typical learning through the provision of a pretraining goal orientation, *Human Performance*, 20 (3), pp 205–22
- Pulakos, E D, Mueller-Hanson, R A and O'Leary, R S (2008) Performance management in the US, in *Performance Management Systems; a global perspective*, eds A Varma, P S Budhwar and A DeNisi, Routledge, Abingdon
- Risher, H (2005) Getting serious about performance management, *Compensation & Benefits Review*, November/December, pp 18–26
- Rodgers, R and Hunter, J E (1991) Impact of management by objectives on organizational performance, *Journal of Applied Psychology*, 76 (2), pp 322–36
- West, M A, Borrill C, Dawson, J, Scully, J, Carter, M, Anelay, S, Patterson, M, Waring, J (2002). The link between the management of employees and patient mortality in acute hospitals, *The International Journal of Human Resource Management*, 13 (8), pp 1299–310

THIS PAGE IS INTENTIONALLY LEFT BLANK

PART TWO

**Performance
management
practice – the ideal
and the reality**

THIS PAGE IS INTENTIONALLY LEFT BLANK

Performance and development agreements

04

Performance and development agreements set out the outcome of discussions between managers and individual members of their team first on what the latter are expected to do and achieve and second, how they should develop their skills and abilities and, as necessary, improve their performance to ensure that those expectations are met.

Performance and development agreements can be formal and elaborate affairs, made during an annual performance review. They may be stuffed with jargon such as SMART goals, critical success factors and key performance indicators. This is the traditional approach, which is summarized in the first section of this chapter. Alternatively, and preferably, they can be relatively informal and are discussed at any time during the year whenever necessary. Managers will continue to be involved in defining roles, setting objectives and agreeing development plans, and methods of doing so are examined in later sections of this chapter. But these natural processes are not buried in the depths of a bureaucratic performance management system.

Performance and development planning – the traditional approach

The traditional approach to performance and development planning has the characteristics listed below.

- 1 Role profiles are agreed which set out the key result areas of the role (KRAs). Key result areas are the elements or core tasks of a role for which clear outputs or outcomes can be defined, each of which makes a significant contribution to achieving the overall purpose of the role.

- 2 'SMART' (specific, measurable, achievable, relevant, time-based) objectives are set for each key result area.
- 3 Critical success factors (CSFs) are defined that indicate the key aspects of performance. These may be presented as a balanced scorecard (see Chapter 5).
- 4 Key performance indicators (KPIs) are identified. These are the metrics or other sources of information, which measure levels of performance by indicating what results have been achieved.
- 5 Performance improvement plans are prepared that spell out what employees need to do to achieve better results.
- 6 Personal development plans are agreed which describe how employees can develop their knowledge and skills and thus improve performance and enhance their career prospects.

This approach appears to be logical and comprehensive. But there is one fundamental problem: it is too complex. The managers who are expected to use it have to carry out a sequence of elaborate activities using unfamiliar jargon often expressed in acronyms.

What they want to do and what they need to do is to be clear about what they expect their team members to achieve, to convey those expectations to them, to assess the extent to which what needs to be done has been done, to deal with any problems this assessment reveals and to support the development of the skills and abilities of their team members. This amounts to quite a lot but it is what managers do and they don't necessarily need an elaborate performance management system in order to do it. What they really need is help and advice through coaching and mentoring, supplemented but not replaced by formal training. The aim should be to encourage them to ensure that roles and objectives are defined and agreed and that development plans are made and implemented as discussed below.

Defining roles

A role is the part played by individuals in carrying out their work. People need to understand what their role is in order to do their work properly and to develop the necessary knowledge and skills.

Roles do not have to be defined formally on paper although for reference purposes some record can usefully be made of what role holders are generally

there to achieve (the purpose of the role) and the important responsibilities involved in achieving that purpose (usually called key result areas – a piece of jargon but helpful jargon). Such records are often called role profiles in which the focus is on results to distinguish them from the more traditional job description, which generally was limited to listing tasks or duties. A role profile need not be a huge document. A role can and should be described on the classic one side of one sheet of paper.

Methods of preparing a formal role description or role profile (if this is required) in terms of its overall purpose and key result areas are set out below.

Overall purpose

This section should convey in one sentence a broad picture of the role – a succinct account of what the role holder is there to achieve. For example:

- To administer appeals and the processing and recording of donations.
- To plan and implement brand promotion strategies.
- To specify, develop, implement and ensure the maintenance of production engineering equipment and processes in accordance with production requirements.
- To supervise a team providing full financial accounting services for a profit centre.

Key result areas

The following steps are required to describe the key result areas in a formal role profile:

- 1 Define the overall purpose of the role.
- 2 Conduct an analysis of the role to identify the main activities required to achieve its overall purpose.
- 3 Group the main activities identified by the role analysis together so that no more than five or six areas remain. If the number is extended much beyond that, the role profile will become over-complex and it will be difficult to be specific about tasks or duties.
- 4 Define each activity in one sentence, starting with a verb in the active voice, to provide a positive indication of what has to be done and eliminate

unnecessary wording. Examples are: plan, prepare, produce, implement, process, provide, schedule, complete, dispatch, maintain, liaise with, and collaborate with.

- 5 Describe what is done as succinctly as possible, for example: test new systems, post cash to the nominal and sales ledgers, dispatch packed output to the warehouse, schedule production, ensure that management accounts are produced, prepare marketing plans.
- 6 State briefly the purpose of the activity as a key result area in terms of outcomes, outputs or standards to be achieved. For example:
 - test new systems to ensure they meet agreed systems specifications;
 - post cash to the nominal and sales ledgers in order to provide up-to-date and accurate financial information;
 - dispatch to the warehouse planned output so that all items are removed on the same day they are packed;
 - schedule production to meet laid-down output and delivery targets;
 - ensure that management accounts are produced which provide the required level of information to management and individual managers on financial performance against budget and on any variances;
 - prepare marketing plans that support the achievement of the marketing strategies of the enterprise, are realistic, and provide clear guidance on the actions to be taken by the development, production, marketing and sales departments;
 - plan and implement sales campaigns to meet sales targets;
 - achieve sales volume and contribution targets;
 - respond to customer queries and complaints within one working day.

An example of a formal role profile is given in Figure 4.1.

But good managers will make sure that their team members know what is expected of them without recourse to an elaborate process of job analysis and a formal role profile. Here's what four people said about their managers to Dilys Robinson (2013) who carried out research for the Institute for Employment Studies in which she initially identified a number of managers in charge of departments in large organizations where surveys revealed that levels of employee engagement were high, and then investigated how they did this through the ways in which they managed performance:

He's very focused on [how] everything that we do fits in with the higher strategic initiatives... so we all pretty much know what we're supposed to be doing and where it fits in, and why.

He gives direction. He shows interest and gives advice when needed. You really know where you are and what your goals are.

He gives a steer. If you need help he gives it; otherwise, he trusts you to get on with it.

There's a lot of sitting down, explaining direction, defining roles and responsibilities.

Figure 4.1 Example of a role profile

Role title: Database manager

Overall purpose of role: To develop and maintain databases and their underlying environment

Key result areas:

- Identify database requirements for all projects that require data management in order to meet the needs of internal customers.
- Develop project plans collaboratively with colleagues to deliver against their database needs.
- Provide the level of service required by internal customers.
- Ensure security of the database infrastructure through adherence to established protocols and develop additional security protocols where needed.
- Develop positive relationships with colleagues as the supplier of an internal service.

Setting objectives

Setting objectives is usually regarded as a key performance management activity. Objectives describe the direction people should take and provide the criteria needed to assess performance. They are the means through which the organization's strategies can be communicated to employees. Lawler et al (2012) observed that:

Objectives provide a very effective approach to directing individuals to support the business strategy of the organization and can translate strategies from an organizational objective to specific individual behaviours... It is hard to imagine an effective performance management scheme that does not utilize objectives in some way.

A study by Longenecker (1997) established that eight in ten respondents to his survey suggested that the failure to have clear performance criteria negated the potential benefits of conducting an appraisal. Performance objectives as a basis for performance planning and assessment were used by 83 per cent of the respondents to the e-reward 2014 survey of performance management.

What is an objective?

A performance objective or goal (the terms are interchangeable) defines what someone has to accomplish. Objectives can be agreed as specific performance targets that define the quantifiable results to be attained or as more qualitative performance standards which describe the conditions that exist when a task is well done. A key result area definition that spells out the outcomes expected is also in effect an objective. As targets, objectives will often state the results to be obtained by a specified date or over a timescale. Standards and key result areas statements may be ongoing although they are always subject to revision.

Behavioural and learning objectives can also be set. The former refer to aspects of behaviour such as teamwork and cooperation, and the latter are concerned with the development of existing skills or the acquisition of new ones.

The following are some examples of performance targets:

- Increase market share for product A by X per cent by end of financial year.
- Reduce waiting lists by Y per cent within six months.
- Increase successful outcome of cold calls by Z per cent by end of February next year.
- Launch product B by end of April next year.
- Plan and conduct employee survey by end of July this year.
- Distribute management accounts to managers within three working days of the end of the accounting period.
- Respond satisfactorily to 90 per cent of customer queries or complaints within 24 hours – the rest to be acknowledged within 24 hours and answered within three working days.
- Complaints from customers should not exceed 1:1,000 transactions.
- Job evaluation appeals should be held within five working days.

Here are examples of performance standards:

- Performance will be up to standard when callers are dealt with courteously at all times even when they are being difficult.
- Performance will be up to standard when line managers obtain guidance on inventory control practice, which makes a significant contribution to the achievement of inventory targets.
- Performance will be up to standard when proposals for new product development are fully supported by data provided from market research and product-testing programmes.
- Performance will be up to standard when data is consistently inputted to the database promptly and accurately.

The process of setting objectives

Setting objectives starts with the identification, definition and agreement of the purpose of the role and the main things that have to be done to achieve that purpose – ie, the key result areas. It involves answering five questions:

- 1 What is the overall purpose of the role?
- 2 What are the key activities (the key result areas) the role holder has to carry out to attain that purpose? (no more than five or six)
- 3 For each of these key activities, what is the job holder expected to achieve? (express these in terms of targets or standards or performance standards)
- 4 How do these objectives support the achievement of corporate goals?
- 5 How will we know that these targets or performance standards have been achieved?

Criteria for an objective

A good objective is clear, relevant and challenging but achievable. It should be possible to establish without too much difficulty the extent to which it has been achieved. So far as possible it should be aligned to corporate goals (this is not easily done when corporate goals are poorly expressed or are too remote from the role, but the balanced scorecard as described in Chapter 5 is a possible method of solving this problem).

The acronym 'SMART' is often used to define a good objective. Traditionally, S stands for specific (sometimes stretching), M for measurable, A for agreed, R

for realistic and T for time-related. But there is the danger of over-reliance on the SMART acronym – it can be both simplistic and mechanistic.

There can also be difficulties when too many objectives are set thus creating confusion and overloading. This is what Pierre Nanterme, Chief Executive of Accenture, told an interviewer from the *Washington Post* in 2015:

Like many companies, we wanted to set the right objectives for our people, but very rapidly we got to a list of 5, 10, 15, 20 objectives, which started to be extraordinarily conflicting, confusing and difficult to evaluate. They created a maximum bureaucracy and at the end of the day blocked people. Instead of motivating or evaluating people, it just became piling tons of metrics and objectives on them.

Making objectives work

The CIPD (2016) drew the following conclusions from an analysis of the extensive research on this subject:

- Objective setting as a driver of performance only works if employees are helped to monitor their progress and are given feedback.
- Setting objectives can work well but should be used carefully. Its impact will vary with the context and it can lead to distorted incentives as much as improved performance.
- When tasks are complex, ‘do-your-best’ objectives focused on learning and behaviour are preferable.
- Behavioural and learning objectives are the best way to improve performance for as long as it takes for people to be able to learn what they need to do.

An alternative to objectives

Objective setting as described above can be a complex, daunting and unsatisfactory process. These problems can be alleviated by simplification, training and guidance. But it often remains a difficult concept for managers and employees to grasp. The alternative is to think the unthinkable and abolish the traditional method of setting objectives altogether. This is what Microsoft has done. Instead of setting ‘SMART’ objectives, employees are expected to maintain a list of their core priorities. These just describe what an individual is going to do, what the expected impact is and any ways to measure or

quantify success. An employee's core priorities might be relevant for three weeks, while another priority may be relevant for three years – or anywhere in between. Microsoft guides people to only have between three and five active priorities at a time and suggests that they only need to be two or three sentences long. But how people define their core priorities is very flexible. It is at the control of the employee – although managers' implicit agreement is still required.

This is an approach which people may find easier to grasp. They simply have to look at their job and think about the most important things they are expected to do without having to dream up artificial targets and standards for everything. In one job one of the priorities might be to complete a major project. In another, it might be to achieve an agreed sales target. In yet another, it might simply be to regularly carry out the administrative tasks required efficiently and effectively. There is much to be said for it.

Development planning

Development planning is the process first of identifying needs to acquire or extend knowledge and skills (learning needs) and to overcome performance or behavioural problems (performance improvement needs). Secondly, decisions are made on how these needs should be satisfied. Performance management has an important developmental role. As Lawler et al (2012) noted: 'A key issue for any performance management system is how effectively it identifies the skill needs of individuals and assures that they are adequate.'

Traditionally, performance management provided learning and performance development opportunities through the processes of concluding performance agreements and reviewing performance. This can still happen if a formal annual review system is in place. But it is best to provide these opportunities throughout the year.

Learning is inseparable from activity, and like performance management it is a continuous process. Every task carried out by someone presents a learning opportunity and it is the duty of managers to help people become aware of this and to support the day-to-day learning that takes place. They should enable people to understand how they should tackle a new task and what additional knowledge or skills they will need. Guidance can be provided by asking questions on what individuals need to know and be able to do to undertake a task, leaving them as far as possible to think for themselves but helping them when necessary.

Feedback throughout the year rather than during an annual performance review is also an important means of helping people to learn and overcome performance or behavioural problems. They can be asked to analyse their performance and their behaviour – the results they achieved in undertaking a task and the ways in which those results were achieved. Where they recognize a need for improvement they can discuss with their manager any additional coaching, training or experience they require.

Development plans are always related to work and the capacity to carry it out effectively. They are *not* just about identifying training needs and suitable courses to satisfy them. Training courses may form part of the development plan, but a minor part; other learning activities such as those listed below are more important.

- coaching;
- adopting a role model (mentor);
- observing and analysing what others do (good practice);
- extending the role (job enrichment);
- project work – special assignments;
- involvement in other work areas;
- involvement in communities of practice (learning from others carrying out similar work);
- action learning;
- e-learning;
- guided reading.

The emphasis should be on self-managed learning – as much as possible individuals should be able to plan and implement their own learning programmes with help and advice as required,

The approach of Lloyds Banking Group to development planning is given below.

Development plans provide an important way for colleagues to drive personal and business improvement by providing a framework that helps colleagues to build new skills, refine behaviours and acquire different experiences.

Line managers have an important role to play in supporting colleagues with their development plans to build on areas of strength, identify skills gaps and support career aspirations.

When should a development plan be used?

At the beginning of the year the focus of the first colleague's 1:1 should include agreeing a development plan with their line manager.

The development plan is a living, breathing document that continually evolves. It should be reviewed and updated through regular one-to-one conversations in order to truly represent how a colleague has owned their development throughout the year.

At mid-year and year-end performance rating discussions, the progress of the development plan and the degree of colleague's development as a result should form a part of the discussion and performance rating decision. Performance rating descriptions explicitly refer to self-development; a key requirement to achieve a good performer rating is to maintain a personal development plan.

What does a good Development Plan look like?

It should contain up to three development areas to focus on to address skills, behaviours or career aspirations.

Ask yourself the following questions:

- What do you want to achieve this year and longer term?
- What are your greatest strengths and how can you build on them?
- Do you have any development areas that make it difficult to do your job or prevent you from reaching your goals?
- Do you want to learn about a particular department or further develop a skill or area of knowledge?
- What development area will have the greatest impact on your performance?
- What support will you need to undertake development activities?
- In terms of activities, will you be learning on the job or will you need some learning options outside of your role?

References

- Chartered Institute of Personnel and Development (2016) *Could Do Better: What works in performance management*, <https://www.cipd.co.uk/knowledge/fundamentals/people/performance/what-works-in-performance-management-report> [accessed 3 March 2017]
- e-reward (2014) *Survey of Performance Management*, e-reward, Stockport

- Lawler, E E, Benson, G S and McDermott, M (2012) What makes performance appraisals effective? *Compensation & Benefits Review*, **44** (4), pp 191–200
- Longenecker, C (1997) Why managerial performance appraisals are ineffective: causes and lessons, *Career Development International*, **2** (5), pp 212–18
- Robinson, D (2013) *The Engaging Manager and Sticky Situations*, <http://www.employment-studies.co.uk/system/files/resources/files/493.pdf> [accessed 21 February 2017]
- Washington Post* (2015) Accenture CEO explains why he's overhauling performance reviews, <https://www.washingtonpost.com/news/on-leadership/wp/2015/07/23/accenture-ceo-explains-the-reasons-why-hes-overhauling-performance-reviews> [accessed 18 February 2017]

The balanced scorecard

05

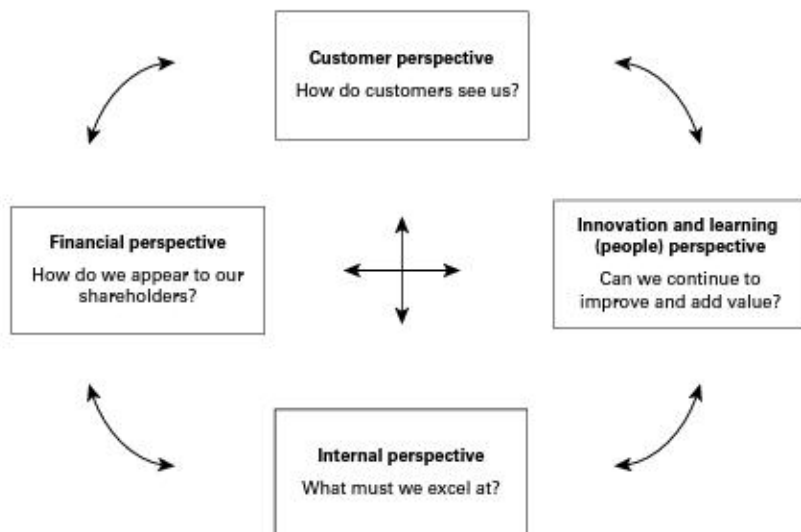
The aim of the concept of the balanced scorecard as originally formulated by Kaplan and Norton (1992, 1996) was to counter the tendency of companies to concentrate on short-term financial reporting. They emphasized:

No single measure can provide a clear performance target or focus attention on the critical areas of the business. Managers want a balanced presentation of both financial and operational measures.

Their original model of the scorecard required managers to answer four basic questions, which meant looking at the business from four related perspectives as shown in Figure 5.1.

Some organizations have replaced the innovation and learning perspective with a broader people or human capital element.

Figure 5.1 The balanced scorecard



Kaplan and Norton explained their balanced scorecard concept as follows:

[It] is well suited to the kind of organization many companies are trying to become. The scorecard puts strategy and vision, not control, at the centre. It establishes goals but assumes that people will adopt whatever behaviours and take whatever actions are necessary to arrive at those goals. The measures are designed to pull people toward the overall vision. Senior managers may know what the end result should be, but they cannot tell employees exactly how to achieve that result, if only because the conditions in which employees operate are constantly changing.

This new approach to performance measurement is consistent with the initiatives under way in many companies: cross-functional integration, customer–supplier partnerships, global scale, continuous improvement, and team rather than individual accountability. By combining the financial, customer, internal process and innovation, and organizational learning perspectives, the balanced scorecard helps managers understand, at least implicitly, many inter-relationships. This understanding can help managers transcend traditional notions about functional barriers and ultimately lead to improved decision making and problem solving. The balanced scorecard keeps companies looking and moving forward instead of backward.

They pointed out that the balanced scorecard can help to align employees' individual performance with the firm's overall strategy and commented that:

Many people think of measurement as a tool to control behaviour and to evaluate past performance. The measures on a balanced scorecard, however, should be used as the cornerstone of a management system that communicates strategy [and] aligns individuals and teams to the strategy.

Shields (2007) observed that the model can be used to define strategic indicators and goals for each of the four areas of value creation that cascade down the organization. He wrote:

Goals that are transmitted from the apex to the base of the organization will thus serve to communicate strategic business goals throughout the whole organization to the point where the goals of the individual business units and individual employees coincide at all levels with the organization's strategic success factors... [It] offers a means of thorough-going strategic alignment and provides employees with a direct line of sight between the organization's goals and theirs.

But as Shields also noted: 'Its ambitious scope means that its implementation will necessarily take considerable time, resourcing and commitment.'

Although the balanced scorecard is often regarded as only operating at corporate level it is used for individuals by 17 per cent of the respondents to

the e-reward 2014 survey of performance management. At Lloyds Banking Group it provides the framework for objective setting that takes place at the beginning of each year. It is used across the organization at all levels to:

- ensure all areas of the organization have aligned structured objectives that set out what is expected over the course of the year;
- describe how performance against these objectives will be measured;
- identify appropriate, stretching targets for each of these objectives;
- define the actions required to support the achievement of these objectives;
- produce an agreed, effective and actionable development plan.

The scorecard consists of the five categories shown in Figure 5.2.

Figure 5.2 The Lloyds Banking Group balanced scorecard categories

Finance	The key financial targets under control and influence. Typical objectives should focus on contribution to income, cost control and/or profitability and meeting other stakeholder expectations.
Building the business	Contribution to overall growth of the organization through sales, retention of existing customers and increasing depth of customer relationships, or in areas such as productivity, efficiency, operational excellence and excellent execution.
Customer	The activities that deliver a high-quality service to our customers. Quality of service experience and level of customer satisfaction.
Risk	Adherence to internal and external procedures and regulations to mitigate operational, financial and regulatory risks.
People development	The activities and behaviours that maximize people performance. Objectives and measures should focus on building knowledge, skills and employee engagement.

References

- e-reward (2014) *Survey of Performance Management*, e-reward, Stockport
- Kaplan, R S and Norton, D P (1992) The balanced scorecard – measures that drive performance, *Harvard Business Review*, January–February, pp 71–79
- Kaplan, R S and Norton, D P (1996) Using the balanced scorecard as a strategic management system, *Harvard Business Review*, January–February, pp 75–85
- Shields, J (2007) *Managing Employee Performance and Reward*, Cambridge University Press, Port Melbourne

Performance reviews

06

Performance reviews analyse and assess how well someone has performed his or her role. They are conducted by managers who provide feedback, discuss with the individual the extent to which work objectives have been achieved and the factors that have led to those results, and agree plans for improving performance where necessary and for developing skills and abilities. Performance reviews are sometimes referred to as performance appraisals, a term that used to be applied to the whole process of performance management but now usually refers only to the assessment and rating components. The most common practice in a traditional performance management system is to have one formal annual review.

A performance review can be a top-down affair in which managers tell subordinates what they think of them. But it is preferably a joint process in which a dialogue on performance matters takes place. The conversation is about *how* people carried out their work, as well as *what* they achieved and the emphasis is on future development rather than on conducting a post mortem on past events.

This chapter focuses initially on a description of the traditional formal review or appraisal. Consideration is then given to the weaknesses of the traditional approach and what can be done about them.

Purposes

The many purposes that the traditional performance review or appraisal meeting is supposed but often fails to serve are:

- *assessment* – to review how well individuals have performed their jobs;
- *objective setting* – to set new objectives and revise existing ones;
- *development planning* – to agree performance and personal development plans;

- *motivation* – to provide positive feedback and recognition;
- *communication* – to serve as a two-way channel for communication about roles, expectations, relationships, work problems and aspirations;
- *reward* – to assess performance in order to inform reward decisions, especially those concerning performance pay;
- *talent management* – to identify potential as part of a talent management programme;
- *poor performance* – to identify underperformers so that corrective action can be taken.

Method

Formal reviews include an overview and analysis of performance since the last review, comparing results with agreed objectives. They are supposed to be stocktaking exercises. Ideally, reference is made to events that illustrate performance as discussed during the year (they shouldn't be brought up at a formal meeting for the first time). The level of performance achieved is assessed so that individuals know where they stand. In many cases it is rated as described in Chapter 7. Formal reviews are usually documented on paper or recorded on a computer. A typical form is illustrated in Figures 6.1. and 6.2.

How the ideal review should be conducted

There are twelve rules for conducting an ideal formal performance review meeting:

- 1 *Be prepared.* Managers should prepare by referring to a list of agreed goals and their notes on performance throughout the year. They should form views about the reasons for success or failure and decide where to give praise, which performance problems should be mentioned and what steps might be undertaken to overcome them. Thought should also be given to any changes that have taken place or are contemplated in the individual's role and to work and personal objectives for the next period. Individuals should also prepare in order to identify achievements and problems, and to be ready to assess their own performance at the meeting. They should also note any points they wish to raise about their work and prospects.

Figure 6.1 Performance management form (part 1)

PERFORMANCE MANAGEMENT: AGREEMENT AND REVIEW SUMMARY			
Name:		Forename(s):	
Job title:		Department:	
Reviewer's name:		Job title:	
PERFORMANCE AGREEMENT			
Goals		Performance measures (key performance indicators)	
Competencies		Agreed actions	
PERSONAL DEVELOPMENT PLAN			
Development need	How it is to be met	Action by whom	Target completion

- 2 *Work to a clear structure.* The meeting should be planned to cover all the points identified during preparation. Sufficient time should be allowed for a full discussion – hurried meetings will be ineffective. An hour or two is usually necessary to get maximum value from the review.
- 3 *Create the right atmosphere.* A successful meeting depends on creating an informal environment in which a full, frank but friendly exchange of views can take place. It is best to start with a fairly general discussion which aims to put the individual at ease and create a non-threatening

Figure 6.2 Performance management form (part 2)

PERFORMANCE REVIEW	
Goals	Achievements
Competencies	Actions taken
Development needs	Actions taken
Comments by reviewer:	
Comments by reviewee:	

atmosphere and which covers the purpose of the meeting, emphasizing that it is a joint affair before getting into any detail.

- 4** *Provide good feedback.* Individuals need to know how they are getting on. Feedback needs to be based on factual evidence and careful thought should be given to what is said and how it is said so that it motivates rather than demotivates people.

- 5 *Use time productively.* The reviewer should test understanding, obtain information, and seek proposals and support. Time should be allowed for the individual to express his or her views fully and to respond to any comments made by the manager. The meeting should take the form of a dialogue between two interested and involved parties both of whom are seeking a positive conclusion.
- 6 *Use praise.* If possible, managers should begin with praise for some specific achievement, but this should be sincere and deserved. Praise helps people to relax – everyone needs encouragement and appreciation.
- 7 *Let individuals do most of the talking.* This enables them to get things off their chest and helps them to feel that they are getting a fair hearing. Use open-ended questions (ie questions that invite the individual to think about what to reply rather than indicating the expected answer). This is to encourage people to expand.
- 8 *Invite self-assessment.* This is to see how things look from the individual's point of view and to provide a basis for discussion – many people underestimate themselves.
- 9 *Discuss performance not personality.* Discussions on performance should be based on factual evidence, not opinion. Always refer to actual events or behaviour and to results compared with agreed performance measures. Individuals should be given plenty of scope to explain why something did or did not happen.
- 10 *Encourage analysis of performance.* Don't just hand out praise or blame. Analyse jointly and objectively why things went well or badly and what can be done to maintain a high standard or to avoid problems in the future. Focus on strengths rather than weaknesses.
- 11 *Don't deliver unexpected criticisms – there should be no surprises.* The discussion should only be concerned with events or behaviours, which have been noted at the time they took place. Feedback on performance should be immediate. It should not wait until the end of the year. The purpose of the formal review is to reflect briefly on experiences during the review period and on this basis to look ahead.
- 12 *Agree measurable objectives and a plan of action.* The aim should be to end the review meeting on a positive note.

These rules may sound straightforward and obvious enough but they will only function properly in a culture that supports this type of approach. This is why it is essential to take special care in developing and introducing

the system and in training managers *and* their staff. The problem is that adequate training seldom happens. Research conducted by Armstrong and Baron (2005) revealed that if training took place at all it was often limited to no more than a half or whole day introductory session – wholly inadequate when the complexities of the task of conducting formal performance reviews are considered. But there are more serious problems as discussed below.

Problems with the traditional annual performance review

The formal performance management review was described succinctly and damningly some time ago by Helen Murlis as a ‘dishonest annual ritual’. It has been subject to much more criticism lately. Here are three examples:

It [performance management] is surely the very bluntest of all the very blunt tools in the HR toolbox. Yet, each year, we drag ourselves through the soul-destroying ritualistic charade that is the annual performance appraisal. This is not thoughtful or considered performance management. Let’s just not do it. (Rob Briner, 2012)

The yearly review causes such dread. Should we kill it? Annual reviews often discourage employees rather than motivating them. (HR magazine, 2012)

In many organizations, the performance appraisal has degenerated into a mere formality, and a fruitless one at that. Employers and employees are jointly complicit, dutifully sitting across from one another but simply going through the motions, ticking off goals and targets achieved over the past 12 months, those that weren’t, and a new set of goals and targets for the next 12 months. As performance management tools, these by-the-numbers appraisals don’t hold much value for most companies, and they do little to raise employee engagement, commitment or satisfaction levels. (Reviewsnap, 2015)

Budworth et al (2015) observed that the traditional performance appraisal interview is frequently ineffective for improving a person’s job performance and may have a negative effect on an employee’s job satisfaction. They cited research to support this view by Brown et al (2010) which found that employees who had a poor experience with their appraisal interview were more likely to be dissatisfied with their job and to have low organizational commitment. They also referred to a recent four-year longitudinal study with a sample of more than 6,000 public-sector employees conducted by Linna et al (2012) which established that a poor performance appraisal experience

had a negative effect on employees' perceptions and attitudes. They noted even more troubling research by Mani (2002) showing that when employee experiences are positive, appraisal interviews still resulted in negative attitudes and lower organizational performance – over 40 per cent of the staff in a public-sector organization were dissatisfied with their appraisal including those who received a 'good' or 'outstanding' rating.

The fundamental problem is that getting managers to conduct a performance review once or twice a year creates the impression that the management of someone's performance can be accomplished in the hour or so that it takes to complete the review. What happens during the rest of the year does not seem to matter. A yearly meeting (the most common arrangement) or even one every six months means that insufficient attention may be given to what happened some time ago and assessments will be subjected to the 'recency' effect, ie focusing on recent events rather than looking at the whole picture. Furthermore, waiting for twelve months before setting new objectives is unrealistic in today's fast-moving conditions.

Taking part in a traditional formal performance review can be a daunting and therefore dreaded occasion for both parties. Conducting satisfactory reviews requires considerable skill. The twelve requirements for a successful meeting are demanding. And then there is the multiplicity of purposes. How can all of them be satisfied in one brief meeting? A manager in a financial services company commented to Armstrong and Baron (1998) that there was a culture of 'cram it all into one meeting'. Peter Reilly (2015) of the Institute for Employment Studies commented that:

... all singing, all dancing performance appraisal... requires managers to review a wide range of content (reward, training needs, business alignment, etc) and use of multiple processes (eg personal development planning, performance ranking, potential assessment, etc), but also to apply different modes of management – appreciation, evaluation and coaching – which can be very tough on them to deliver.

That many managers and, indeed, employees generally find conducting formal performance reviews difficult is hardly surprising. They cannot be blamed for paying lip service to something they do not comprehend and find daunting and just about impossible to do well. And they often fail to see the point of a formal meeting – they believe, possibly unrealistically, that they are managing performance all the time so cannot see the point of what they feel is an artificial, time wasting and stressful performance review meeting. As a result meetings can be superficial, inconclusive and even demotivating. They can only work if

the purposes are simplified, people believe that those purposes are worthwhile and there is mutual trust and understanding between the perceptions of both parties. Otherwise hostility and resistance are likely to emerge.

The conclusions reached by the CIPD (2016) on formal reviews or appraisals were that while performance appraisal can be effective in improving performance, in many cases it can decrease it. It was recommended that a strength-based approach should be adopted to overcome the problems of the traditional top-down meeting.

Strength-based reviews

A strength-based review uses the ‘appreciative enquiry technique’ that focuses not so much on finding out what has gone wrong but on the more positive approach of identifying what is working well and using that information as a basis for planning further development.

Kluger and Nir (2010) stated that the purpose of the appreciative enquiry, strength-based review was:

... to bring the positive aspects of employee experiences into focus and discover what processes work well in the organization. This is accomplished by first eliciting stories of concrete successes, that is, stories regarding instances and events in which employees were at their best, and then by inquiring into the facilitating conditions that allowed them to perform at their best.

In a strength-based review managers elicit success stories with requests such as: ‘Could you tell me about any things that have gone particularly well in your work recently and why you think they were successful.’ The advantage of this type of question is that it provides a basis for a positive discussion on future development.

This doesn’t mean that managers should ignore what needs to be done to overcome any weaknesses but this should not be given prominence in a review.

What can be done about performance reviews?

A strengths-based approach can improve the effectiveness of a formal review but it won’t work so well if reviews are only held once a year and therefore become more fraught affairs, especially when they involve rating and initiate performance pay decisions. A radical ‘reinventing performance management’

approach is required which involves replacing the formal annual review with more frequent informal conversations about performance and development and ‘decoupling’ performance and pay reviews as considered in Part Three of this book.

References

- Armstrong, M and Baron, A (1998) *Performance Management: The new realities*, CIPD, London
- Armstrong, M and Baron, A (2005) *Managing Performance: Performance management in action*, CIPD, London
- Briner, R (2012) <http://www.hrmagazine.co.uk/article-details/whats-the-evidence-for-performance-management> [accessed 12 February 2017]
- Brown, M, Hyatt, D and Benson, J (2010) Consequences of the performance appraisal experience, *Personnel Review*, 39, pp 375–96
- Budworth, M, Latham, G and Manroop, L (2015) Looking forward to performance improvement: a field test of the feedforward interview for performance management, *Human Resource Management*, 54 (1), pp 45–54
- Chartered Institute of Personnel and Development (2016) *Could Do Better: What works in performance management*, <https://www.cipd.co.uk/knowledge/fundamentals/people/performance/what-works-in-performance-management-report> [accessed 3 March 2017]
- HR magazine (2012) <http://www.hrmagazine.co.uk/article-details/is-it-time-to-give-up-on-performance-appraisals> [accessed 12 February 2017]
- Kluger, A and Nir, D (2010) The feedforward interview, *Human Resource Management Review*, 20, pp 235–46
- Linna, A, Elovainio, M, Bos, K V, Kivimäki, M, Pentti, J and Vahtera, J (2012) Can usefulness of performance appraisal interviews change organizational justice perceptions? A 4-year longitudinal study among public sector employees, *International Journal of Human Resource Management*, 23, pp 1360–75
- Mani, B (2002) Performance appraisal systems, productivity, and motivation: a case study, *Public Personnel Management*, 31, pp 141–59
- Reilly, P (2015) *Performance Management: Improving the delivery/improving the performance in practice*, IES, Brighton
- Reviewsnap (2015) *The Truth About Performance Appraisals*, http://www.reviewsnap.com/documents/white_papers/Reviewsnap_TheTruth_About_Performance_Appraisals.pdf [accessed 12 February 2017]

Analysing and assessing performance

07

Performance analysis is the process of examining how well a job has been done and the factors that have affected the results achieved. It generates information that can be used primarily to identify learning and development needs, but it can also inform decisions on who should be included in a talent management pool and, when applicable, on performance pay awards. Performance analysis is the basis for performance assessment – the evaluation of how well someone is doing that may be carried out informally as part of the normal process of management but may also be recorded following a formal performance review. The latter is sometimes called performance appraisal, especially when it involves ratings. Performance assessment is part of the review stage of the performance management cycle.

This first part of this chapter deals with performance analysis and the next part is concerned with methods of performance assessment including rating, forced distribution, graphic rating scales, ranking, forced ranking, narrative assessments and visual assessment.

Performance analysis

In his seminal article 'An uneasy look at performance appraisal' Douglas McGregor (1957) suggested that the emphasis should be shifted from appraisal to analysis. The article was written a long time ago but its message is just as relevant today, and the persistence of the concept of top-down judgemental appraisal in many organizations suggests that there is still much to be learnt from McGregor in this area, as in a lot of others.

Douglas McGregor on analysing performance

This (the shift to analysis) implies a more positive approach. No longer is the subordinate being examined by the superior so that his weaknesses may be determined; rather he is examining himself [*sic*] in order to define not only his weaknesses but also his strengths and potentials... He becomes an active agent, not a passive 'object.'

McGregor (1960) was also the first commentator to emphasize that the focus should be on the future rather than the past in order to establish realistic targets and to seek the best means of reaching them.

Conducting performance analysis

Performance analysis should be based on clear and agreed standards and relevant evidence (evidence-based performance management) rather than on opinion. The assessment of results should be founded on measurable or recognizable outcomes, and assessments of behaviour should be supported by illustrative examples in the shape of critical incidents.

The analysis should not be reserved for a formal once-a-year performance review session. Instead, it should take place during informal conversations between the manager and the individual held frequently throughout the year about what is required, what is happening, how and why it is happening and what should be done about it.

This approach was illustrated by what two managers said to Dilys Robinson (2013):

I treat people the way I want them to treat me. If I want them to achieve X, Y or Z they need to know what it is that I want from them to start off with. I like to talk to them about what the goals are and then how we are going to get there... And through regular one-to-ones and coaching and observations and feedback, that's where I highlight any gaps and identify, okay, you're not performing in this area, so what are you going to do?

I've developed over the years, the last couple of years, more of a coaching style to performance management. Very much discussion, very much gathering information, gathering the ideas, looking at how realistic those sorts of ideas are going to be, throwing out a few scenarios and a few what ifs with people and

generally encouraging people to set their own targets and their own objectives... I'm on the phone every day of the week reviewing what we've done and just looking at it, challenging, looking for new ideas.

Performance assessment

Performance assessment based on performance analysis can be carried out formally following an annual performance review. But less formal assessments can and should happen at any time during the year when managers and individuals converse about work along the lines described by the managers quoted earlier. The assessment in formal reviews may take the form of ratings, ranking, narratives or visual assessments as described below.

Rating

Rating involves an assessment by a reviewer of the level of performance of an employee expressed on a scale. Since the days of merit rating and then performance appraisal, rating still reigns supreme. The e-reward 2014 survey of performance management found that 79 per cent of respondents used ratings. To many people it was and is the ultimate purpose and the final outcome of performance appraisal. Academics, especially American academics, have been preoccupied with rating – what it is, how to do it, how to improve it, how to train raters – for the last 50 years. Many problems with rating have been identified but it doesn't seem to have occurred to them that these could readily be overcome if rating weren't used at all.

The theory of rating

The theory underpinning all rating methods is that it is possible as well as desirable to measure the performance of people on a scale accurately and consistently and categorize them accordingly. As DeNisi and Pritchard (2006) comment: 'Effective performance appraisal systems are those where the raters have the ability to measure employee performance and the motivation to assign the most accurate ratings.'

Murphy and Cleveland (1995) distinguished between judgement and ratings. A judgement is a relatively private evaluation of a person's performance in some area. Ratings are a public statement of a judgement, which is made for the record. Wherry and Bartlett (1982) produced the following theory of the rating process:

- Raters vary in the accuracy of ratings given in direct proportion to the relevancy of their previous contacts with the person being rated.
- Rating items that refer to frequently performed acts are rated more accurately than those which refer to acts performed more rarely.
- The rater makes more accurate ratings when forewarned of the behaviours to be rated because this focuses attention on the particular behaviours.
- Deliberate direction to the behaviours to be assessed reduces rating bias.
- Keeping a written record between rating periods of specifically observed critical incidents improves the accuracy of recall.

Rating scales

Rating scales summarize the level of performance achieved by an employee. This is done by selecting the point on a scale (sometimes referred to as a 'performance anchor') that most closely corresponds with the view of the assessor on how well the individual has been doing. A rating scale is supposed to assist in making judgements and it enables those judgements to be categorized to summarize the judgement of overall performance.

A rating scale can be defined alphabetically (a, b, c, etc), or numerically (1, 2, 3, etc). Initials (X for excellent, etc) are sometimes used in an attempt to disguise the hierarchical nature of the scale. The alphabetical or numerical scale points may be described adjectivally, for example, a = excellent, b = good, c = satisfactory and d = unsatisfactory.

Alternatively, scale levels may be described verbally as in the following example:

- *Exceptional performance*: Exceeds expectations and consistently makes an outstanding contribution, which significantly extends the impact and influence of the role.
- *Well-balanced performance*: Meets objectives and requirements of the role, consistently performs in a thoroughly proficient manner.
- *Barely effective performance*: Does not meet all objectives or role requirements of the role; significant performance improvements are needed.
- *Unacceptable performance*: Fails to meet most objectives or requirements of the role; shows a lack of commitment to performance improvement, or a lack of ability which has been discussed prior to the performance review.

Traditionally, definitions have regressed downwards from a highly positive, eg 'exceptional', description to a negative, eg 'unsatisfactory', definition as in the following typical example:

- A** Outstanding performance in all respects.
- B** Superior performance, significantly above normal job requirements.
- C** Good all round performance which meets the normal requirements of the job.
- D** Performance not fully up to requirements. Clear weaknesses requiring improvement have been identified.
- E** Unacceptable; constant guidance is required and performance of many aspects of the job is well below a reasonable standard.

Another increasingly popular approach is to have a rating scale, which refers to achievement levels and provides positive reinforcement. This is in line with a strengths-based approach and culture of continuous improvement. The example given below emphasizes the positive and improvable nature of individual performance.

<i>Very effective</i>	Achieves all the objectives of the job. Exceeds required standards and consistently performs in a thoroughly proficient manner beyond normal expectations.
<i>Effective</i>	Achieves required objectives and standards of performance and meets the normal expectations of the role.
<i>Developing</i>	Achievements are stronger in some aspects of the job than others. Most objectives are met but there is room for performance improvements in some areas.
<i>Improvable</i>	Achievements are generally below expectations. There is considerable room for improvement in several definable areas.

Positive definitions aim to avoid the use of terminology for middle-ranking but entirely acceptable performers such as 'satisfactory' or 'competent', which seem to be damning people with faint praise.

This scale deliberately avoids including an 'unacceptable' rating or its equivalent on the grounds that if someone's performance is totally unacceptable and unimprovable this should have been identified during the

continuous process of performance management and corrective action initiated at the time. This is not something that can be delayed for several months until the next review when a negative formal rating is given, which may be too demotivating or too late. If action at the time fails to remedy the problem the employee may be dealt with under a capability procedure and the normal performance review suspended until the problem is overcome. However, the capability procedure should still provide for performance assessments to establish the extent to which the requirements set out in the informal or formal warnings have been met. Note also that in order to dispel any unfortunate associations with school reports, this 'positive' scale does not include alphabetic or numerical ratings.

Some organizations have included 'learner/achiever' or 'unproven/too soon to tell' categories for new entrants to a grade for whom it is too early to give a realistic assessment.

Number of rating levels

There is a choice of the number of levels – there can be three, four, five or even six levels. The e-reward (2014) survey found that the most popular number of levels was five (43 per cent of respondents).

Advocates of three grades contend that people are not capable of making any finer distinctions between performance levels. They know the really good and poor performers when they see them and have no difficulty in placing the majority where they belong, ie in the middle category. Figure 7.1 provides an example of a three-category scheme used by a large financial services company in which the definitions of levels are more comprehensive than usual.

Those who prefer more than three grades take the opposite but equally subjective view that raters *do* want to make finer distinctions and feel uncomfortable at dividing people into superior (average or above average) sheep, and inferior (below average) goats. They prefer intermediate categories in a five-point scale or a wider range of choice in a four- or six-point scale.

The advocates of a larger number of points on the scale also claim that this assists in making the finer distinctions required in a performance-related pay system. But this argument is only sustainable if it is certain that managers are capable of making such fine distinctions (and there is no evidence that they can) and that these can be equitably reflected in meaningful pay increase differentials.

However, a study by Bartol et al (2001) that compared employees who were assessed against a five-point scale and those who were judged against a three-category scale found that with a five-point scale, employees were more confident

Figure 7.1 A three-category rating scheme**Fulfilling expectations**

In order to fulfil the expectations agreed for your role, you and your manager will agree at your review how you have:

- worked with others and developed yourself;
- followed through processes and made improvements;
- met the needs of internal/external customers;
- achieved key financial and business results.

The expectations are stretching and demanding and if you achieve them you will have done well and made a full and balanced contribution which has delivered the requirements of the business. The majority of staff achieve what we expect of them and are currently assessed at this level – we expect this to continue in the future.

Exceeding expectations

People who exceed the expectations agreed for their role will be exceptional for two reasons:

- expectations of all of us are generally stretching and rise over time, so to have exceeded them denotes an approach which has added value beyond these normal high standards;
- performance is assessed not only in the job but also compared to colleagues doing similar jobs, so a clearly differentiated contribution will have been made.

People who exceed expectations can therefore expect higher pay awards and faster salary progression.

Not fulfilling expectations

We hope that there will not be many people who do not fulfil expectations. Such people will be counselled and supported to improve their performance but if, in the end, their contribution has not met the requirements of the business, they can expect to receive a smaller pay rise or no pay rise at all.

that they could improve their performance, set higher goals for themselves and went on to see higher rating improvements. This was probably because it was perceived to be easier to move up to a higher level on a five-point scale than it would be on a three-point scale. Moving from three to four on a five-point scale is a less daunting jump than moving from two to three on a three-point scale.

Five-level scales typically provide for two superior performance levels, a fully satisfactory level and two shades of less than capable performance. The rationale is that raters prefer this degree of fineness in performance definition and can easily recognize the middle grade and distinguish those who fall into

higher or lower categories. It is also in accord with the typical way in which the normal curve of distribution is expressed where the middle category includes 60 per cent of the population, the next higher or lower categories each comprise 15 per cent of the population and the remaining 10 per cent is distributed equally between the highest and lowest category. This normal curve was originally applied to the distribution of intelligence in the form of IQs (intelligence quotients). It was believed that general ability is also distributed in the same pattern. However, this is a highly questionable assumption, which has not been substantiated by research. When confronted with a five-level scale raters can be tempted to over-concentrate on the middle rating and avoid discriminating sufficiently between superior and inferior performers. Alternatively, five-level scales can lead to 'rating drift' – a tendency to push ratings into higher categories. This can only be avoided by carefully wording the level descriptions to ensure that the middle category is used appropriately and by training managers in rating methodology.

Achieving accuracy in ratings

A key issue in rating is the extent to which ratings can objectively indicate performance levels. Murphy and Cleveland (1995) suggested that rating accuracy is improved when:

- good and poor performance are clearly defined;
- the principle of distinguishing among workers in terms of their levels of performance is widely accepted;
- there is a high degree of trust in the system;
- low ratings do not automatically result in the loss of valued rewards;
- valued rewards are clearly linked to accuracy in performance appraisal.

Research by Roberts (1994) indicated that acceptance is maximized when the performance measurement process is perceived to be accurate, the system is administered fairly, the assessment system doesn't conflict with the employee's values and when the assessment process does not exceed the bounds of the psychological contract. He suggested that to increase the acceptability of assessments reviewers should:

- Pay less attention to mechanics and place more emphasis on process.
- Avoid basing conclusions on a small number of instances.
- Learn to seek information on external factors that may influence performance.

- Document employee performance.
- Involve individuals in the process through a genuine invitation to participate.
- Appreciate that reviewers do not have all the relevant performance information and that the employee is an important source.
- Encourage self-appraisal.
- Provide regular informal feedback, bearing in mind that once-a-year performance appraisal is unlikely to meet employee feedback requirements.

Achieving consistent ratings

It is very difficult to ensure that ratings made by different managers are consistent with one another. One method to deal with this problem is to hold 'consistency' workshops for managers who discuss how ratings can be objectively justified and test rating decisions on simulated performance review data. This can build a level of common understanding about rating levels. This is sometimes called 'frame of reference training' (Bernadin et al, 1995). The purpose of this training is to teach managers how to match a rating to performance by ensuring that the definitions of rating levels are understood and providing guidance and practice on how to use them.

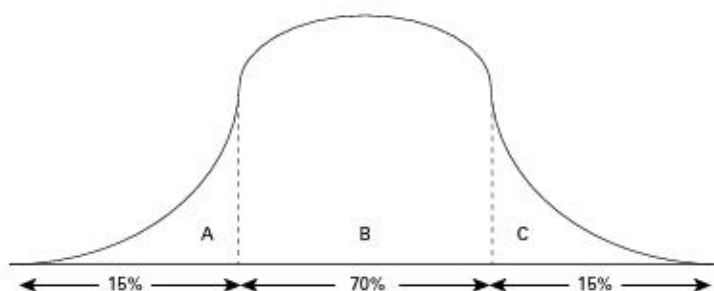
Another method is to get groups of managers together to review the pattern of each other's ratings and challenge unusual decisions or distributions. This process of calibration or moderation is time consuming but is possibly the best way to achieve a reasonable degree of consistency, especially when the group members share some knowledge of the performances of each other's staff as internal customers.

A less time consuming but more directive method is for HR to monitor the distribution of ratings and challenge any unusual patterns or what appear to be unwarrantable differences between departments' ratings.

Consistency at a price can also be achieved by forced distribution as described below.

Forced distribution

Forced distribution means that raters have to conform to a laid down distribution of ratings at different levels. In its softer form, when the distribution is suggested rather than mandatory, it is called guided distribution. The pattern of forced distribution may correspond to the normal bell-shaped curve which has been observed to apply to IQ scores, although there is no evidence that performance in an organization is distributed normally – there are so

Figure 7.2 Forced distribution of employees

many other factors at work such as recruitment and development practices. Employees subjected to forced distribution have to be allocated to sections of the curve in accordance with performance assessments. For example, as illustrated in Figure 7.2, the highest level performers would be placed in category A – the first 15 per cent of the curve. The middle 70 per cent would be placed in category B in the centre of the curve and the bottom 15 per cent would be placed in category C.

Other distributions can be adopted, for example, 15 per cent A, 75 per cent B and 10 per cent C, on the assumption that a company's recruitment and development activities produce more top players than also rans. Three categories are the most common although a five-level A to E system is used in some organizations. This is a less popular choice because it requires more refinement of judgement than is likely to be possible and creates an under-class of Ds who have been forced into that group whether or not they are below par.

Forced distribution achieves consistency of a sort but managers and staff rightly resent being manipulated in this way. Only 8 per cent of the respondents to the Armstrong and Baron 2005 survey used forced distribution while 12 per cent of respondents to the e-reward 2014 survey did.

Armstrong and Ward (2005) noted from their case study research that using indicative ranges, quotas or forced distribution systems pushes managers to make 'relative' assessments of their staff – often as part of a moderation process with other managers – that can often resemble crude 'horse-trading.' They are making rating decisions to ensure that the score profile in their team or department broadly fits the indicative ranges. The consequence of this can be that an individual may score a box 2 when assessed against their

objectives, but be given a box 3 rating because there are already 'too many' box 2 performers in the team. This can be confusing for everyone and demotivating for those staff who are 'moderated' down to a lower rating. They can work earnestly towards their objectives all year in the expectation that if they meet or exceed them, then they will be assessed and rewarded appropriately. However, imposing a forced distribution mechanism means that two people in different departments who are equally effective in meeting their objectives can receive different ratings and performance pay.

Arguments for rating

The arguments for rating are that:

- It satisfies a natural wish people have to know where they stand. But this is only desirable if the manager's opinion is honest, justified and fair, and the numbers or letters convey what is really felt and are meaningful.
- It provides a convenient means of summing up judgements so that high or low performances can easily be identified (as long as the judgements are consistent and fair).
- It motivates people by giving people something to strive for in the shape of higher ratings (as long as they know what they have to do to get a better assessment).
- It is not possible to have performance pay without an overall rating (assuming performance pay is wanted or needed and that there are indeed no alternatives, which there are; see Chapter 14).
- It can provide a basis for identifying high flyers for a talent management programme or for generally predicting potential. But past performance is only a predictor of future performance when there is a connecting link, ie there are elements of the present job that are also important in a higher-level job.

Arguments against rating

Ratings are largely subjective and it is difficult to achieve consistency between the ratings given by different managers. Because the notion of 'performance' is often unclear, subjectivity can increase. Even if objectivity is achieved, to sum up the total performance of a person with a single rating is a gross oversimplification of what may be a complex set of factors influencing that performance – to do this suggests that the rating will be a superficial and

arbitrary judgement. Labelling people as ‘average’ or ‘below average’, or whatever equivalent terms are used, can be both demeaning and demotivating. The whole performance review meeting may be dominated by the fact that it will end with a rating, thus severely limiting the forward-looking and developmental focus of the meeting that is all-important. This is particularly the case if the rating governs performance pay increases.

A powerful attack on rating was produced by Lee (2005). He made the following points:

- The rating process is actually a by-product of the attempt to measure performance outcomes. An excessive emphasis on measurement can be misguided. The desired end that is lost in measuring performance is not measurement at all, but rather description.
- Poor ratings can stigmatize performance and cause unnecessary resistance to the acceptance of feedback.
- The goal is to have the employee assist us in describing, interpreting and redirecting performance feedback, not reacting to the ratings. Feedback can accomplish the same positive goal as a rating without the negative side effects.
- If the goal is performance improvement, then feedback – not labelling past efforts – is the preferred tool.
- Although ratings can be positive they can also be punitive and focus attention on the negative rather than the possible. The only message the employee gets from a poor rating is: ‘Stop doing what you have been punished for doing.’ This kind of rating may not even be an adequate description, since many ratings are a summary of a number of activities collected over time. It does not focus attention on what to do to get better.
- Ratings are feedback but feedback of the worst kind.

Pulakos et al (2008) noted that if a system is strictly developmental, there is less need for ratings and in fact they may detract from development. This is because employees tend to be more concerned about their ‘score’ than understanding of their development needs. From a development perspective, narratives may provide more useful information than numerical ratings. Even when performance is rated against defined standards the ratings do not convey what the employee did or did not do in sufficient detail. Jawahr and Williams (1997) reported that performance evaluations such as ratings

obtained for administrative purposes (eg pay or promotions) are more lenient than those for research, feedback or employee development purposes.

Fletcher (2001) reported that many studies have demonstrated that performance ratings become more positive over time as was confirmed by Silverman et al (2005). Rather than indicating performance improvement, this could simply arise because raters become complacent or careless or both.

Strebler et al (2001) commented that: 'The psychometric properties of the rating process – ie whether achieved ratings are valid and a true measure of actual performance – is the most researched aspect of performance assessment.' Their study of a care organization established that people became focused around the review headings (a little like wasps around jam) for the sole purpose of getting points (and points mean prizes) rather than improving the quality of care they delivered. Saffie-Robertson and Brutus (2014) found through their research that evaluators who are uncomfortable about the appraisal process tend to inflate their performance ratings.

Research by Scullen and Mount (2000) revealed the subjective nature of ratings. Their study – in which 4,492 managers were rated on certain performance dimensions by two bosses, two peers, and two subordinates – showed that 62 per cent of the variance in the ratings could be accounted for by individual raters' peculiarities of perception. Actual performance accounted for only 21 per cent of the variance. This led the researchers to conclude that: 'Our results show that a greater proportion of variance in ratings is associated with biases of the rater than with the performance of the ratee.'

Conclusions on rating

There are strong arguments both for and against rating. The majority of organizations indeed favour it for three main reasons: (1) it informs merit pay decisions, (2) it identifies high flyers for talent management purposes or poor performers for remedial action or dismissal and (3) it tells employees where they stand. Some either ignore the cons or are unaware of them. But many are concerned with the real problems of inaccuracy and inconsistency although there are ways of tackling these as discussed above. Some organizations don't have ratings (41 per cent of the respondents to the 2014 e-reward survey) but others are reluctant to abandon them, especially when they rely on ratings to inform performance pay decisions (how to do without ratings in these circumstances is considered at the end of this chapter and in Chapter 14).

Graphic rating scales

Graphic rating scales provide guidance on ratings by anchoring the rating scale with statements describing the results or sort of behaviour which indicate that a particular rating level is justified. The intention is that these ‘anchors’ should ease the choice of levels and obtain consistency in the judgements made by different assessors. Graphic rating scales have become more sophisticated since they were introduced in the 1920s in that they now provide more detailed descriptions of the rating levels, usually based on research, rather than the crude references in the original versions to personality traits. An analytical approach is used in which scales cover different aspects of behaviour and results. The types of graphic rating scales are:

- behavioural rating scales based on the critical incident technique, the two main types of scales being behaviourally anchored rating scales (BARS) and behavioural observation scales (BOS);
- results-based rating scales;
- competency-based rating scales.

The critical-incident technique

The development of behavioural rating scales has been influenced by the critical-incident technique developed by Flanagan (1954). His research led to the conclusion that to avoid trait assessment (merit rating) and over-concentration on output (management by objectives) appraisers should focus on critical behaviour incidents which were real, unambiguous and illustrated quite clearly how well individuals were performing their tasks.

Flanagan advocated that managers should keep a record of these incidents and use them as evidence of actual behaviour during review meetings, thus increasing objectivity. He defended this proposal against the suggestion that he was asking managers to keep ‘black books’ on the grounds that it was positive as well as negative examples that should be recorded and that it would be better to make a note at the time rather than rely on memory, which is selective and may only recall recent events.

The critical incident technique did not gain much acceptance in its original form, perhaps because the ‘black book’ accusations stuck, but also because it seemed to be time-consuming. In addition, the problem was raised of converting the incident reports into an overall rating.

But the concept of critical incidents has had considerable influence on methods of developing competency frameworks, where it is used to elicit

data about effective or less effective behaviour. The technique is used to assess what constitutes good or poor performance by analysing events which have been observed to have a noticeably successful or unsuccessful outcome, thus providing more factual, 'real' information than by simply listing tasks and guessing performance requirements. Used in this way the critical incident technique will produce schedules of 'differentiating competencies', which can form the basis for assessing, and, if desired, rating competency levels. Differentiating competencies define the behavioural characteristics which high performers display as distinct from those characterizing less effective people, ie the performance dimensions of roles. The critical incident method is also used to develop behaviourally anchored rating scales as described below.

Above all, even if the Flanagan concept of critical incidents has not survived as a specific assessment technique, it does provide the basis for evidence-based performance management – analysis and assessment processes which rely on factual evidence rather than opinion.

Behaviourally anchored rating scales

Behaviourally anchored rating scales (BARS) were originally conceived by Smith and Kendall (1963). They consist of specific behavioural descriptions defining points against each scale (ie 'behavioural anchors'), which represent a dimension, factor or work function considered important for performance. The statements range from a description of the worst-quality performance to one that describes the best, with all the other statements at appropriate intervals between. The aim is to guide managers on which level to select.

The following is an example of a BARS for teamworking:

- A** Continually contributes new ideas and suggestions. Takes a leading role in group meetings but is tolerant and supportive of colleagues and respects other people's points of view. Keeps everyone informed about own activities and is well aware of what other team members are doing in support of team objectives.
- B** Takes a full part in group meetings and contributes useful ideas frequently. Listens to colleagues and keeps them reasonably well informed about own activities while keeping abreast of what they are doing.
- C** Delivers opinions and suggestions at group meetings from time to time, but is not a major contributor to new thinking or planning activities. Generally receptive to other people's ideas and willing to change own

- plans to fit in. Does not always keep others properly informed or take sufficient pains to know what they are doing.
- D** Tendency to comply passively with other people's suggestions. May withdraw at group meetings but sometimes shows personal antagonism to others. Not very interested in what others are doing or in keeping them informed.
 - E** Tendency to go own way without taking much account of the need to make a contribution to team activities. Sometimes uncooperative and unwilling to share information.
 - F** Generally uncooperative. Goes own way, completely ignoring the wishes of other team members and taking no interest in the achievement of team objectives.

It is believed that the behavioural descriptions in such scales discourage the tendency to rate on the basis of generalized assumptions about personality traits (which are probably highly subjective) by focusing attention on specific work behaviours. But there is still room for making subjective judgements based on different interpretations of the definitions of levels of behaviour and how they relate to the employee's behaviour.

Like other scales, behaviourally anchored rating scales can be manipulated because they are transparent to raters who know how their responses to a behavioural item will affect the final appraisal. BARS take time and trouble to develop and are not in common use except in a modified form as the dimensions in a differentiating competency framework. It is the latter application which has spread into some performance management processes.

Behavioural observation scales

Behavioural observation scales (BOS) as developed by Latham and Wexley (1977) attempt to avoid the BARS problem of focusing on specific behaviours by using more generalized behavioural statements. They consist of summated scales based on statements about desirable or undesirable work behaviour. These are complete behavioural statements, eg 'Conducts performance reviews on time', 'Conducts the performance review as a dialogue with the employee'. The headings are devised through the factor analysis of critical incidents. Factor analysis is the statistical analysis of the interactions between the effects of random (independent) variables. The assessor records the frequency with which an employee is observed engaged in a specified

behaviour on a five-point Likert scale. An example of a behavioural item for appraising a sales representative is: 'Knows the price of competitive products' and this is assessed on the following scale:

	Never	Seldom	Sometimes	Generally	Always
Rating	1	2	3	4	5
Frequency (% of time)*	0	1–20%	21–40%	41–99%	100%

*Managers record the frequency with which they have observed the employee behaving in this way.

According to Latham et al (2007), behavioural observation scales are regarded as the most practical rating method by users. It was claimed that they produce fewer rating errors than other methods as long as raters have been trained in their use. Their superiority to other scales arises from the fact that they are based on Wherry and Bartlett's (1982) theory of rating (summarized earlier in this chapter). This included the recommendation that recorded critical incidents should be used to help improve the validity of assessments. But their elaborate nature has restricted their use.

However, Kane and Bernardin (1982) detected what they called a fatal flaw in this system. They pointed out that:

This scale is used to rate the observed occurrence rates of selected behaviours identified as being illustrative of desirable and undesirable ways of carrying out job functions. Each rating interval is assumed to connote a constant degree of performance satisfactoriness, regardless of the behaviour it is used to characterize (allowing, of course, for its transformation to its scale complement in the case of undesirable behaviours). The problem that this scale design raises is that a given occurrence rate interval does not, in fact, connote a constant level of performance satisfactoriness for all job behaviours.

Results-based scales

Results-based scales simply get raters to assess the extent to which performance goals have been achieved for each key result area and overall as illustrated in Figure 7.3.

Results-based rating scales are often used in conjunction with the competency-based scales described below.

Figure 7.3 Results-based rating scale

Key result area	Often fails to meet agreed performance goals	Generally meets agreed performance goals	Often exceeds agreed performance goals
Overall	1	2	3
Overall			

Competency-based scales

Competency-based scales are graphic rating scales, which use descriptions of different levels of competency as anchors for rating purposes. They typically refer to the elements of an organization's competency framework especially when they include 'critical incident' descriptions of effective and ineffective behaviour. A three-point scale for one element is illustrated in Figure 7.4.

Competency-based scales work best when they are derived from a well-researched competency framework, which is understood by the managers and employees concerned. It is essential that they are trained in their use.

Figure 7.4 A three-point scale for a behavioural competency

Develop positive relationships with colleagues as the supplier of an internal service		
1	2	3
• Fails to build up or maintain good relationships with internal customers • Often difficult to deal with • Unresponsive to others' contributions, feelings and concerns	• Makes time for people • Offers relevant advice • Generally responds within a reasonable timescale to requests for assistance	• Maintains effective working relationships at all levels in the organization • Takes the initiative in developing database systems which anticipate the needs of internal customers • Responds immediately to requests for help or advice

Ranking

Ranking means placing employees in a rank order from best to worst. It is a simple comparative method, which is easy to explain and conduct. The

problem with ranking, as with other overall assessment systems, is that the notion of performance is vague. In the case of ranking it is therefore unclear what the resulting order of employees truly represents. And this sort of ranking is not really feasible unless fairly large numbers of employees are being assessed – what is the point of a manager with only two or three subordinates ranking them? Furthermore, employees are compared on the basis of only one factor (overall performance) that leaves no scope for analysis and therefore feedback, and there is no information on the relative difference between them. A more feasible method is to rank people according to performance rating scores although, as discussed earlier, there are problems with rating.

Forced ranking

A forced ranking or ‘stack ranking’ system may be adopted in which the rank order is divided into percentiles, eg the top 20 per cent, the middle 70 per cent and the bottom 10 per cent. The aim is to place employees into categories such as high flyers (the top 20 per cent in this example), unacceptable (the bottom 10 per cent) or those performing at an acceptable but not exceptional level (the remaining 70 per cent).

The classification can be used to identify those who are fast-tracked in talent management programmes, or those who may not survive. The distribution of performance rankings between the different groups may be called a vitality curve. The term ‘forced ranking’ is a bit of a misnomer. It implies that the rank order is enforced, which is not the case. The only forced provision in such a system is that the division of the rank order into different categories or percentiles is predetermined and everyone concerned has to be forced into one of those categories. This is in effect forced distribution.

Forced ranking first achieved fame when it was used by Jack Welch at General Electric (GE) to identify high flyers and poor performers. He argued that 20 per cent of any group of managers were top performers, 70 per cent were average and 10 per cent were not worth keeping. The latter were ‘let go’, hence the terms ‘rank and yank’ or ‘dead man’s curve’ for this procedure. GE has now abandoned this practice.

Supporters of forced ranking say it is a good way of weeding out unsatisfactory employees as well as identifying and rewarding the top players. But it doesn’t always work. Arkin (2007) noted that ‘before imploding, thanks to the actions of its own top performers, Enron used a complicated system

to rank and yank its employees'. The 'rank and yank' approach may have its advocates, but Meisler (2003), in an article tellingly called 'Dead man's curve', thought that: 'For most people, – especially those with outmoded concepts of loyalty and job security – the prospect of a Darwinian struggle at the work place is not a happy one.'

The following criticism of forced ranking was made by Pfeffer and Sutton (2006):

We couldn't find a shred of evidence that it is better to have just a few alpha dogs at the top and treat everyone else as inferior. Rather, the best performance comes in organizations where as many people as possible are treated as top dogs. If you want people to keep working together and keep earning together, it is better to grant prestige to many rather than few, and to avoid big gaps between who gets the most rewards and kudos.

Research conducted by Garcia as reported in *Machine Design* (2007) established that in forced ranking systems individuals will care less about performing well on a given task and instead shift their focus to performing relatively better on a scale. Those ranked highest on the scale are more competitive and less cooperative than those ranked lower.

A further difficulty is that when an organization gets rid of the bottom 10 per cent a proportion of those in the average category will drop down automatically into the unsatisfactory category without any change to their level of performance. As Ed Lawler, quoted by Aguinis (2005) commented, if a prescribed percentage of employees is let go every year because they have been placed in the 'C' category, this will at some time cut into the 'bone' of the organization. Research by Meisler (2003) found that for this reason after about three iterations forced distribution systems became ineffective. A simulation by Scullen et al (2005) established that while there were improvements in performance in the first few years of the operation of forced ranking this drains away and eventually becomes zero. O'Malley (2003) described forced ranking as a 'gross method of categorising employees into a few evaluative buckets'.

A forced ranking approach will not work unless employees understand what is expected of them, there are fair procedures for reviewing and classifying levels of performance and employees trust their managers to use these procedures to assess their performance correctly. These are exacting requirements.

A mechanistic 'rank and yank' or 'stack ranking' system will only create a climate of fear and will at best inhibit and at worst destroy any possibility that

performance management is perceived and used as a developmental process. It is better to have good processes for identifying performance problems and helping underperformers to improve, coupled with effective capability procedures as described in Chapter 8.

The experience of 'stack ranking' at Microsoft as reported by Eichenwald (2012) illustrates the problems involved. In this system, managers graded their subordinates according to a bell curve. Top performers got a grade of 1; bottom performers a grade of 5. Bonuses were directed to high scorers. Bottom scorers got reassignment or the sack. The curve dictated that every group – even one made up entirely of all-stars – would have its share of 5s.

Stack ranking created an inward-looking culture more focused on backstabbing and office politics than on the outside world. Every current and former Microsoft employee interviewed by Eichenwald cited stack ranking as the most destructive process in Microsoft. A former Microsoft software developer said, 'It leads to employees focusing on competing with each other, rather than competing with other companies.' Each year the intensity and destructiveness of the game playing grew worse as employees struggled to beat out their co-workers for promotions, bonuses, or just survival. In the end, the stack ranking system crippled the ability to innovate. Microsoft has since taken account of this reaction and abandoned rating completely.

Narrative assessment

A performance assessment may be recorded in a narrative consisting of a written summary of views about the level of performance achieved. This can supplement or replace rating and if done well – a big if – can provide better information about how someone is performing than a crude rating scale. The following are guidelines on completing one:

- Get to the point – quantity is no indication of quality when it comes to feedback so focus efforts on capturing the most important points of feedback, concentrating on outcomes and ensuring that each point is supported by tangible evidence.
- Comment equally on both 'what' has been achieved and 'how' it has been delivered. Emphasize both what the individual has done and how he or

she has gone about doing it, making explicit reference to the core values of the organization.

- Reflect the dialogue that has occurred throughout the year in what should have been effective and regular performance conversations – it should not be a surprise to the individual concerned.
- Highlight strengths and areas for development – provide acknowledgment of positive contributions, and be constructive in commenting on what the individual might have done differently or to a higher standard.
- Prepare a succinct, results-focused summary – if a rating system is in operation, it can be used in a rating calibration session. This is a meeting of a number of managers to review the pattern of each other's ratings and challenge unusual decisions or distributions. For this purpose you should ensure that it is short, impactful and can be delivered verbally in 30–60 seconds.

This method was adopted by 27 per cent of the respondents to the e-reward 2004 contingent pay survey. It at least ensures that managers have to collect their thoughts together and put them down on paper. But the results can be bland, misleading and unhelpful from the viewpoint of deciding what should be done to develop talent or improve performance. Research on performance appraisal systems by Kay Rowe (1964) led her to produce the following superficial picture of what they can look like:

Has tact and is loyal. Shows initiative and leadership. A good organizer with sound judgement. Expresses himself in speech and writing moderately well. Has potential.

Businesses with performance pay schemes may disagree with this overall approach. The majority (73 per cent) of the respondents to the e-reward 2004 contingent pay survey depended on performance ratings to indicate the size of an increase or whether there was to be an increase at all. Even those without such pay schemes like to follow the traditional path of summarizing performance by ratings 'for the record' although they are not always clear about what to do with the record.

Analytical performance narratives

Narrative performance assessment can be made more meaningful if it is carried out within a framework. This could be provided on a 'what' and

Figure 7.5 Analytical narrative assessment framework

	Description	Comments	Agreed action
Key result area goals			
Competencies			

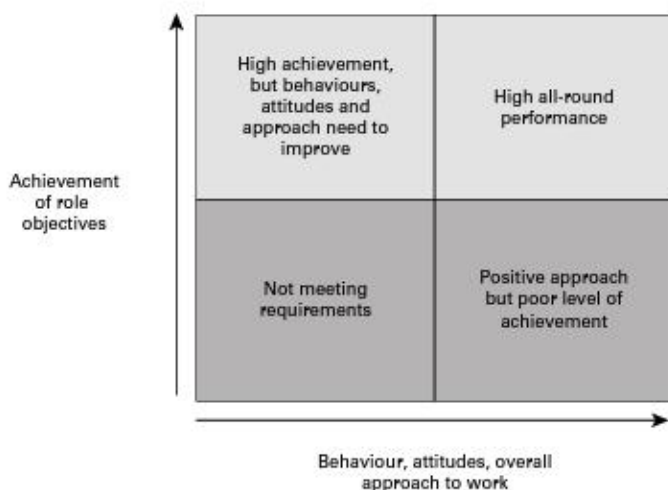
‘how’ basis. The ‘what’ is the achievement of previously agreed goals related to the headings on a role profile. The ‘how’ is behaviour as described in competency frameworks. The results for each ‘what and how’ heading can be recorded following a joint analysis during a review meeting. A framework for such an analysis is shown in Figure 7.5.

Managers need to be trained in how to use this framework and how well they do so should be checked so that if necessary guidance can be given on how they could do better.

Visual methods of assessment

An alternative approach to rating is to use a visual method of assessment. This takes the form of an agreement between the manager and the individual on where the latter should be placed on a matrix or grid as illustrated in Figure 7.6, which was developed for a charity. A ‘snapshot’ is thus provided of the individual’s overall contribution, which is presented visually and can therefore provide a better basis for analysis and discussion than a mechanistic rating. The assessment of contribution refers both to outputs and to behaviours.

The review guidelines accompanying the matrix are as follows:

Figure 7.6 A performance matrix

- You and your manager need to agree an overall assessment. This will be recorded in the summary page at the beginning of the review document. The aim is to get a balanced assessment of your contribution through the year. The assessment will take account of how you have performed against the responsibilities of your role as described in the role profile; objectives achieved and competency development over the course of the year. The assessment will become relevant for pay increases in the future.
- The grid on the annual performance review summary is meant to provide a visual snapshot of your overall contribution. This replaces a more conventional rating scale approach. It reflects the fact that your contribution is determined not just by results, but also by your overall approach towards your work and how you behave towards colleagues and customers.
- The evidence recorded in the performance review will be used to support where your manager places a mark on the grid.
- Their assessment against the vertical axis will be based on an assessment of your performance against your objectives, performance standards described in your role profile, and any other work achievements recorded in the review. Together these represent 'outputs'.

- The assessment against the horizontal axis will be based on an overall assessment of your performance against the competency level definitions for the role.
- Note that someone who is new in the role may be placed in one of the lower quadrants but this should be treated as an indication of development needs and not as a reflection on the individual's performance.

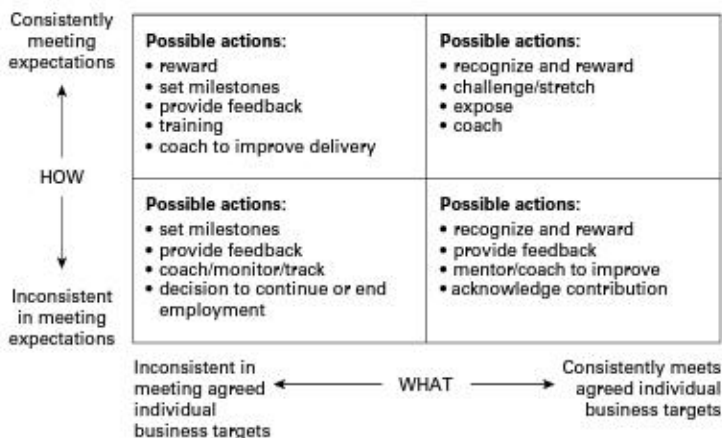
A similar 'matrix' approach has been adopted in a financial services company. It is used for management appraisals to illustrate their performance against peers. It is not an 'appraisal rating' – the purpose of the matrix is to help individuals focus on what they do well and also any areas for improvement. Two dimensions – business performance and behaviour (management style) are reviewed on the matrix as illustrated in Figure 7.7 to ensure a rounder discussion of overall contribution against the full role demands rather than a short-term focus on current results.

This is achieved by visual means – the individual is placed at the relevant position in the matrix by reference to the two dimensions. For example a strong people manager who is low on the deliverables would be placed somewhere in the top left hand quadrant but the aim will be movement to a position in the top right hand quadrant.

A performance matrix used by a division of Unilever is shown in Figure 7.8. This measures the 'how' of performance on the vertical axis and the 'what' on

Figure 7.7 Performance matrix in financial services company



Figure 7.8 Assessment and action matrix – Unilever

the horizontal axis. The matrix model also contains guidelines on the possible actions that can be taken for each assessment quadrant.

Those organizations that have used visual assessments are enthusiastic about the extent to which this takes the heat out of rating and provides a sound basis for discussing and implementing development needs. But its effectiveness still depends on the quality of the performance analysis and it can be criticized as an over-formalized approach to the basic process of performance analysis and assessment.

Conclusions

Performance analysis and assessment is a necessary and important performance management activity as a means of identifying development needs but it is one of the most difficult ones to get right. Attempts to use mechanistic methodologies for performance assessment involving rankings or ratings can prove of doubtful value. The arguments against them backed up by research are convincing. However, as noted earlier, they are extensively used because they provide 'quick-fix' information on performance levels. HR departments like them because they provide a readily available standard, which can be used for a multiplicity of purposes.

Many organizations believe that performance pay and talent management can only function if there are ratings. It is true that some form of

assessment is necessary but it need not be a rating scale as part of an annual performance review. Pay reviews are best kept separate – decoupled – from performance reviews as the introduction of performance pay considerations is likely to divert attention from the key purpose of those reviews, that of developing people. However, it is still necessary to place people in categories such as those whose contribution deserves an above average, average or below average increase or none at all. But this is a process of categorization not rating. It could be regarded as proxy rating but at least it avoids the problems referred to earlier of a rating issued as part of a performance management review with its unfortunate resemblance to a school report. Similarly, potential can be categorized in special talent management procedures, for example: considerable potential, some potential, unlikely to progress above present level.

The various types of graphic rating scales may provide better guidance on rating but they are elaborate and require a lot of extensive research to prepare. They are therefore little used. Analytical performance management methods are better. There is much to be said for the visual assessment approach although it has its drawbacks as mentioned earlier.

A penetrating analysis of the rating process based on neuroscience research was made by David Rock, Director of the Neuro Leadership Institute, reported by Justine Hofherr (2011):

People worry companies won't know how to rate performance or differentiate pay without them, but that's not true. Most companies making the switch are giving managers more discretion in who gets raises and who doesn't, calling the traditional numerical ranking system 'counter-intuitive' to getting employees to improve.

It seems really logical to give people a number and identify them with a one through five rating, but it has these unintended consequences that you might not notice unless you have a lot of time. We human beings are very focused on social interactions. We are very obsessed with our social status. Calling people a number activates a deep sense of danger in people. It's just how we're built.

While some companies were concerned a lack of performance reviews would make top performers feel unappreciated. Employees from all different performance levels said they were happier without numerical ratings.

Instead of using numbers, these companies encouraged managers to describe employees' performance after getting to know them through regular interactions. This not only led to managers talking more with employees, but also

improved the quality of the conversations. Rather than focusing on past performance, employees and their managers reported setting goals, planning development and taking action.

References

- Aguinis, H (2005) *Performance Management*, Pearson Education, Upper Saddle River NJ
- Arkin, A (2007) Force for good? *People Management*, 8 February, pp 26–29
- Armstrong, M and Baron, A (2005) *Managing Performance: Performance management in action*, CIPD, London
- Armstrong, K and Ward, A (2005) *What Makes for Effective Performance Management?* The Work Foundation, London
- Bartol, K M, Durham, C C and Poon, J M (2001) Influence of performance evaluation rating segmentation on motivation and fairness perceptions, *Journal of Applied Psychology*, 86 (6), pp 1106–19
- Bernardin, H K, Kane, J S, Ross, S, Spina, J D and Johnson, D L (1995) Performance appraisal design, development and implementation, in *Handbook of Human Resource Management*, eds G R Ferris, S D Rosen and D J Barnum, Blackwell, Cambridge MA
- DeNisi, A S and Pritchard, R D (2006) Performance appraisal, performance management and improving individual performance: a motivational framework, *Management and Organization Review*, 2 (2), pp 253–77
- Eichenwald, K (2012) *Microsoft's Lost Decade*, <http://www.vanityfair.com/business/2012/08/microsoft> [accessed 15 February 2017]
- e-reward (2004) *Survey of Contingent Pay*, e-reward, Stockport
- e-reward (2014) *Survey of Performance Management*, e-reward, Stockport
- Flanagan, J C (1954) The critical incident technique, *Psychological Bulletin*, 51, pp 327–58
- Fletcher, C (2001) Performance appraisal and management: the developing research agenda, *Journal of Occupational and Organizational Psychology*, 74 (4), pp 473–87
- Hofherr, J (2011) *What really happens when companies kill performance reviews*, Boston/Production/BDC/WebPages/jobs/jobs.ad-layer.story-asset.dwp [accessed 15 February 2017]
- Jawahir, I M and Williams, C R (1997) Where all children are above average: the performance appraisal purpose effect, *Personnel Psychology*, 50, pp 905–25
- Kane, J S and Bernardin, H J (1982) Behavioral observation scales and the evaluation of performance appraisal effectiveness, *Personnel Psychology*, 35 (3), pp 635–41

- Latham, G P and Wexley, K N (1977) Behavioural observation scales, *Personnel Psychology*, 30, pp 255–68
- Latham, G, Sulsky, L M and Macdonald, H (2007) Performance management, in *Oxford Handbook of Human Resource Management*, eds P Boxall, J Purcell and P Wright, Oxford University Press, Oxford
- Lee, C D (2005) Rethinking the goals of your performance management system, *Employment Relations Today*, 32 (3), pp 53–60
- Machine Design (2007) Forced ranking of employees bad for business, (editorial), September, pp 2–3
- McGregor, D (1957) An uneasy look at performance appraisal, *Harvard Business Review*, May–June, pp 89–94
- McGregor, D (1960) *The Human Side of Enterprise*, McGraw-Hill, New York
- Meisler, A (2003) Dead man's curve, *Workforce Management*, June, pp 44–9
- Murphy, K R and Cleveland, J (1995) *Understanding Performance Appraisal*, Sage, London
- O'Malley, M (2003) Forced ranking, *WorldatWork Journal*, First Quarter, pp 31–39
- Pfeffer, J and Sutton, R I (2006) *Hard Facts, Dangerous Half-Truths and Total Nonsense*, Harvard Business School Press, Cambridge MA
- Pulakos, E D, Mueller-Hanson, R A and O'Leary, R S (2008) Performance management in the US, in *Performance Management Systems: A global perspective*, eds A Varma, P S Budhwar and A DeNisi, Routledge, Abingdon
- Roberts, E R (1994) Maximizing performance appraisal system acceptance: perspectives from municipal government personnel administrators, *Public Personnel Management*, 23 (4), pp 525–48
- Robinson, D (2013) *The engaging manager and sticky situations*, <http://www.employment-studies.co.uk/system/files/resources/files/493.pdf> [accessed 15 February 2017]
- Rowe, K (1964) An appraisal of appraisals, *Journal of Management Studies*, 1 (1), pp 1–25
- Saffie-Robertson, M C and Brutus, S (2014) The impact of interdependence on performance evaluations: the mediating role of discomfort with performance appraisal, *The International Journal of Human Resource Management*, 25 (3), pp 459–73
- Scullen, S E, Bergey, P K and Aiman-Smith, L (2005) Forced distribution ratings and the improvement of workforce potential: a baseline simulation, *Personnel Psychology*, 58 (1), pp 1–31
- Scullen, S E and Mount, M K (2000) Understanding the latent structure of job performance ratings, *Journal of Applied Psychology*, 85 (6), pp 956–70
- Silverman, M, Kerrin, M and Carter, A (2005) *360-degree Feedback: Beyond the spin*, Institute for Employment Studies, Brighton

- Smith, P C and Kendall, L M (1963) Retranslation of expectations: an approach to the construction of unambiguous answers for rating scales, *Journal of Applied Psychology*, 47, pp 853–85
- Strebler, M T, Bevan, S and Robertson D (2001) *Performance Review: Balancing objectives and content*, Institute for Employment Studies, Brighton
- Wherry, R J and Bartlett, C J (1982) The control of bias in ratings: a theory of rating, *Personnel Psychology*, 35 (3), pp 21–51

Managing underperformance

08

Performance management is a positive process that involves building on strengths. But it is also about helping people to improve. This may not be a problem – the improvements required may be marginal and easily achieved. Sometimes, however, underperformance is more serious and has to be managed. This chapter starts with an analysis of the problem and then describes ways of dealing with underperformers including handling challenging conversations and invoking a capability procedure.

The problem of underperformance

A survey covering 139 organizations with a combined total of 300,000 staff conducted by IRS (Wolff, 2008) found that four-fifths had experienced underperformance to some extent while one in ten had experienced it to a considerable extent. Only 8 per cent of respondents felt that their efforts to deal with poor performance had been successful and two-thirds of them did not consider that managers at their organization were capable of managing it.

Managers, as Schaffer (1991) pointed out, sometimes use a variety of psychological mechanisms for avoiding the unpleasant truth that performance gaps exist. These mechanisms include:

- *Evasion through rationalization:* Managers may escape having to demand better performance by convincing themselves that they have done all they can to establish expectations.
- *Reliance on procedures:* Management may rely on a variety of procedures, programmes and systems to produce better results. Top managers say, in effect, 'Let there be performance-related pay, or performance management or whatever' and sit back to wait for these panaceas to do the trick, which, of course, they won't unless they are part of a sustained effort led from

the top and are based on a vision of what needs to be done to improve performance.

- *Attacks that skirt the target:* Managers may set tough goals and insist that they are achieved, but still fail to produce a sense of accountability in subordinates.

Approaches to managing underperformance

Managing underperformance should be a positive process that is based on feedback throughout the year and looks forward to what can be done by individuals to overcome performance problems and, importantly, how managers can provide support and help. Charles Handy (1989) suggested this should be about ‘applauding success and forgiving failure’. He thought that mistakes should be used as an opportunity for learning – ‘something only possible if the mistake is *truly* forgiven because otherwise the lesson is heard as a reprimand and not as an offer of help’.

When dealing with poor performers the following comments by Howard Risher (2003) should be remembered:

Poor performance is best seen as a problem in which the employer and management are both accountable. In fact, one can argue that it is unlikely to emerge if people are effectively managed.

This is another way of expressing the old army saying: ‘There are no bad soldiers, only bad officers.’

Poor performance may be wholly or partly the fault of the system. When looking at underperformance it is necessary to consider systemic as well as individual problems.

In general, respondents to the IRS survey (Woolf, 2008) suggested that the key to solving poor performance is communication, coupled with clarity about expectations and goals, early intervention and ensuring managers have a clear view of the underlying problem before applying a solution. It is important to ensure that underperforming employees understand and acknowledge that there is a problem when it can be attributed to them and accept some responsibility for achieving a solution. Depending on the cause, provision of support through training or coaching and regular contact with the line manager is also important. But by far the most effective measure is

to have competent and confident managers who are prepared to tackle the problem. Most respondents to the survey advocated an agreed improvement plan as the first step followed by regular but informal progress reviews.

The specific approaches adopted by respondents to the IRS 2008 survey were:

- the manager and employee jointly agree a performance improvement plan with timescales – 81 per cent;
- the manager and the employee agree to more regular, informal performance reviews – 68 per cent;
- a joint agreement on the provision of specific coaching or training – 61 per cent;
- the manager agrees to provide more coaching or guidance – 52 per cent;
- a joint re-evaluation of performance expectations – 52 per cent.

These are all valid ways of managing underperformance but they will be most effective if they are incorporated in a staged procedure as described below which can provide a framework for managers and a basis for guidance and training.

The five basic steps

The five basic steps required to manage underperformers are:

1 Identify and agree the problem

Analyse feedback and, as far as possible, obtain agreement from the individual on what the shortfall has been. Feedback may be provided by managers but it can in a sense be built into the job. This takes place when individuals are aware of their targets and standards, know what performance measures will be used and either receive feedback/control information automatically or have easy access to it. They will then be in a position to measure and assess their own performance and, if they are well-motivated and well-trained, take their own corrective actions. In other words, a self-regulating feedback mechanism exists. This is a situation which managers should endeavour to create on the grounds that prevention is better than cure.

2 Establish the reason(s) for the shortfall

When seeking the reasons for any shortfalls the manager should not crudely try to attach blame. The aim should be for the manager and the individual jointly to identify the facts that have contributed to the problem. It is on the basis of this factual analysis that decisions can be made on what to do about it by the individual, the manager or the two of them working together.

It is necessary first to identify any causes which are due to weaknesses in the system or outside the control of either the manager or the individual. Any factors which *are* within the control of the individual and/or the manager can then be considered. What needs to be determined is the extent to which the reason for the problem is because of a fault in the system itself or the way in which the system has been managed. If it is established that the individual is at least partly responsible for the poor performance it can then be agreed whether this is because he or she:

- did not receive adequate support or guidance from his/her manager;
- did not fully understand what he/she was expected to do;
- could not do it – ability;
- did not know how to do it – skill;
- would not do it – attitude.

3 Decide and agree on the action required

Action may be taken by the individual, the manager or both parties. This could include:

- taking steps to improve skills or change behaviour – the individual;
- changing attitudes – this is up to individuals as long as they accept that their attitudes need to be changed; the challenge for managers is that people will not change their attitudes simply because they are told to do so – they can only be helped to understand that certain changes to their behaviour could be beneficial not only to the organization but also to themselves;
- providing more support or guidance – the manager;
- clarifying expectations – joint;
- developing abilities and skills – joint, in the sense that individuals may be expected to take steps to develop themselves but managers may provide help in the form of coaching, additional experience or training.

Whatever action is agreed both parties must understand how they will know that it has succeeded. Feedback arrangements can be made but individuals should be encouraged to monitor their own performance and take further action as required.

4 Resource the action

Provide the coaching, training, guidance, experience or facilities required to enable agreed actions to happen.

5 Monitor and provide feedback

Both managers and individuals monitor performance, ensure that feedback is provided or obtained and analysed, and agree on any further actions that may be necessary.

Handling challenging conversations about performance

Many managers find it difficult to have conversations with individuals about performance problems. In advance these can look difficult and in practice they *can* be challenging if the manager wants to achieve desired changes or improvements in performance. They can be even more challenging in prospect if it is feared that unpleasantness can occur in the shape of lack of cooperation or outright hostility. The following is a 12-point guide to handling challenging conversations.

- 1 Don't wait until a formal review meeting. Have a quiet word at the first sign that something is going wrong.
- 2 Get the facts in advance – what happened, when and why?
- 3 Plan the meeting on the basis of the facts and what is known about the individual. Define what is to be achieved.
- 4 Set the right tone from the start of the meeting – adopt a calm, measured, deliberate but friendly approach.
- 5 Begin the conversation by explaining the purpose of the meeting, indicating to the individual what the issue is and giving specific examples.

- 6 Focus on the issue and not the person.
- 7 Ask for an explanation. Ask unloaded questions to clarify the issues and explore them together.
- 8 Allow people to have their say and listen to them.
- 9 Keep an open mind and don't jump to conclusions.
- 10 Acknowledge the individual's position and any mitigating circumstances.
- 11 Ask the employee for proposals to resolve the situation, discuss the options and if possible agree on action by the individual, the manager or jointly.
- 12 If agreement cannot be reached, managers may have to define the way forward, with reasons – they are in charge!

Here are some comments by managers about dealing with underperformers recorded by Dilys Robinson (2013):

See the individual as soon as it happens, and resolve it... so, if there is something that needs to be done, you do it.

It's easy to not do things; it's easy to shy away from things. But it doesn't really help you in the long run.

It's important to highlight things at the time and nip things in the bud straight away.

I would try and informally do it as the first port of call. So maybe an informal meeting, a chat with somebody, there could be underlying problems, what have you... there are often other things underlying the performance issue or the attendance issue.

You've got to look back and think, actually, okay, the person not performing, is that because of him or is that because of a decision we've made?

If an organization can select, develop and encourage managers to think and behave like these do then it doesn't need a formal performance management system at all.

Use of a capability procedure

Every attempt should be made to deal with performance problems as they arise or at least consider them dispassionately at a review meeting. However, further action to deal with underperformers if all else fails may be necessary.

But when confronted with such situations many organizations have recognized that to go straight into a disciplinary procedure with its associations with misconduct is not the best way to handle them. They believe it is better to have a special capability procedure for performance issues, leaving the disciplinary procedure as the method used to deal with cases of misconduct. A capability procedure is typically staged as follows:

- 1** If a manager believes that an employee's performance is not up to standard an informal discussion is held with the employee to establish the reason and to agree the actions required to improve performance by the employee and/or the manager.
- 2** Should the employee show insufficient improvement over a defined period a formal interview will be arranged with the employee (together with a representative if so desired). The aims of this interview will be to (a) explain the shortfall between the employee's performance and the required standard, (b) identify the cause(s) of the unsatisfactory performance and determine what – if any – remedial treatment (eg training, retraining, support, etc) can be given, (c) set a reasonable period for the employee to reach the standard and (d) agree on a monitoring system during that period and tell the employee what will happen if that standard is not met.
- 3** At the end of the review period a further formal interview will be held, at which time (a) if the required improvement has been made the employee will be told of this and encouraged to maintain the improvement, (b) if some improvement has been made but the standard has not yet been met, the review period will be extended, (c) if there has been no discernible improvement and performance is still well below an acceptable standard consideration will be given to whether there are alternative vacancies which the employee would be competent to fill; if there are, the employee will be given the option of accepting such a vacancy or being considered for dismissal, (d) in the absence of suitable alternative work, an employee who is clearly below an acceptable standard is liable to be dismissed.
- 4** Employees may appeal against their dismissal. Although capability action can be used as a means of overcoming performance problems it should be treated as a separate procedure and not regarded as part of the normal processes of performance management. These processes should help to identify performance problems, which they will deal with on the spot, if at all possible. Only if this fails are these problems transferred to the capability system for resolution.

This separation of performance management processes and capability procedures is important because of the serious harm that would be done to the positive performance improvement and developmental aspects of performance management if employees felt that the process was simply being used to collect evidence for use in taking disciplinary action. Performance reviews can become threatening affairs if they are perceived as placing sticks in the hands of management with which they can beat employees.

If the problem has to be transferred to the capability procedure it is highly desirable to state what the problem is in full, with any supporting evidence which is available. Reference can be made to the fact that the problem was identified earlier as part of the continuing process of performance management but the content of any performance review form produced following a review meeting should not be used as evidence. The capability warning must be complete in itself.

In practice this may not cause much difficulty as long as the manager follows guidelines for managing performance throughout the year. These would suggest that immediate action is taken to deal with performance problems – they should not be saved up to be discussed at a formal review meeting some time after the event. Raising problems immediately means that they are dealt with as a normal management process, and the capability procedure should only be resorted to when this process fails in spite of every effort to make it succeed.

References

- Handy, C (1989) *The Age of Unreason*, Business Books, London
- Risher, H (2005) Getting serious about performance management, *Compensation & Benefits Review*, November/December, pp 18–26
- Robinson, D (2013) *The engaging manager and sticky situations*, <http://www.employment-studies.co.uk/system/files/resources/files/493.pdf> [accessed 16 February 2017]
- Schaffer, R H (1991) Demand better results and get them, *Harvard Business Review*, March–April, pp 142–49
- Wolff, C (2008) Managing employee performance, *IRS Employment Review*, Issue 890, 4 February, pp 1–12

Providing feedback

09

Feedback to people on how they are doing is an important performance management activity. It is provided by managers informally during the year or formally in performance review meetings. Individuals can provide feedback for themselves. It can also be given by subordinates or internal customers as part of a 360-degree feedback system. This chapter deals with feedback under the following headings:

- Feedback defined.
- The nature of feedback.
- Use of feedback.
- How effective is feedback?
- Guidelines on providing feedback.
- Continuous feedback.
- Providing constructive feedback.
- An alternative approach – the ‘feedforward’ interview.
- 360-degree feedback.

Feedback defined

Feedback is the provision of information to people on how they have performed in terms of results, events, critical incidents and significant behaviours. Feedback can be positive when it tells people that they have done well, constructive when it provides advice on how to do better, and negative when it tells people that they have done badly. Feedback reinforces effective behaviour and indicates where and how behaviour needs to change.

In systems engineering, feedback transmits information on performance from one part of a system to an earlier part of the system in order to generate corrective action or to initiate new action. In this respect performance management has the characteristics of a system in that it provides for information to be presented (feedback) to people on their performance, which helps them to understand how well they have been doing and how effective their behaviour has been. The aim is for feedback to promote this understanding so that appropriate action can be taken. This can be positive action taken to make the best use of the opportunities the feedback has revealed, or corrective action where the feedback has revealed that something has gone wrong.

Systems engineers design self-regulating systems that generate their own feedback and respond to this information of their own volition. The same principle can be applied in performance management – individuals can be encouraged to understand the performance measures that are available for them to use in order to provide their own feedback and to develop their own plans for performance development and improvement.

Such self-generated feedback is a highly desirable feature of a full performance management process but there will always be a need for managers and colleagues to provide feedback based on their own observations and understanding.

The nature of feedback

Feedback in performance management is positive and helpful in the sense that its aim is to point the way to further development and improvement. It is positive and helpful when it recognizes success or constructive when it identifies areas for improvement that can lead to effective action. A positive approach is to treat mistakes or errors of judgement as opportunities for learning so that they are less likely to be repeated in the future. It is negative and unhelpful when perceived failings are dwelt on as matters for blame. Feedback is an important feature of evidence-based performance management as described at the end of Chapter 1. It should be presented in a way that enables individuals to recognize and accept its factual nature. Of course there will often be room for some interpretation of the facts but such interpretations should start from the actual situation as reported in the feedback not from the subjective views expressed by the provider of the feedback.

Use of feedback

Providing regular feedback as an important part of the continuous process of performance management was well described by Lee (2005) as follows:

The use of feedback in reviewing and developing performance (Lee, 2005)

Performance conversations should include a two-way exchange to ensure that the employee fully understands what is good, what is bad, and why the good performance is good and the bad is bad. With accurate descriptions of the nuances of performance the employee can better understand how his or her past actions or activities affected performance outcomes and how future efforts are likely to contribute to future performance. Accurate descriptions or diagnoses of performance are crucial, for understanding and improvement are possible only through timely feedback.

The longer the gap between performance events and performance feedback, the greater the challenge of remembering with clarity the character and quality of the performance events... two semi-annual or one annual performance conversation cannot manage performance alone. They might be effective in documenting some performance parameters but they are not likely to be effective in managing, regulating and improving performance. Good supervision with ample feedback is good performance management.

Lee also pointed out that:

Although many people confuse the two, feedback and appraisal are fundamentally different things. Feedback is information-based, whereas the basis of appraisal is judgement or evaluation. Furthermore, feedback is an ongoing activity, and appraisal is periodic.

As London et al (2004) commented, feedback plays a key role, along with goal setting, in the self-regulation of performance:

Feedback focuses attention on performance goals that are important to the organization, helps discover errors, maintains goal direction, influences new goals, provides information on performance capabilities and on how much more effort/energy is needed to achieve goals, and provides positive reinforcement for goal accomplishments.

How effective is feedback?

Research on performance appraisal feedback suggests that when individuals receive negative feedback they are often discouraged rather than motivated to improve. Kluger and DeNisi (1996) cautioned that not all feedback interventions result in improvements. Following their meta-analysis, based largely on performance appraisal feedback research, they concluded that, in over a third of the cases, feedback actually resulted in less effective performance. The analysis suggested that there may be many factors that influence how individuals react to feedback that affect who will improve following feedback and who will not.

DeNisi and Kluger (2000) commented that feedback interventions are more likely to be effective if they keep the employee's attention focused on objectives at the task performance level and least likely to be effective if they are applied at a personal level.

Research by Gray (2001) identified two factors that influenced the degree to which receivers valued their feedback: (1) the extent to which the feedback was trustworthy, and (2) the extent to which it was constructive.

Guidelines on providing feedback

- 1 *Build feedback into the job.* To be effective feedback should be built into the job or provided soon after the activity has taken place.
- 2 *Provide feedback on actual events.* Feedback should be given on actual results or observed behaviour. It should be backed up by evidence. It should not be based on supposition about the reason for the behaviour. You should, for example, say: 'We have received the following complaint from a customer that you have been rude, would you like to comment on this,' rather than: 'You tend to be aggressive.'
- 3 *Describe, don't judge.* The feedback should be presented as a description of what has happened; it should not be accompanied by a judgement. If you start by saying, 'I have been informed that you have been rude to one of our customers; we can't tolerate that sort of behaviour,' you will instantly create resistance and prejudice an opportunity to encourage improvement.
- 4 *Refer to and define specific behaviours.* Relate all your feedback to specific items of behaviour. Don't indulge in transmitting general feelings

or impressions. When commenting on someone's work or behaviour define what you believe to be good work or effective behaviour with examples.

- 5 *Emphasize the 'how' not the 'what'.* Focus attention more on how the task was tackled rather than on the result.
- 6 *Ask questions.* Ask questions rather than make statements – 'Why do you think this happened?'; 'On reflection is there any other way in which you think you could have handled the situation?'; 'How do you think you should tackle this sort of situation in the future?'
- 7 *Select key issues.* There is a limit to how much criticism anyone can take. If you overdo it, the shutters will go up and you will get nowhere. Select key issues and restrict yourself to them.
- 8 *Focus.* It is a waste of time to concentrate on areas that the individual can do little or nothing about. Focus on aspects of performance the individual can improve.
- 9 *Provide positive and constructive feedback.* People are more likely to work positively at improving their performance and developing their skills if they feel empowered by the process. Provide feedback on the things that the individual did well in addition to areas for improvement. Focus on what can be done to improve rather than on criticism.
- 10 *Ensure feedback leads to action.* Feedback should indicate any actions required to develop performance or skills.

Continuous feedback

One of the most serious problems with the traditional annual performance review was that feedback was in effect an annual event. It recalled the past, often imperfectly, but the remoteness and artificiality of this process meant that it had little or no impact on performance, currently or in the future.

To overcome this problem the emphasis now is on continuous feedback which takes place informally as appropriate during the year or is sometimes part of a process of frequent performance and development conversations, sometimes known as 'check-ins'. For some organizations, the drawback of this approach is that it may be difficult to keep records of any salient discussions or agreements. Cappelli and Tavis (2016) commented on this as follows:

In recent years most HR information systems were built to move annual appraisals online and connect them to pay increases, succession planning, and so forth. They weren't designed to accommodate continuous feedback, which is one reason many employee check-ins consist of oral comments, with no documentation. The tech world has responded with apps that enable supervisors to give feedback anytime and to record it if desired. At General Electric, the PD@GE app ('PD' stands for 'performance development') allows managers to call up notes and materials from prior conversations and summarize that information. Employees can use the app to ask for direction when they need it. IBM has a similar app that adds another feature: It enables employees to give feedback to peers and choose whether the recipient's boss gets a copy. Amazon's Anytime Feedback tool does much the same thing. The great advantage of these apps is that supervisors can easily review all the discussion text when it is time to take actions such as award merit pay or consider promotions and job reassignments.

Providing constructive feedback

Feedback should always be constructive. It should point the way to building strengths and overcoming performance problems rather than just telling people that they are wrong (negative feedback). But if performance problems do exist the individual concerned must be made aware of them so that corrective action can be taken. If individuals can be encouraged to recognize the problems for themselves so much the better. They will then be more willing to take action. But this doesn't always happen and they have to be informed that a problem exists. Many managers find it difficult to do this especially in a formal or semi-formal meeting. They worry in case the employee reacts badly and an unpleasant situation arises.

This problem can be minimized if managers keep closely in touch with the members of their team, getting to know each individual in order to anticipate possible behaviour. If people see that their manager is approachable and ready to listen they are more likely to come to them with their concerns. It is far better to nip problems in the bud by having a quiet word at the first sign something is going wrong rather than waiting for them to become more entrenched or complicated. The issue should never be shelved until a formal review meeting.

But with the best will in the world managers may get a negative reaction from an individual if they raise performance issues – ranging from sullen

silence to open hostility, even rage. To deal with this sort of difficult situation managers should adopt the approach set out below.

- 1 Use questioning techniques to clarify the facts.
- 2 Maintain control of the meeting.
- 3 Put clear boundaries in place and ensure that the conversation keeps within them.
- 4 Remain calm at all times – never respond to anger with anger.
- 5 Be firm and restate their position as necessary.
- 6 Decide what tactics are working and if they need to change their approach. Know when to expand a conversation by seeking clarification and gaining understanding and when to restrict it.
- 7 Decide if and when they need to adjourn for a break to allow either party to consider their position or to cool things down.
- 8 Stay clear of emotive language and don't respond to manipulative behaviour.
- 9 Allow people to have their say and listen to them, but make it clear that rudeness or any other form of unacceptable behaviour will not be tolerated. Terminate the meeting before things get out of hand.
- 10 If, in spite of the facts, the individual is in denial, restate the evidence, indicate what happens next (possibly another meeting after a cooling off period) and close the meeting.

An alternative approach – the ‘feedforward’ interview

The traditional feedback interview is a backward-looking and often negative approach. It involves identifying what has gone wrong. The ‘feedforward interview’ (FFI) has been proposed as an alternative and superior method. As described by Budworth et al (2015):

The methodological premise of the FFI is that employees can, if probed, identify their performance-effective achievements and, more importantly, ways to create conditions for similar, if not greater, achievements in the future. This is because self-discovery of what led to personal effectiveness triggers self-set goals to

further create positive experiences that will broaden one's strengths. Thus, the focus in a FFI, in contrast to a traditional performance appraisal, is primarily on behavioural intentions or goals rather than an employee's performance in the past. It is a strength-based rather than a deficit-based model. The implicit, if not explicit, assumption underlying the FFI is that people excel when they understand their pattern of strengths and learn how to broaden them in different job-related contexts.

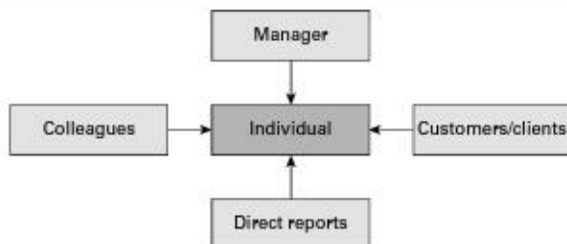
Research conducted by Budworth et al (2015) showed that in two control groups the managers in one group who received a feedforward interview performed significantly better than those who had standard feedback in the other group. This is because the feedforward interview adopts a coaching approach where the conversation is more two-way and managers are more inquiring rather than simply informing and directing their employees. This has a positive impact on people's perceived fairness of the appraisal.

360-degree feedback

360-degree feedback, also known as multi-source feedback, as shown in Figure 9.1 is the assessment and feedback of someone's performance by both their manager and their subordinates and may additionally include colleagues and customers. It was defined by Ward (1997) as: 'The systematic collection and feedback of performance data on an individual or group derived from a number of the stakeholders on their performance.' Assessments take the form of ratings against various performance dimensions.

The term 360-degree feedback is sometimes used loosely to describe upward feedback where this is given by subordinates to their managers. This is the most common approach and is more properly described as 180-degree

Figure 9.1 360-degree feedback



feedback. For most organizations its main purpose is to help managers to improve their performance. Coaching for individuals as a result of the feedback may be provided by a member of the HR department or an outside consultant. 360-degree feedback or a variant of it was used by 19 per cent of the respondents to the 2014 e-reward survey – not a large proportion.

The rationale for 360-degree feedback

The rationale for 360-degree feedback has been expressed by Turnow (1993) as follows: 360-degree activities are usually based on two key assumptions: (1) that awareness of any discrepancy between how we see ourselves and how others see us increases self-awareness, and (2) that enhanced self-awareness is a key to maximum performance, and thus becomes a foundation block for development programmes. Through feedback, recipients receive useful information about their strengths and weaknesses, which can guide their developmental planning. The feedback is valuable because it comes from multiple perspectives and each perspective may provide relevant yet different information. The process provides an opportunity for a broader set of 'others', such as peers and subordinates, to provide feedback, which traditionally has been the province of supervisors only.

London and Beatty (1993) suggested that 360-degree feedback can become a powerful organizational intervention to increase awareness of the importance of aligning leader behaviour, work unit results, and customer expectations. It recognizes the complexity of management and the value of inputs from various sources – it is axiomatic that managers should not be assessing behaviours they cannot observe, and the leadership behaviours of subordinates may not be known to their managers. It also directs attention to important performance dimensions, which may hitherto have been neglected by the organization. The Feedback Project (2001) listed the following benefits of 360-degree feedback:

- Increased employee self-awareness.
- Enhanced understanding of behaviours needed to increase individual and organizational performance.
- The creation of development activities that are more specific to the employee.
- Increased involvement of employees at all levels in the hierarchy.
- Increased devolution of self-development and learning to employees.

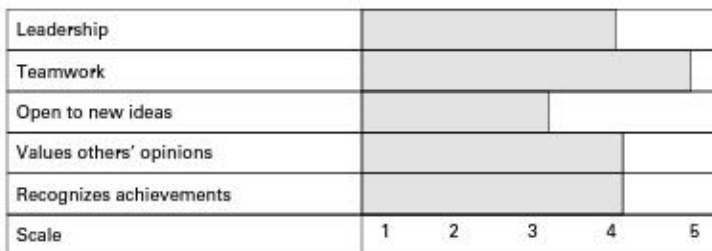
Use of 360-degree feedback

Research conducted by Handy et al (1996) found that, typically, 360-degree feedback forms part of a self-development or management development programme. It serves a number of purposes – 71 per cent of the 45 organizations covered by the survey used it solely to support learning and development, 23 per cent used it to support a number of HR processes such as appraisal, resourcing and succession planning, and 6 per cent used it to support pay decisions.

360-degree feedback – methodology

360-degree feedback processes typically obtain data from questionnaires, which measure from different perspectives the behaviours of individuals against a list of competencies. In effect, they ask for an evaluation: 'How well does X do Y?' The competency model may be one developed within the organization or the competency headings may be provided by the supplier of a questionnaire. A typical questionnaire may cover aspects of performance such as leadership, teamwork, openness to new ideas, valuing other people's opinions and readiness to recognize achievements. An analysis of the results may be presented as a profile, an example of which is shown in Figure 9.2.

Figure 9.2 Example of 360-degree profile



Ratings

Ratings are given by the generators of the feedback on a scale against each heading. This may refer to both importance and performance. For example, the importance of each item could be rated on a scale of 1 (not important) to 6 (essential), and performance could be rated on a scale of 1 (weak in this area) to 6 (outstanding).

Feedback ratings are often accompanied by managers' self-ratings on the same items on which they are rated by their subordinates, peers, and customers. Self-ratings help focus the manager's attention on the results and build motivation in establishing the direction of self-development efforts.

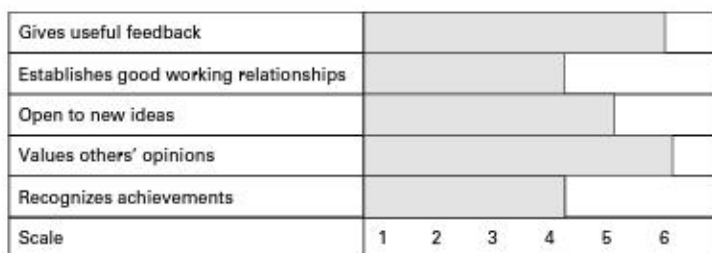
Data processing

Questionnaires are normally processed with the help of software usually provided by external suppliers. This enables the data collection and analysis to be completed swiftly, with the minimum of effort and in a way which facilitates graphical as well as numerical presentation.

Graphical presentation is preferable as a means of easing the process of assimilating the data. The simplest method is to produce a profile as illustrated in Figure 9.3.

Some of the proprietary software presents feedback data in a much more elaborate form.

Figure 9.3 360-degree feedback profile



Feedback

The feedback is often anonymous and may be presented to the individual (most commonly), to the individual's manager or to both the individual and the manager.

Action

The action generated by the feedback will depend on the purposes of the process, ie development, appraisal or pay. If the purpose is primarily developmental, the action may be left to individuals as part of their personal development plans, but the planning process may be shared between individuals and their managers if they both have access to the information. Coaches from inside or, commonly, outside the organization can review the feedback

with the individual and discuss its implications and any development activities that may therefore be appropriate.

Even if the data only goes to the individual it can be discussed in a performance review meeting so that joint plans can be made, and there is much to be said for adopting this approach.

360-degree feedback and appraisal

An important issue to be addressed in developing a 360-degree feedback system is whether it should be used purely for development purposes (ie identifying learning and development needs) or whether it should be also or mainly used as part of the appraisal process (contributing to overall ratings and decisions on promotion, succession planning, pay or even retention). Research by Warr and Ainsworth (1999) established that 100 per cent of the organizations they studied used 360-degree feedback for development, 50 per cent used it as part of performance appraisal and only 7 per cent used it for determining pay.

Incorporating 360-degree feedback into appraisal can be attractive to organizations because they feel that (1) it makes the maximum use of the data it provides so that they get their money's worth, (2) it widens the base of opinion and (3) offers a broader assessment of performance.

As noted by Fletcher (1998) the shift in the late 1990s from using 360-degree feedback for developmental purposes to making it part of the appraisal process took place because of the perceived failings of conventional top-down appraisals. These were often seen to be limited because they reflect the perspective of only one person and ratings have been shown to be prone to bias. Also, top-down appraisals too often appeared to achieve little behavioural change.

According to Fletcher, including 360-degree feedback in appraisals seems to offer a solution to some of these problems. In theory, multiple levels and sources of data should lead to a more objective picture of an individual's contribution, strengths and development needs. It should consequently promote higher levels of trust in the fairness of the process. This in turn should make it more likely that changes in behaviour will ensue. Making feedback part of appraisal also indicates that the organization takes it seriously.

But as Fletcher pointed out, there are problems. People giving the ratings may be less inclined to be honest if they know that they can affect pay decisions or have negative effects on the person concerned. His research at Shell showed that when the purpose of ratings became evaluative rather than developmental, up to 35 per cent of those giving the ratings change their assessments – and the changes could be in either direction. Furthermore, there

is no guarantee that assessments by subordinates and peers may be free of bias. Fletcher concluded that his research findings should make people wary of grafting it onto appraisal systems. However, he did comment: 'This is not to say that it can't be used successfully, but it does need to be handled with care.'

Earlier research by Pollack and Pollack (1996) showed that the collection of 360-degree feedback data and the associated feedback process are more likely to be effective when the system is for developmental rather than appraisal purposes. Fletcher (1998) reported that organizations introducing 360-degree for appraisal purpose have, in many cases, dropped it within two years. It was noted by Silverman et al (2005) that raters in one organization they studied resisted using feedback for appraisal purposes either because they were concerned about the impact their ratings would have on the receiver's pay or they were worried about confidentiality. They commented that there was a substantial amount of research, eg Handley (2001), which showed that raters tended to be more lenient when feedback was associated with appraisal. As Silverman et al emphasized: 'The findings strongly suggest that linking 360-degree feedback to administrative decisions can contaminate the whole process.' There is also a legal aspect to this: if anonymous ratings lead to administrative actions such as demotion or even termination such actions may be difficult to support if challenged legally.

Effectiveness of 360-degree feedback

As shown below research has produced varied conclusions about the effectiveness of 360-degree feedback. According to Bailey and Fletcher (2002) its benefits have been largely untested but rely on a number of assumptions – that individuals learn how effective task performance can be described, gain insight into how it is demonstrated and build the accuracy of self-perception and subsequent corrective behaviours. Their study of 104 managers receiving feedback on 50 behaviours over two years in an automobile breakdown service organization showed mixed benefits. The positive findings were that on average, self-raters, first and second level subordinates and bosses all saw improvements in competencies, development needs were perceived to decrease and there were dramatic changes in the perceptions of first and second level subordinates in terms of the association of self and other ratings. Self-perceptions also became a more accurate predictor of actual appraisal scores over time. On the negative side, greater similarities in scores between peers, self and individual levels largely resulted from subordinates altering their assessment of target managers – the managers' self-perceptions did not change much over time.

Warr and Ainsworth (1999) reported that many organizations that have implemented 360-degree feedback said that it was a success. Indeed, short-term indicators of success were typically cited as being the initial resistance of employees changing to acceptance and the fact that employees became willing to set aside time for use of the system. Longer-term success was typically viewed as the system being rolled out across the organization; receivers reporting behavioural change as a result of the feedback, 360-feedback ideas becoming part of the employees' thinking about their development, and increased alignment between 360-degree processes and organizational strategy.

Mixed results were observed by Silverman et al (2005). In one of their case studies (a brewing company) they noted that:

The 360-degree feedback process had not been effective in changing behaviour or performance and there was some concern that it may even have caused more harm than good. There were particular worries about having raised expectations regarding what was possible for individuals after the feedback had been given and then not being able to provide the resources for this activity.

In a local authority, receivers found it difficult to cite concrete examples of behavioural change that could be attributed to the 360-degree feedback itself. However, in a case researched by Silverman et al (a government office) it was established that 94 per cent of receivers had taken some action on the basis of the feedback and that there was evidence of positive, observable changes in behaviour. But feedback had more impact on some receivers than others. Another research project in a government office conducted by Morgan et al (2005) revealed a more negative situation. The findings were that at an organizational level the use of 360-degree feedback as a performance management tool failed to develop the awareness anticipated. Neither was it found to be aligned with other development plans or the organization's core competences. At an individual level some individuals believed that they achieved little from the process overall.

Frisch (2001) commented that anonymous feedback is not necessarily a good thing:

What happens in highly political, 'out for yourself' organizational cultures is that anonymous feedback becomes an opportunity to get even or 'take shots'. Feedback that taps into power struggles and turf disputes can be personally damaging and yet hide behind the anonymity of the process.

Maurer et al (2002) established that actual feedback ratings had only very weak relationships with subsequent involvement in development activity. What they found to be more important in predicting the uptake of development activity was a work environment in which employees are supportive of skills development and the extent to which those involved believed that they could improve their skills.

Cappelli and Tavis (2016) commented on 360-degree feedback:

Typically, it's less objective than supervisor feedback, as anyone familiar with 360s knows. It can be also 'gamed' by employees to help or hurt colleagues. (At Amazon, the cutthroat culture encourages employees to be critical of one another's performance.)

360-degree feedback – advantages and disadvantages

Table 9.1 Advantages and disadvantages of 360-degree feedback

Advantages	Disadvantages
• Individuals get a broader perspective of how they are perceived by others than previously possible. • It gives people a more rounded view of their performance. • Feedback is perceived as more valid and objective, leading to acceptance of results and actions required.	• People do not always give frank or honest feedback. • People may be put under stress in receiving or giving feedback. • Lack of action following feedback. • Over-reliance on technology. • Too much bureaucracy. • Can be time consuming and resource intensive.

The disadvantages outweigh the advantages, which may explain why only 19 per cent of the respondents to the 2014 e-reward survey were using 360-degree feedback. The criticisms recorded earlier reinforce the view that its value is limited.

References

- Bailey, C and Fletcher, C (2002) The impact of multiple source feedback on management development: findings from a longitudinal study, *Journal of Organizational Behaviour*, 23, (7), pp 853–67
- Budworth, M, Latham, G and Manroop, L (2015) Looking forward to performance improvement: a field test of the feedforward interview for performance management, *Human Resource Management*, 54 (1), pp 45–54

- Cappelli, P and Tavis, A (2016) The performance management revolution, *Harvard Business Review*, October, pp 59–67
- DeNisi, A S and Kluger, A N (2000) Feedback effectiveness: can 360-degree appraisals be improved?, *Academy of Management Executive*, 14 (1) pp 129–39
- e-reward (2014) *Survey of Performance Management*, e-reward, Stockport
- The Feedback Project (2001) *360-Degree Feedback: Best practice guidelines*, University of Surrey, Roehampton
- Fletcher, C (1998) Circular argument, *People Management*, 1 October, pp 46–49
- Frisch, M H (2001) Going around in circles with ‘360’ tools: have they grown too popular for their own good? *Human Resource Planning*, 24 (2), pp 7–8
- Gray, A (2001) Individual differences in 360-degree feedback, in *The Feedback Project*, University of Surrey, Roehampton
- Handley, C (2001) Feedback skills, in *The Feedback Project*, University of Surrey, Roehampton
- Handy, L, Devine, M and Heath, L (1996) *360-degree Feedback: Unguided missile or powerful weapon?* Ashridge Management Group, Berkhamsted
- Kluger, A N and DeNisi, A (1996) The effects of feedback interventions on performance: a historical review, a meta-analysis, and a preliminary feedback theory, *Psychological Bulletin*, 119, pp 254–84
- Lee, C D (2005) Rethinking the goals of your performance management system, *Employment Relations Today*, 32 (3), pp 53–60
- London, M and Beatty, R W (1993) 360-degree feedback as competitive advantage, *Human Resource Management*, 32 (2/3), pp 353–72
- London, M, Mone, E M and Scott, J C (2004) Performance management and assessment: methods for improved rater accuracy and employee goal setting, *Human Resource Management*, 43 (4), pp 319–36
- Maurer, T, Mitchell, D and Barbiette, F (2002) Predictors of attitudes towards a 360-degree feedback system and involvement in post-feedback management development activity, *Journal of Occupational and Organizational Psychology*, 75, pp 87–107
- Morgan, A, Cannan, K and Culinane, K (2005) 360-degree feedback: a critical enquiry, *Personnel Review*, 34 (6), pp 663–80
- Pollack, D and Pollack, L (1996) Using 360-degree feedback in performance appraisal, *Public Personnel Management*, 25 (4), pp 507–28
- Silverman, M, Kerrin, M and Carter, A (2005) *360-degree Feedback: Beyond the spin*, Institute for Employment Studies, Brighton
- Turnow, W W (1993) Introduction to special issue on 360-degree feedback, *Human Resource Management*, 32 (2/3), pp 211–19
- Ward, P (1997) *360-Degree Feedback*, Institute of Personnel and Development, London
- Warr, P and Ainsworth, E (1999) 360-degree feedback: some recent research, *Selection and Development Review*, 15 (3), pp 302–16

Coaching

10

Performance management is primarily a developmental activity. And coaching is the best way of enabling development. When dealing with performance managers need to function as coaches, not judges.

Coaching defined

Coaching is defined as a personal (usually one-to-one) method of helping people to develop their skills and levels of competence. The need for coaching may arise from formal or informal performance reviews but opportunities for coaching will emerge during normal day-to-day activities. Every time a manager delegates a new task to someone a coaching opportunity is created to help the individual learn any new skills or techniques needed to get the job done. Every time a manager provides feedback to an individual after a task has been completed there is an opportunity to help that individual do better next time. Coaching as part of the normal process of management consists of:

- Making people aware of how well they are performing by, for example, asking them questions to establish the extent to which they have thought through what they are doing.
- Controlled delegation – ensuring that individuals not only know what is expected of them but also understand what they need to know and be able to do to complete the task satisfactorily. This gives managers an opportunity to provide guidance at the outset – guidance at a later stage may be seen as interference.
- Using whatever situations that may arise as opportunities to promote learning.
- Encouraging people to look at higher-level problems and how they would tackle them.

As Lee (2005) explained: ‘The coaching model of performance management redefines the relationship between the supervisor and the subordinate.

The two work together to help the subordinate perform at his or her very best.' Coaching involves short-term interventions designed to remedy problems that interfere with the employee's performance but it is also concerned with longer-term development and continuous learning.

The process of coaching

As described by the CIPD (2007) coaching is essentially a non-directive form of development. Evered and Selman (1989) defined the following essential characteristics that define good coaching: developing a partnership, commitment to produce a result, responsiveness to people, practice and preparation, a sensitivity to individuals, and a willingness to go beyond what has already been achieved.

Woodruffe (2008) suggested that coaching should aim to:

- amplify an individual's own knowledge and thought processes;
- improve the individual's self-awareness and facilitate the winning of detailed insight into how the individual may be perceived by others;
- create a supportive, helpful, yet demanding, environment in which the individual's crucial thinking skills, ideas and behaviours are challenged and developed.

Approach to coaching

Coaching can provide motivation, structure and effective feedback if managers have the required skills and commitment. When coaching, managers look for the best in people and try to build on their strengths, rather than dwelling on their weaknesses. The aim is to help people to help themselves. Coaching encourages self-directed learning using any resources such as e-learning that are available. It is not a matter of spoon-feeding people.

Coaching may be informal but it needs to be planned. It is not simply checking from time to time on what people are doing and then advising them on how to do it better. Nor is it occasionally telling people where they have gone wrong and throwing in a lecture for good measure. As far as possible, coaching should take place within the framework of a general plan of the areas and direction in which individuals will benefit from further development.

Coaching plans should be incorporated into the personal development plans set out in a performance agreement.

Techniques of coaching

Good coaching is about encouraging people to think through issues, getting them to see things differently, enabling them to work out solutions for themselves which they can 'own', and empowering them to do things differently. Hallbom and Warrenton-Smith (2005) recommend the following coaching techniques:

- ask high-impact questions – 'how' and 'what' open-ended questions that spur action rather than 'why' questions that require explanations;
- help people to develop their own answers and action plans;
- identify what people are doing right and then make the most of it rather than just trying to fix problems – coaching is success driven;
- build rapport and trust – make it safe for employees to express their concerns and ideas;
- get employees to work out answers for themselves – people often resist being *told* what to do, or how to do it.

Coaching skills

A good coach is one who questions and listens. Coaching will be most effective when the coach understands that his or her role is to help people to learn and individuals are motivated to learn. They should be aware that their present level of knowledge or skill or their behaviour needs to be improved if they are going to perform their work to their own and to others' satisfaction. Individuals should be given guidance on what they should be learning and feedback on how they are doing, and, because learning is an active not a passive process, they should be actively involved with their coach who should be constructive, building on strengths and experience.

To do all this, good coaches have listening, analytical and interviewing skills and the ability to use questioning techniques, give and receive performance feedback, and create a supportive environment conducive to coaching.

The following criteria for evaluating the performance of a coach were listed by Gray (2010):

- establishes rapport;
- creates trust and respect;
- demonstrates effective communication skills;
- promotes self-awareness and self-knowledge;
- uses active listening and questioning techniques;
- assists goal development and setting;
- motivates;
- encourages alternative perspectives;
- assists in making sense of a situation;
- identifies significant patterns of thinking and behaving;
- provides an appropriate mix of challenge and support;
- facilitates depth of understanding;
- shows compassion;
- acts ethically;
- inspires curiosity;
- acts as a role model;
- values diversity and difference;
- promotes action and reflection.

These are demanding requirements and managers need encouragement, guidance, training and, indeed, coaching to meet them.

Developing a coaching culture

Following CIPD research, Clutterbuck and Megginson (2005) described a coaching culture as one where ‘coaching is the predominant style of managing and working together and where commitment to improving the organization is embedded in a parallel commitment to improving the people’. A culture of coaching is linked to the basic performance management processes of providing feedback and reinforcement as Lindbom (2007) explained.

A culture of coaching is one in which the regular review of performance and just-in-time feedback is expected. Employees depend on reinforcement when they have done things correctly and understand that a constructive critique of their work when it needs improvement helps them to be more effective. For managers, this culture sets the standard for recognition for jobs well done. The culture of coaching also sets the expectation for feedback – positive or for improvement – that is specific, behavioural and results-based. This type of culture is self-reinforcing as it leads to improved performance, which encourages employees to seek more feedback and managers to see the value of coaching as the key requirement of their job.

In a coaching culture managers believe that people can succeed, that they can contribute to their success and that they can identify what people need to be able to do to improve their performance. They recognize that coaching can provide motivation, structure and effective learning and see performance management as an enabling, empowering process that focuses on learning requirements. Hamlin et al (2006) commented that: 'Truly effective managers and managerial leaders are those who embed effective coaching into the heart of their management practice.'

Developing a coaching culture in which managers have the skills and commitment to coach informally as well as on more formal occasions is difficult. It takes time and is a matter of guidance, training, encouragement and the example provided by senior managers and colleagues. As Lindbom (2007) emphasized: 'Coaching must become part of the organization's identity by including it in core competencies and behaviour expectations.' HR or learning and development specialists have an important role. They can act as mentors (or establish a team of mentors) to provide guidance and encouragement.

References

- Chartered Institute of Learning and Development (CIPD) (2007) *Coaching Fact Sheet*, CIPD, London
- Clutterbuck, D and Megginson, D (2005) *Making Coaching Work*, CIPD, London
- Evered, R D and Selman, J C (1989) Coaching and the art of management, *Organizational Dynamics*, 18 (2), 16–32
- Gray, D A (2010) Building quality into executive coaching, in *Gower Handbook of Leadership and Management Development*, pp 367–85, eds J Gold, R Thorpe and A Mumford, Gower, Farnham

- Hallbom, T and Warrenton-Smith, A (2005) The manager as coach, *Journal of Innovative Management*, Summer, pp 39–48
- Hamlin, R G, Ellinger, A D and Beattie, R S (2006) Coaching at the heart of managerial effectiveness: a cross-cultural study of managerial behaviours, *Human Resource Development International*, 9 (3), pp 305–31
- Lee, C D (2005) Rethinking the goals of your performance management system, *Employment Relations Today*, 32 (3), pp 53–60
- Lindbom, D (2007) A culture of coaching: the challenge of managing performance for long-term results, *Organization Development Journal*, 25 (1), pp 101–106
- Woodruffe, C (2008) Could do better? *Must* do better!, *British Journal of Administrative Management*, January, pp 14–16

PART THREE
**Applications
of performance
management**

THIS PAGE IS INTENTIONALLY LEFT BLANK

Managing organizational performance

11

The management of organizational performance is the continuing responsibility of top management who plan, organize, monitor and control activities and provide leadership to achieve strategic goals and satisfy the needs and requirements of stakeholders. Individual and team performance management systems as discussed elsewhere in this book play an important part. But they function within the context of what is done to manage organizational performance and to develop effective work systems.

Managing organizational performance is a complex business which is examined in this chapter under the following headings:

- The process of managing organizational performance.
- The strategic approach to managing organizational performance.
- Business performance management systems.
- Organizational capability.
- Performance management and human capital management.
- Developing a high-performance culture.
- Measuring performance.

The process of managing organizational performance

As Gheorghe and Hack (2007) observed: 'Actively managing performance is simply running a business – running the entire business as one entity. It's a continuous cycle of planning, executing, measuring results and planning

the next actions. In the context of a larger strategic initiative, that means continuous improvement.' They noted that:

The fundamental problem managers face as they make day-to-day decisions is an inability to link their actions to key performance measures. What managers need is more enterprise intelligence, actionable information that enables them to know where their problems are, in real time, know who their key performers are without combing through a stack of reports, know where their company is at risk, before the numbers turn bad, and, most of all, know which process could improve performance.

The management of organizational performance takes place on a number of dimensions. It is a strategic approach which has to take account of the needs of multiple stakeholders and makes use of business performance management systems.

The dimensions of managing organizational performance

Sink and Tuttle (1990) stated that managing organizational performance includes five dimensions:

- 1 Creating visions for the future.
- 2 Planning – determining the present organizational state, and developing strategies to improve that state.
- 3 Designing, developing and implementing improvement interventions.
- 4 Designing, redesigning, developing, and implementing measurement and evaluation systems.
- 5 Putting cultural support systems in place to reward and reinforce progress.

The overall approach to managing organizational performance

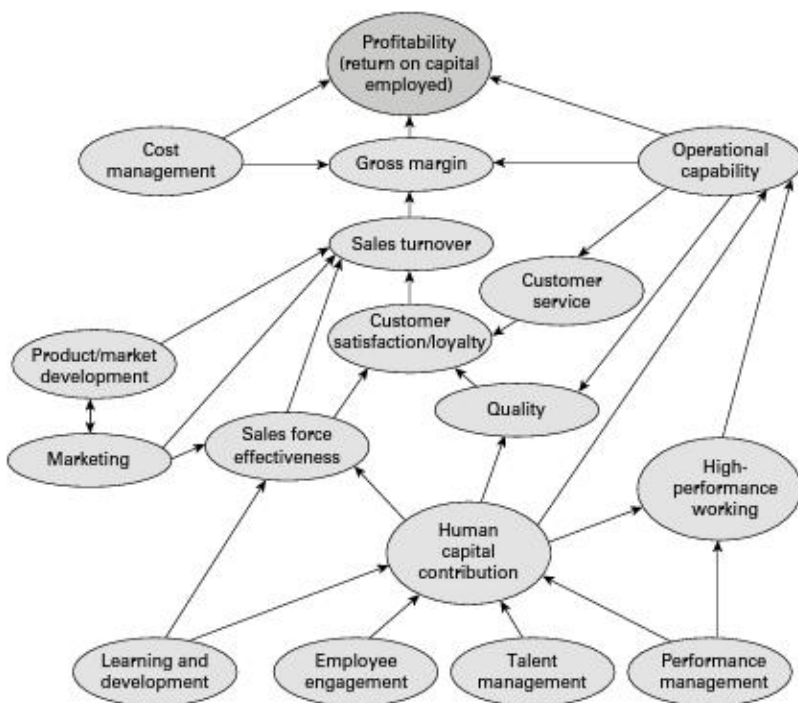
The overall approach to managing organizational performance as described in the rest of this chapter is based on processes of strategic performance management supported by the use of a business performance management system. In general it is concerned with developing organizational capability which means creating a high-performance culture, human capital management and talent management. In particular it makes use of various approaches to measuring and monitoring performance.

The strategic approach to managing organizational performance

A strategic approach to managing organizational performance takes a broad and long-term view of where the business is going and managing performance in ways which ensure that this strategic thrust is maintained. The objective is to provide a sense of direction in an often turbulent environment so that the business needs of the organization and the individual and collective needs of its employees can be met by the development and implementation of integrated systems for managing and developing performance.

Organizational performance management systems are strategic in the sense that they are aligned to the business strategy of the organization and support the achievement of its strategic goals. They focus on developing work systems and the working environment as well as developing individuals. To create the systems and make them function effectively it is necessary to ensure that the strategy is understood, including, as Kaplan and Norton (2000) put it, 'the crucial but perplexing processes through which intangible assets will be converted into tangible outcomes'. The notion of mapping strategy was originated by them as a development of their concept of the balanced scorecard (see later in this chapter). Strategy maps show the cause-and-effect links by which specific improvements create desired outcomes. They describe the elements of the organization's systems and their interrelationships. They therefore provide a route map for systems improvement leading to performance improvement. In addition, they give employees a clear line of sight into how their jobs are linked to the overall goals of the organization and provide a visual representation of a company's critical goals and the relationships between them that drive organizational performance. Bourne et al (2003) call them 'success maps' which act as diagrams which show the logic of how the goals of the organization interact to deliver overall performance. An example of a strategy map is given in Figure 11.1.

This map shows an overall objective to improve profitability as measured by return on capital employed. In the next line the map indicates that the main contributors to increased profitability are increases to the gross margin (the difference between the value of sales and the cost of sales), improvements to operational capability and better cost management. At the next level down the objective is to increase sales turnover in order to increase the gross margin. How this is to be achieved is set out in the next group of

Figure 11.1 A strategy map

goals and their interconnections, comprising increases in customer satisfaction and sales force effectiveness, innovations in product/market development and marketing, and improvements in customer service and quality levels. The key objective of improving operational capability is underpinned by developments in high-performance working and the contribution of the organization's human capital. The latter is supported by human resource management goals in the fields of performance management, talent management, employee engagement and learning and development.

The overall objective of increasing profitability in this example addresses the concerns of only one section of the stakeholders of an organization, ie the investors. This need would probably be given precedence by many quoted companies. But there are other goals which relate to their other stakeholders, for example those related to corporate social responsibility. These could be catered for in separate strategy maps. Better still, they could be linked

to their commercial goals. Public and voluntary sector organizations will certainly have goals which relate to all their stakeholders as well as their overall purpose. A stakeholder approach to strategic performance management is required.

Performance management strategy is based on the resource-based view that it is the strategic development of the organization's rare, hard to imitate and hard to substitute human resources which produces its unique character and creates competitive advantage. The strategic goal will be to 'create firms which are more intelligent and flexible than their competitors' (Boxall, 1996) by developing more talented staff and by extending their skills base, and this is exactly what performance management aims to do.

Armstrong and Ward (2005) summed up the strategic role of performance management:

There is also opportunity for performance management to help drive through organizational change. Instead of being a tactical initiative, perhaps performance management has a more strategic role to play. The challenge is for performance management to retain a strategic role rather than tending towards tactical activities, such as the process. Performance management can provide a new way of looking at performance and help to embed new behaviours and facilitate the move to a culture that is both more open and more focused on the achievement of new outputs.

The strategic approach adopted by Johnson and Johnson was described by Wortzel-Hoffman and Boltizar (2007) as follows.

As we embarked on developing an integrated performance and development process into the organization, we knew that driving change and an enhanced process requires a cultural shift within an organization. The best performance management becomes a continuous process and is not a one time event; it takes time and effort and a dedication to developing people. We also knew that from a business standpoint it was critical to build and develop the talent pipeline of the organization to meet the aggressive business goals and dynamically changing marketplace.

Implementing strategic organizational performance management

Strategic organizational performance management starts with a definition of the areas of activity and achievement which are most important to the

organization. These could be called organizational key result areas. They might include all or a selection of the following:

- financial (profitability, shareholder value, cost control, etc);
- market share;
- sales;
- productivity;
- quality;
- customer service;
- innovation;
- people management;
- corporate social responsibility.

Strategic goals can be set in each of these areas to which individual goals can be aligned as described in Chapter 5. Alignment is a key aspect of performance management.

The stakeholder approach to strategic organizational performance management

Atkinson et al (1997) argued that a company exists to serve the goals of its multiple stakeholders – employees, customers, suppliers, regulators and the community at large as well as shareholders. Companies must provide for explicit or implicit contracts with its stakeholders. Performance management systems should guide the design and implementation of processes which satisfy the requirements of each stakeholder group and monitor and evaluate the extent to which the organization is meeting these needs.

The performance prism

A multiple stakeholder framework for performance management – the performance prism – was formulated by Neely et al (2002). This is based on the proposition that organizations exist to satisfy their stakeholders and their wants and needs should be considered first. Neely et al contended that companies in particular must assume a broader role than simply delivering value to their shareholders. To be successful over time, even for and on behalf of shareholders, businesses must address multiple stakeholders. If companies do not give each of their stakeholders the right level of focus, both their

corporate reputation and their market capitalization – and therefore shareholder value – are likely to suffer in one way or another. The performance prism can facilitate or structure the analysis of multiple stakeholders in preparation for applying performance measurement criteria.

They explained the term ‘performance prism’ as follows:

A prism refracts light. It illustrates the hidden complexity of something as apparently simple as white light. So it is with the Performance Prism. It illustrates the true complexity of performance measurement and management. It is a thinking aid which seeks to integrate five related perspectives and provide a structure that allows executives to think through the answers to five fundamental questions:

- 1 *Stakeholder satisfaction*: Who are our stakeholders and what do they want and need?
- 2 *Stakeholder contribution*: What do we want and need from our stakeholders?
- 3 *Strategies*: What strategies do we need to put in place to satisfy these wants and needs?
- 4 *Processes*: What processes do we need to put in place to satisfy these wants and needs?
- 5 *Capabilities*: What capabilities – people, practices, technology and infrastructure – do we need to put in place to allow us to operate our processes more effectively and efficiently?

Moullin (2002) described how in a charity the performance prism was used to develop a ‘success map’, which showed the main needs of the various stakeholders. Performance measurements were then developed for each group of them followed by an integrative strategy.

Business performance management systems

A business performance management (BPM) system can be used to support the achievement of the performance management strategy. It is an information technology (IT) based approach to organizational performance management described by Frolick and Ariyachandra (2006) as a series of business processes and applications designed to optimize both the development and the execution of business strategy. There are two primary tasks. First, to facilitate the creation of strategic goals and second, to support the

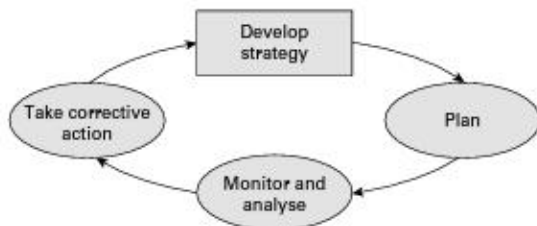
subsequent management of the performance required to reach those goals. Strategic goals are developed by stipulating specific goals and key performance indicators that are meaningful to the organization. The goals and indicators are then associated with operational metrics for planning, monitoring and control purposes which are linked to the business strategy. BPM is concerned with the entire enterprise in contrast to other IT applications which focus on specific operational areas such as customer relations.

The BPM framework consists of four core activities as shown in Figure 11.2. The first two steps represent the formulation of business strategy while the last two steps define how to modify and execute strategy. This closed loop process captures business strategy and then translates it into strategically aligned business operations.

A business performance management (BPM) system as provided by suppliers such as Oracle is based on a common database which allows every department of a business to store and retrieve information in real time. The information has to be reliable, accessible, and easily shared. A modular approach means that businesses can select the software modules they need from the vendor and add new modules of their own.

Transactional systems such as enterprise resource planning (a company-wide information system designed to coordinate all the resources, information, and activities needed to complete business processes such as order fulfilment or billing), customer relationship management (CRM), supply chain management (SCM), and human capital management (HCM) help to run day-to-day business operations. Business performance management systems integrate these systems and enable executives to manage the business strategically by providing information across all functions. This is aligned to strategic imperatives by answering three basic questions:

Figure 11.2 The business performance planning cycle



SOURCE Ariyachandra and Frolick (2006)

(1) Where have we been? (2) Where are we now? (3) Where are we going? and providing the basis for answering the fourth key question: (4) How do we get there?

Pritchard (2008) pointed out that any enterprise-wide business performance management improvement initiative must include managers and employees from across the organization. All functions have to operate in unison. And if the company doesn't integrate financial and non-financial data, there is only so much that a business performance management tool can do to help decision-makers understand the results.

Organizational capability

Organizational capability is the capacity of an organization to function effectively. It is about the ability of an organization to identify its critical success factors, guarantee high levels of performance for each of these factors, achieve its purpose, deliver results and meet the needs of its stakeholders. The development of organizational capability is concerned with the organization as a system in line with the belief expressed by Coens and Jenkins (2002) that to 'focus on the overall "system" of the organization yields better results than trying to get individual employees to improve their performance'.

The aim is to increase organizational effectiveness by obtaining better performance from people, getting them to work well together, improving organizational processes such as the formulation and implementation of strategy and the achievement of high quality and levels of customer service, and facilitating the management of change.

This has to take place in a context in which organizations are increasingly embracing a new management culture based on inclusion, involvement and participation, rather than on the traditional command, control and compliance paradigm which Flaherty (1999) claimed 'cannot bring about the conditions and competence necessary to successfully meet the challenges of endless innovation; relentless downsizing, re-engineering, and multicultural working holistically'. This new management paradigm requires the development of a high-performance work environment through management practices that value and support achievement, growth and learning. It also calls for facilitative behaviours that focus on employee empowerment, learning and development. In other words, it needs performance management.

Organizational capability and organizational development

As described by Beer (1980), organizational development is 'a system wide process of data collection, diagnosis, action planning, intervention and evaluation'. Traditionally, organization development or OD was based on behavioural science concepts, but the focus has shifted to a number of other approaches such as human capital management, talent management, change management, high-performance work systems, total quality management and, importantly, performance management. Cummins and Worley (2005) noted that the practice of OD has gone 'far beyond its humanistic origins by incorporating concepts from organization strategy that complement the early emphasis on social processes'. Organizational capability could be regarded as an outcome of organizational development but with the focus more on performance management.

Performance management and human capital management

Human capital management (HCM) is concerned with obtaining, analysing and reporting on data which informs the direction of people management strategies. Performance management data is an important source of information on human capital and its contribution to business. Lawler and McDermott (2003) observed that:

It is very difficult to effectively manage human capital without a system that measures performance and performance capability... An effective performance management system should be a key building block of every organization's human capital management system.

Given the growing recognition of human capital as a source of organizational value (ie the resource-based view) and the pressure therefore on organizations to collect, analyse and report on their human capital, performance management data is likely to become a key source of information both on the value of human capital and on the management activity needed to manage and deploy this asset.

Performance management data can be used to:

- demonstrate an organization's ability to raise competence levels;
- assess how long it takes for a new employee to reach optimum performance;

- provide feedback on development programmes including induction, coaching and mentoring in terms of increased performance or capacity to take on new roles;
- demonstrate the success of internal recruitment programmes;
- indicate how successful an organization is at achieving its goals at the individual, team and department levels;
- track skills levels and movement in any skills gap in the organization;
- match actual behaviour against desired behaviour;
- assess commitment to values and mission;
- assess understanding of strategy and contribution.

Developing a high-performance culture

Organizations achieve sustained high performance through the systems of work they adopt but these systems are managed and operated by people. Ultimately, therefore, high-performance working is about improving performance through people. This can be done by the development and implementation of a high-performance culture through high-performance work systems in which performance management plays an important part.

High-performance cultures

High-performance cultures are ones in which the achievement of high levels of performance is a way of life. The characteristics of such cultures are:

- Management defines what it requires in the shape of performance improvements, sets goals for success and monitors performance to ensure that the goals are achieved.
- Alternative work practices are adopted such as job redesign, autonomous work teams, improvement groups, team briefing and flexible working.
- People know what's expected of them – they understand their goals and accountabilities.
- People feel that their job is worth doing, and there is a strong fit between the job and their capabilities.

- People are empowered to maximize their contribution.
- There is strong leadership from the top which engenders a shared belief in the importance of continuing improvement.
- There is a focus on promoting positive attitudes that result in an engaged, committed and motivated workforce.
- Performance management processes are aligned to business goals to ensure that people are engaged in achieving agreed goals and standards.
- Capacities of people are developed through learning at all levels to support performance improvement and are provided with opportunities to make full use of their skills and abilities.
- A pool of talent ensures a continuous supply of high performers in key roles.
- People are valued and rewarded according to their contribution.
- People are involved in developing high-performance practices.
- There is a climate of trust and teamwork, aimed at delivering a distinctive service to the customer.
- A clear line of sight exists between the strategic aims of the organization and those of its departments and its staff at all levels.

High-performance work systems

High-performance cultures can be developed through a high-performance work system (HPWS) which as described by Becker and Huselid (1998) is: 'An internally consistent and coherent HRM system that is focused on solving operational problems and implementing the firm's competitive strategy'. They suggested that such a system 'is the key to the acquisition, motivation and development of the underlying intellectual assets that can be a source of sustained competitive advantage'. This is because it has the following characteristics:

- It links the firm's selection and promotion decisions to validated competency models.
- It is the basis for developing strategies that provide timely and effective support for the skills demanded to implant the firm's strategies.
- It enacts compensation and performance management policies that attract, retain and motivate high-performance employees.

High-performance work systems embody ways of thinking about performance in organizations and how it can be improved. They are concerned with developing and implementing bundles of complementary practices which as an integrated whole will make a much more powerful impact on performance than if they were dealt with as separate entities.

The basic features of a HPWS were described by Shih et al (2005) as follows:

- *Job infrastructure* – workplace arrangements that equip workers with the proper abilities to do their jobs, provide them with the means to do their jobs, and give them the motivation to do their jobs. These practices must be combined to produce their proper effects.
- *Training programmes to enhance employee skills* – investment in increasing employee skills, knowledge and ability.
- *Information sharing and worker involvement mechanisms* – to understand the available alternatives and make correct decisions.
- *Compensation and promotion opportunities that provide motivation* – to encourage skilled employees to engage in effective discretionary decision-making in a variety of environmental contingencies.

The contribution of performance management

Performance management contributes to the development of a high-performance culture by delivering the message in an organization that high performance is important. It defines high performance at an organizational level and at an individual level and links the two by describing how individuals can contribute to their organization's results. It explains how performance should be measured and the steps that should be taken to monitor results in comparison with expectations. The means of getting high performance are provided by motivating people, defining the performance expectations implicit in the psychological contract, creating high levels of engagement and enhancing skills and competencies through feedback, coaching and personal development planning.

Measuring performance

Managing organizational performance means measuring and monitoring performance by the use of measures or metrics. The significance of

measurement and the principles governing its use are discussed below. As also covered in this section, there is a choice of measures and these can be expressed and categorized as key performance indicators (KPIs), scorecards, or the balanced scorecard. They can be communicated by means of dashboards.

The significance of measurement

As was emphasized by the Association for Management Information in Financial Services (AMIF, 2005):

Goals, which may vary from organization to organization, are met by the choices management makes in deploying its resources. Management's ability to make informed decisions is tied to the quality of management information available to them... In order to determine 'good' performance versus 'bad' performance it is necessary to have a well-defined base against which to compare actual results. This includes defining in advance the expectation as to acceptable performance.

The approach to measurement

There are four principles governing the use of performance measures as defined by Quinn (2003):

- 1** *Measure the right things* – the system must measure activities that directly contribute to an organization's performance.
- 2** *Clearly communicate what will be measured* – measures that are ill-defined, and/or not communicated will not be used or understood.
- 3** *Consistently apply the measures* – measures should be applied consistently to all units of the organization; failure to do so will result in loss of support for the system.
- 4** *Act on the measures* – the measurement data must be used in a constructive way. Not using the data or misapplying the data will have the same results – a lack of support for the measurement system.

Neeley et al (2002) counsel that it is necessary to question constantly what is measured by answering two fundamental questions: Do we need it? Why do we need it? They comment that:

We need to evaluate constantly whether or not the measures we have are the right ones for the organization. And if not, we need to find a way to get rid of them so that we do not waste time and effort capturing data that no one is using. In short, we need to practice 'metricide' (ie do not let any metric or measure persist beyond its natural and useful life).

At BP Lubricants as reported by Elliott and Coley-Smith (2005) the principles followed in developing their performance measurement system were:

- To focus the business on areas of strategic importance.
- To make sure employees have the right information, at the right time, to make the right decisions in support of strategy.
- To clearly understand the value-to-cost relationship of communication activities.
- To develop a measurement mindset that focuses people on improving performance.

But a word of caution is necessary about the concept of managing by metrics. Figures can conceal more than they reveal and it is possible for people to hide behind them. Data can be misleading. It is not enough just to tick boxes. Metrics may be a start but they cannot be relied on by themselves. If there is a problem the story behind the figures needs to be investigated, especially when the failure is systemic.

Types of measures

Traditionally, organizational performance measurement systems were uni-dimensional – focused entirely on financial measures related to shareholder value such as return on capital employed, economic value added, earnings per share and price/earnings ratio and added value. But such traditional accounting-based performance measurement systems are insufficient in modern organizations where it is recognized that relationships with employees, customers, suppliers and other stakeholders are crucial aspects of how the organization is performing. Financial measures cannot evaluate important factors such as innovation, employee engagement, employee relations and levels of customer and employee satisfaction. These factors are sometimes called leading indicators (Gjerde and Hughes, 2007) because they inform management of the progress made on initiatives undertaken

to improve performance. Measures of financial performance are lagging indicators because they reflect past results. Achieving an objective related to a lead measure indicates that performance is on track, and achieving an objective related to a lag measure shows that the goal has been accomplished. To identify lead measures it is necessary to establish what are the key factors that drive performance – the key performance indicators (KPIs) which form the basis of the performance monitoring and measurement system.

Jack Welch, former CEO of the General Electric Company, as quoted by Krames (2004), said that the three most important things you need to measure in a business are customer satisfaction, employee satisfaction and cash flow. Sink and Tuttle (1990) listed seven measurement categories of organizational performance: (1) effectiveness, (2) efficiency, (3) quality, (4) quality of working life, (5) innovation, (6) cost and prices, and (7) productivity.

The European Foundation for Quality Management EFQM model has the following elements:

- *Leadership* – how the behaviour and actions of the executive team and all other leaders inspire, support and promote a culture of total quality management.
- *Policy and strategy* – how the organization formulates, deploys and reviews its policy and strategy and turns it into plans and actions.
- *People management* – how the organization realizes the full potential of its people.
- *Resources* – how the organization manages resources effectively and efficiently.
- *Processes* – how the organization identifies, manages, reviews and improves its processes.
- *Customer satisfaction* – what the organization is achieving in relation to the satisfaction of its external customers.
- *People satisfaction* – what the organization is achieving in relation to the satisfaction of its people.
- *Impact on society* – What the organization is achieving in satisfying the needs and the expectations of the local, national and international community at large.

- *Business results* – what the organization is achieving in relation to its planned business goals and in satisfying the needs and expectations of everyone with a financial interest or stake in the organization.

Key performance indicators

Key performance indicators (KPIs) are the results or outcomes which are identified as being crucial to the achievement of high performance and provide the basis for setting goals and measuring performance. As noted in Chapter 5 they are important when measuring individual performance and they are just as important at the organizational level. They must take account of the requirements of all stakeholders and should add social responsibility to the list of business goals by including discretionary environmental initiatives, diversity and employee well-being in the set of KPIs.

An organizational KPI is a special kind of metric. It measures something that is strategically important to the organization such as sales per square metre, added value per employee, rate of stock turnover, cost per unit of output, time to market, and levels of employee engagement. In other words, as Schiff (2008) put it: 'A KPI is a metric that matters. You can have many metrics, but an organization needs only a handful of KPIs. Everything can't be considered "key", or nothing will stand out from the pack and get the attention it deserves.' The range of KPIs in different organizations is typically between six and twelve.

KPIs provide the basis for defining the crucial goals for which individuals are accountable. The measurement system has to ensure that performance in relation to the KPIs is recorded and analysed and that this information is passed on to accountable managers for action. Thus they facilitate the alignment of organizational and business goals.

Scorecards

Scorecards record performance related to a set of KPIs. In effect, they are report cards on the organization's performance. For example, they can show sales per square metre in a store, comparing actuals with targets and analysing trends. Dagan (2007) emphasized that: 'You should also not get carried away with trying to jam too many KPIs into your scorecard displays. Although the optimal number depends on your organization, a rule of thumb is that six to

ten KPIs are sufficient in most cases.' It should be possible to drill down into supporting tabular and graphical data to investigate any issues raised by the scorecard.

The balanced scorecard

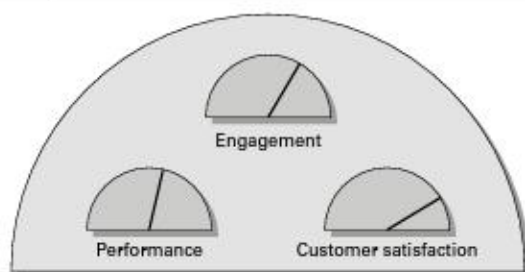
Traditionally, scorecards tended to concentrate on financial measures. Kaplan and Norton (1992, 1996) devised the balanced scorecard as a means of ensuring that businesses used both financial and operational measures thus achieving a more balanced view of their performance. They explained that the balanced scorecard approach 'puts strategy and vision, not control at the centre'. As described in Chapter 5, it requires managers to look at the business from the four related perspectives of customers, innovation and learning, internal performance requirements and finance. Some organizations have replaced the innovation and learning perspective with a broader people or human capital element.

Schneiderman (1999) recommended that balanced scorecards work best when good metrics are available. They should be clearly defined and easy to understand, accessible when needed to those who can best use them and linked to an underlying data system which enables the root causes of poor scorecard results to be identified and dealt with.

Dashboards

A dashboard is a graphical display, designed to convey key performance measures on an organization's intranet system to a wide audience so that they can be assimilated and acted upon easily and swiftly. Dover (2004) commented that: 'Dashboards are predominantly a data-delivery vehicle. Dashboards use dials, "traffic light" displays and graphs to make performance information available as and when required.' An example of a basic dashboard with just three dials is illustrated in Figure 11.3.

As described by Dagan (2007) dashboards provide a rapid and convenient way for people to assess how they are doing by reference to the business metrics critical to their place in the organization. They can thus initiate prompt corrective action as needed. Dashboards can be constructed using real-time or near real-time feeds from a data warehouse frontline system. Dashboard displays can be enhanced with charts, graphs, or even tabular data. However, it is important not to make the entry screen too busy because

Figure 11.3 Example of a dashboard

this might divert attention away from the important metrics. An alternative is to provide facilities for obtaining supporting information. For example, if a traffic light system shows a KPI that is red or yellow, then a click of the mouse should enable the user to drill down to pinpoint some of the underlying causes. Drill down could be available to several layers with each layer providing even more details. Examples of a more elaborate dashboard which incorporates a traffic light system and one based on entirely on traffic lights are given in Figures 11.4 and 11.5 respectively.

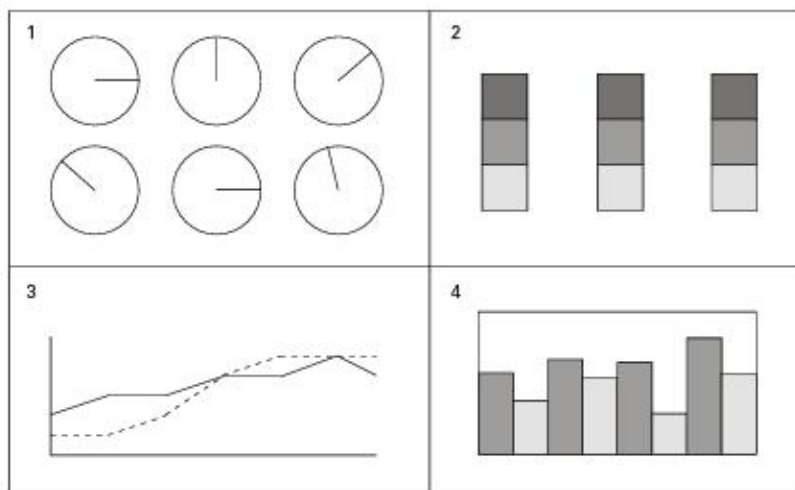
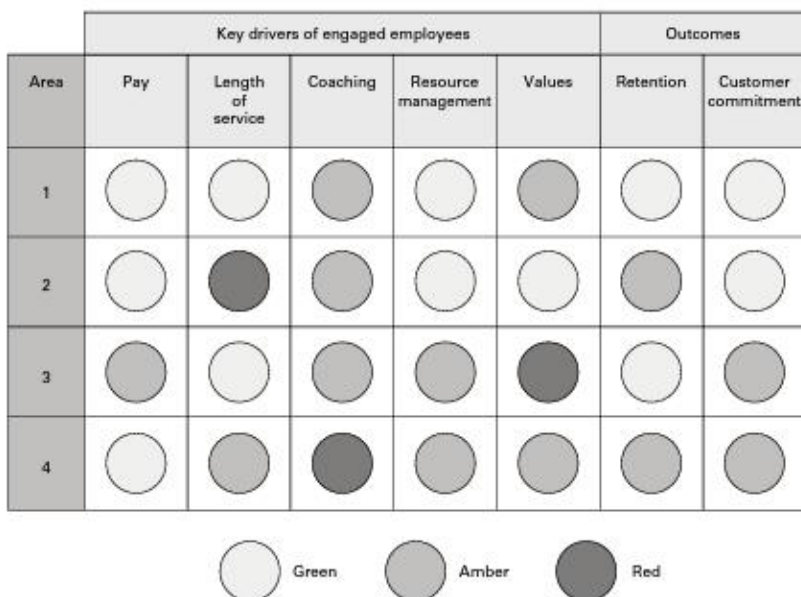
Figure 11.4 Example of dashboard with (1) dials, (2) traffic lights, (3 and 4) graphs

Figure 11.5 Human capital reporting dashboard

Developing measures

Each of the approaches to performance management based on measurement described above – scorecards, balanced scorecards and dashboards – depends on the quality of the measures (metrics) used. The following steps should be taken when developing them:

- 1 Involve as many as possible of those concerned in the development programme.
- 2 Identify the key factors that drive performance.
- 3 Define the key performance indicators (KPIs).
- 4 Define what metrics are required, ie what should be measured and why, in order to provide information on performance related to each KPI.
- 5 Decide how to measure – how information related to the measures and performance with regard to each KPI should be collected and presented.
- 6 Set up a system for communicating information on performance through such media as scorecards or dashboards.

References

- AMIF (2005) Basic tenets of performance management in financial institutions, *Journal of Performance Management*, 18 (3), pp 17–21
- Armstrong, K and Ward, A (2005) *What Makes for Effective Performance Management?* The Work Foundation, London
- Atkinson, A A, Waterhouse, J H and Wells, R B (1997) A stakeholder approach to strategic performance measurement, *Sloan Management Review*, 38 (3), pp 25–37
- Becker, B E and Huselid, M A (1998) High performance work systems and firm performance: a synthesis of research and managerial implications, *Research on Personnel and Human Resource Management*, 16, pp 53–101
- Beer, M (1980) *Organization Change and Development: A systems view*, Goodyear, Santa Monica CA
- Bourne, M, Franco, M and Wilkes, J (2003) Corporate performance management, *Measuring Business Excellence*, 7 (3), pp 15–21
- Boxall, P F (1996) The strategic HRM debate and the resource-based view of the firm, *Human Resource Management Journal*, 6 (3), pp 59–75
- Cummins, T G and Worley, C G (2005) *Organization Development and Change*, South Western, Mason OH
- Dagan, B (2007) Dashboards and scorecards aid in performance management and monitoring, *Natural Gas & Electricity*, September, pp 23–27
- Dover, C (2004) Dashboards can change your culture, *Strategic Finance*, October, pp 42–48
- European Foundation for Quality Management (nd) <http://www.efqm.org> [accessed 24 February 2014]
- Elliott, S and Coley-Smith, H (2005) Building a new performance management model at BP, *SCM*, August/September, pp 4–8
- Frolick, M and Ariyachandra, T R (2006) Business performance management: one truth, *Information Systems Management*, 23 (1), pp 41–48
- Flaherty, J (1999) *Coaching: Evoking excellence in others*, Butterworth-Heinemann, Burlington MA
- Gheorghe, C and Hack, J (2007) Unified performance management: how one company can tame its many processes, *Business Performance Management*, November, pp 17–19
- Gjerde, K A and Hughes, S B (2007) Tracking performance: when less is more, *Management Accounting Quarterly*, 9 (1), pp 1–12
- Kaplan, R S and Norton, D P (1992) The balanced scorecard – measures that drive performance, *Harvard Business Review*, January–February, pp 71–79
- Kaplan, R S and Norton, D P (1996) Using the balanced scorecard as a strategic management system, *Harvard Business Review*, January–February, pp 75–85

- Kaplan, R S and Norton, D P (2000) Having trouble with your strategy? Then map it, *Harvard Business Review*, September–October, pp 167–76
- Krames, J A (2004) *The Welch Way*, McGraw-Hill, New York
- Lawler, E E and McDermott, M (2003) Current performance management practices, *WordatWork Journal*, Second Quarter, pp 49–60
- Moullin, M (2002) *Delivering Excellence in Health and Social Care*, Open University Press, Buckingham.
- Neely A, Adams, C and Kennerley, M (2002) *The Performance Prism: The Scorecard for measuring and managing business success*, Pearson Education, Harlow
- Pritchard, A (2008) The new BPM: enterprise performance management, *Business Performance Management*, March, pp 28–30
- Quinn, F J (2003) Measurement – the right way, *Logistics Management*, 42 (3), p 9
- Schiff, C (2008) Three things you should know about dashboards, *DM Review*, June, p 29
- Schneiderman, A M (1999) Why balanced score cards fail, *Journal of Strategic Performance Measurement*, January, pp 6–10
- Shih, H-A, Chiang, Y-H and Hsu, C-C (2005) Can high performance work systems really lead to better performance?, *Academy of Management Conference Paper*, pp 1–6
- Sink, D S and Tuttle, T C (1990) The performance management question in the organization of the future, *Industrial Management*, 32 (1), pp 4–12
- Wortzel-Hoffman, N and Boltizar, S (2007) Performance and development planning: a culture shift perspective, *Organization Development Journal*, 25 (2), pp 195–200

Managing team performance

12

It is remarkable how little has been researched or written about performance management for teams. This is in spite of the emphasis on good teamwork and high-performance teams which, as described by Katzenbach and Smith (1993):

Invest much time and effort explaining, shaping and agreeing on a purpose that belongs to them, both collectively and individually. They are characterised by a deep sense of commitment to their growth and success.

One of the frequently voiced criticisms of individual performance management is that it inhibits good teamwork. But the possibility of extending it to teams does not seem to have occurred to many commentators.

Teams and performance

As Purcell et al (1998) observed, teams are the 'elusive bridge between the aims of the individual employee and the objectives of the organisation... teams can provide the medium for linking employee performance targets to the factors critical to the success of the business'. How well this is done depends on the following factors that affect team performance:

- the clarity of the team's goals in terms of expectations and priorities;
- how work is allocated to the team;
- how the team is working (its processes) in terms of cohesion, ability to handle internal conflict and pressure, relationships with other teams;
- the extent to which the team is capable of managing itself – setting goals and priorities, monitoring performance;

- the quality of leadership – even self-managed teams need a sense of direction which they cannot necessarily generate by themselves;
- the level of skill possessed by individual team members (including multi-skilling);
- the systems and resources support available to the team.

Overall, as suggested by Jones (1995): ‘Teams need to have a shared purpose. They also need to have the necessary mix of skills and abilities and to be mutually accountable for the outcome.’

Bunderson and Sutcliffe (2003) made the point that team goal orientation captures the ‘shared understanding of the extent to which a team emphasizes learning or performance goals, and, consequently, helps to facilitate group decision making, collaborative problem solving, and intragroup coordination that maintain the group’s emphasis on learning or performance goals’. Research by Yaping et al (2013) revealed evidence ‘that a team learning goal and team performance approach goal are positively related to team creativity and individual creativity’.

Team competencies

The following is a selection of some of the key competencies for team members as developed by Hay/McBer (Gross, 1995):

- *Interpersonal understanding* – accurate interpretation of others’ concerns, motives and feelings and recognition of their strengths and weaknesses.
- *Influence* – using appropriate interpersonal styles and logical arguments to convince others to accept ideas or pleas.
- *Customer service orientation* – demonstrating concern for meeting the needs of internal and external customers.
- *Adaptability* – adapting easily to change.
- *Teamwork and cooperation* – developing collaborative work which generates acceptable solutions.
- *Oral communication* – expressing ideas in group situations.
- *Achievement orientation* – setting and meeting challenging objectives.
- *Organizational commitment* – performing work with broader organizational goals in mind.

Performance measures for teams

Performance measures for teams will be related to the purpose of the team and its particular objectives and standards of performance. The following are some examples of how performance measures are established and used by various organizations.

- *Automobile Association Finance Division* – in the processing department, where high volume and routine tasks have to be performed, the measures are productivity and quality.
- *The Benefits Agency* – measures are agreed between managers and team members based on task definition, performance standards and timescales.
- *Dartford Borough Council* – measures are related to targets which are set for tasks that are suitable for all or most of the team to undertake together and are distinct from the tasks set for individual team members.
- *IBM* – ‘bid teams’ (project teams responsible for developing solutions for customers) have their performance measured by reference to their success in winning contracts.
- *Lloyds Bank* – the performance of branch teams below junior management level is related to two challenges: the ‘sales challenge’, which is linked to branch sales against target, and the ‘service challenge’ which is based on data obtained from customer questionnaires and mystery shopping.
- *Rank Xerox* – the performance measures or ‘metrics’ for sales teams are based on customer satisfaction, sales revenue and market share.

Type of measures

Team performance measures in this sample are therefore mainly concerned with output, activity levels (eg speed of servicing), customer service and satisfaction, and financial results.

A distinction was made by Harrington-Mackin (1994) between output/result measures of team performance and input/process measures.

The output/results comprise:

- the achievement of team goals;
- customer satisfaction;
- quantity of work;

- quality of work;
- process knowledge;
- maintenance of technical systems.

The input/process measures comprise:

- support of team process;
- participation;
- collaboration and collective effort;
- participative decision-making;
- interpersonal relations;
- acceptance of change;
- adaptability and flexibility.

Team performance management processes

Team performance management activities follow the same sequence as for individual performance management:

- agree objectives – these include performance objectives and process improvement objectives;
- formulate plans to achieve goals;
- implement plans;
- monitor progress;
- review and assess achievement;
- redefine goals and plans in the light of the review.

The aim should be to give teams with their team leaders the maximum amount of responsibility to carry out all activities. The focus should be on self-management and self-direction.

The processes of setting performance goals and process objectives and conducting team and individual reviews are described below.

Setting performance objectives

Performance objectives for teams are set in much the same way as individual objectives (see Chapter 5). They will be based on an analysis of the purpose

of the team and its accountabilities for achieving results. Targets and standards of performance should be discussed and agreed by the team as a whole. These may specify what individual members are expected to contribute. Project teams will agree project plans which define what has to be done, who does it, the standards expected and the timescale.

Setting process objectives

Process objectives are also best defined by the team getting together and agreeing how they should conduct themselves as a team. The list of team competencies and performance measures referred to earlier in this chapter can be used, including:

- interpersonal relationships;
- the quality of participation and collaborative effort and decision-making;
- the team's relationships with internal and external customers;
- the capacity of the team to plan and control its activities;
- the ability of the team and its members to adapt to new demands and situations;
- the flexibility with which the team operates;
- the effectiveness with which individual skills are used;
- the quality of communications within the team and between the team and other teams or individuals.

Team performance reviews

Team performance review meetings analyse and assess feedback and control information on their joint achievements against objectives and project plans. The agenda for such meetings could be as follows:

1 General feedback review:

- progress of the team as a whole;
- problems encountered by the team which have caused difficulties or hampered progress;
- helps and hindrances to the operation of the team.

2 Work reviews:

- how well the team has functioned;

- review of the individual contribution made by each team member – ie peer review (see below);
- discussion of any new problems encountered by individual team members.

3 Group problem solving:

- analysis of reasons for any shortfalls or other problems;
- agreement of what needs to be done to solve them and prevent their recurrence.

4 Update goals:

- review of new requirements, opportunities or threats;
- amendment and updating of objectives and project plans.

Reviewing the performance of individual team members

Individual team members can influence team performance in two ways: (1) the actual job they are doing and the skills, competences and behaviour they apply to the work and (2) the job they perform as team members and how they therefore influence team performance.

Processes for managing team performance should not neglect the needs of team members. As Mohrman and Mohrman (1995) pointed out: 'Performance among individuals, teams and organisations need to fit, but individual needs must be met at the same time.' They ask how individual needs can be met while still encouraging the sharing required at the group level. Their answer is:

First, teams have to be managed in a way that enables individuals to feel they can influence group performance. They must provide opportunities for involvement and for team self-management. Second, the team must be managed so that the individual's needs to have excellent performance recognised are met.

Individuals should receive feedback on their contribution to the team and recognition by their team leader and fellow team members for their accomplishments. Special attention should be given to their personal development, not only as members of their existing team, but also for any future roles they may assume in other teams, as individual contributors, or as team leaders.

Individuals should agree their goals as team members with their team leader but these can also be discussed at team meetings. Personal goals and personal development plans can also be formulated for agreement with the team leader. In performance reviews, team leaders and individuals can concentrate on the latter's contribution to the team, the level of performance in terms of teamwork competencies, and progress in implementing personal development plans.

Peer review processes can also be used in which team members assess each other under headings such as:

- overall contribution to team performance;
- contribution to planning, monitoring and team review activities;
- maintaining relationships with other team members and internal/external customers;
- communicating;
- working flexibly (taking on different roles in the team as necessary);
- cooperation with other team members.

Peer reviews can form part of a 360-degree feedback process as described in Chapter 9.

References

- Bunderson, J S and Sutcliffe, K M (2003) Management team learning orientation and business unit performance, *Journal of Applied Psychology*, 88, pp 552–60
- Gross, S E (1995) *Compensation for Teams*, Hay, New York
- Harrington-Mackin, D (1994) *The Team Building Tool Kit*, AMACOM, New York
- Jones, T W (1995) Performance management in a changing context, *Human Resource Management*, 34 (3), pp 425–42
- Katzenbach, J and Smith, D (1993) *The Magic of Teams*, Harvard Business School Press, Boston, MA
- Mohrman, A M and Mohrman, S A (1995) Performance management is 'running the business', *Compensation & Benefits Review*, July–August, pp 69–75
- Purcell, J, Hutchinson, S and Kinnie, N (1998) *The Lean Organisation*, IPD, London
- Yaping, G, Tae-Yeol, K, Deog-Ro, L and Jing, Z (2013) A multilevel model of team goal orientation, information exchange, and creativity, *Academy of Management Journal*, 56 (3), pp 827–51

Performance management and employee engagement

13

Employee engagement takes place when people are committed to their work and the organization and are motivated to achieve high levels of performance. It was suggested by Mone and London (2010) that: 'Performance management, effectively applied, will help you to create and sustain high levels of engagement, which leads to higher levels of performance.' Gruman and Saks (2011) observed that:

Modern developments often make it difficult for supervisors to 'manage' subordinates' performance. In such an environment, it may be more effective for supervisors to focus less on managing performance than on managing the context in which performance occurs, and on fostering the development of employee engagement as a driver of enhanced performance.

This is an argument for concentrating on developing managers who are capable of managing performance rather than hoping that a performance management 'system' will do it for them. Risher (2012) referred to the solid evidence provided by the Gallup Organization's research that 'effective performance management contributes to higher levels of engagement – and better performance'.

In this chapter the contribution of performance management to levels of employee engagement is examined by answering five questions: (1) What is employee engagement? (2) Why is it important? (3) What are the enablers of engagement? (4) What part is played by performance management in supporting these enablers? and (5) How can an organization ensure that performance management plays its part?

What is employee engagement?

The first reference to employee engagement was made by Kahn (1990) who defined it as a psychological state experienced by employees in relation to their work, together with associated behaviours. Macey et al (2009) stated that engagement was 'an individual's purpose and focused energy, evident to others in the display of personal initiative, adaptability, effort and persistence directed towards organizational goals'.

Why is engagement important?

Purcell (2013) contended that: 'Employee engagement is worth pursuing, not as an end in itself, but as a means of improving working lives and company performance.' Guest (2009) explained that the benefits of engagement were as follows:

Employee engagement will be manifested in positive attitudes (for example job satisfaction, organizational commitment and identification with the organization) and behaviour (low labour turnover and absence and high citizenship behaviour) on the part of employees; and evidence of perceptions of trust, fairness and a positive exchange within a psychological contract where two-way promises and commitments are fulfilled.

Alfes et al (2010) observed that engaged employees perform better, are more innovative than others, are more likely to want to stay with their employers, enjoy greater levels of personal well-being and perceive their workload to be more sustainable than others'. Wiley (2008) reported that research conducted by the Kenexa High Performance Institute in 158 organizations from a wide range of industries showed that both earnings per share and three-year total shareholder return were directly linked to employee engagement. Research by Towers Watson (2012) found that companies with high and sustainable engagement levels had an average one-year operating margin that was close to three times higher than those with lower levels. As quoted by Rayton et al (2012), Marks and Spencer's research showed that over a four-year period stores with improving engagement had, on average, delivered £62 million more sales to the business every year than stores with declining engagement. Sainsbury's have found a clear link between higher levels of engagement and

sales performance, with the level of colleague engagement contributing up to 15 per cent of a store's year-on-year growth.

What are the enablers of engagement?

It was explained by Daniels (2011) that the main factors affecting engagement are job autonomy, support and coaching, feedback, opportunities to learn and develop, task variety and responsibility. *Engage for Success* (2014) stated that the four key enablers of engagement are:

- 1 Visible, empowering leadership providing a strong strategic narrative about the organization, where it's come from and where it's going.
- 2 Engaging managers, who focus their people and give them scope, treat their people as individuals and coach and stretch their people.
- 3 Employee voice throughout the organizations, for reinforcing and challenging views, between functions and externally. Employees are seen as central to the solution.
- 4 Organizational integrity – the values on the wall are reflected in day-to-day behaviours. There is no 'say-do' gap.

But it was claimed by Macey et al (2009) that the most important enabler of engagement is the work environment and the jobs people do. They noted that: 'Engagement requires a work environment that does not just demand more but promotes information sharing, provides learning opportunities and fosters a balance in people's lives, thereby creating the bases for sustained energy and personal initiative.' They also commented that 'When people have the opportunity to do work in a way that: (a) effectively uses their skills; (b) fits their values and (c) provides them the freedom to exercise choice, they will be fully motivated to engage in their work.' They observed that 'Engaged employees feel that their jobs are an important part of who they are' and that 'the feeling of engagement cannot occur without a specific purpose or objective'.

What part is played by performance management?

Performance management can provide general support for all the Engage for Success enablers by ensuring that employees are aware of the goals and

values of the organization and are given a voice in discussing their own goals in relation to those of the business. Moreover managers can use performance management to increase understanding of what the espoused values are and apply the processes involved to demonstrate that these are values in use. But above all, performance management supports the second of the four enablers by encouraging managers to focus on their people and give them scope, treat them as individuals and coach and stretch them. As MacLeod and Clarke (2009) point out, 'managers who foster engagement offer clarity for what is expected from individual members of staff, which involves some stretch, and much appreciation and feedback/coaching and training'.

Dilys Robinson (2013) summed up her research findings on the characteristics of engaging managers as follows:

All were able to quote evidence of team success, in the shape of activity metrics, team or individual awards, customer satisfaction data, external recognition, and praise from elsewhere in the organisation. They were focused on their contribution to organisational goals, and proud of their teams' success.

Performance management also has a part to play in achieving the conditions for engagement specified by Macey et al (2009), namely that 'Engaged employees feel that their jobs are an important part of who they are' and that 'the feeling of engagement cannot occur without a specific purpose or objective'. Mone and London (2010) commented that performance management enhances engagement by giving greater meaning to the work that employees do. They explained that engagement can be driven by setting performance goals and establishing development plans that support the career success of employees. The ways in which performance provides specific support are set out below.

Role development

Role development is the continuous process through which roles are defined or modified as work proceeds and evolves. The part people play in carrying out their roles can develop over time as people grow into them and with them, responding to opportunities and changing demands, acquiring new skills and developing competencies.

Levels of engagement will increase if the individual's role is designed or developed in accordance with the principles set out by Hackman and Oldham (1974) in their job characteristics model. They identified five core job characteristics:

- 1 *Skill variety*: the degree to which a job requires an employee to perform activities that challenge his or her skills and abilities.
- 2 *Task identity*: the degree to which the job requires completion of an identifiable piece of work.
- 3 *Task significance*: the degree to which the job outcome has a substantial impact on others.
- 4 *Autonomy*: the degree to which the job gives an employee freedom and discretion in scheduling work and determining how it is performed.
- 5 *Feedback*: the degree to which an employee gets information about the effectiveness of his or her efforts – with particular emphasis on feedback directly related to the work itself rather than from a third party (for example, a manager).

Hackman and Oldham explained that if the design of a job satisfied the core job characteristics the employee would perceive that the work was worthwhile, would feel responsible for the work and would know if the work had been completed satisfactorily. The outcome of this would be high-quality work performance and high job satisfaction as a result of intrinsic motivation. In current terms, this means higher levels of engagement.

Role development is a continuous process but the discussion between the manager and the individual on the latter's role at the start of the performance management cycle enables more formal agreement to be reached on where role requirements need to be clarified or amended. This may include defining new key result areas or redefining existing ones. In doing this attention can be given to the principles of the job characteristics model especially those concerned with skill variety, task identity, task significance and autonomy and how their application may enhance engagement.

Providing a sense of purpose

Engagement is most likely to be enhanced when people understand what they and their department or function are there to do and have a clear sense of purpose in carrying out tasks which they believe to be worthwhile.

As one of Dilys Robinson's (2013) 'engaging managers' put it:

I do give them a bigger picture, a brief overview of the company line and how it affects them, and what their impact on it is. This is why we do it, this is what we want to achieve, this is why we want to achieve it and this is what the result will be if we get to the goal that we want to get to.

The Watson Wyatt 2008–2009 survey stated that ‘our data shows that engaged employees have frequent work-related discussions with their immediate manager in comparison to their colleagues with medium to low engagement levels. Forty-three per cent of high engaged employees receive feedback at least once a week compared to only 18 per cent of employees with low engagement.’

Feedback

Feedback to people on how they are doing is one of the key performance management processes. It is best provided by managers informally during the year not just formally at an annual performance review meeting. Research by Kuvaas (2001) found that performance management is more likely to result in good performance when employees receive high levels of feedback regularly.

Positive feedback is a method of reinforcement which can increase levels of engagement by convincing people that they are doing well and that therefore the job they are doing is worthwhile.

Recognition

Performance management provides opportunities for recognizing achievements through feedback. Macey and Schneider (2008) argued that when leaders recognize good performance this will have a positive effect on employee engagement by engendering a sense of attachment to the job. It can demonstrate that employees are valued by their manager and the organization. Recognition is a powerful form of reward which encourages the behaviour which characterizes engaged employees, for example, exercising discretionary effort.

Learning and development

Engagement is enhanced if employees are provided with learning opportunities to develop their skills and further their careers. If performance management is seen as a means of identifying and meeting learning and development needs, as it should be, then it will contribute to increasing levels of work or job engagement. Performance management also provides the basis for coaching by line managers and others to increase skills or overcome deficiencies.

Psychological contracts

As noted by Gruman and Saks (2011) employees tend to have implicit and/or explicit expectations on what they want from an organization. Such expectations can be the basis of psychological contracts which involve reciprocal and interdependent obligations and therefore relationships between employees and employers. In accordance with social exchange theory these relationships evolve over time into trusting, loyal and mutual commitments as long as the parties abide by certain 'rules of exchange'. These rules involve reciprocal behaviour so that the actions of one party lead to a response or actions by the other party. Thus, as stated by Gruman and Saks: 'According to social exchange theory, employees will be more engaged themselves when their psychological contract has been fulfilled [and] performance management processes are the key factors in developing psychological contracts.'

How can an organization ensure that performance management plays its part?

As described above, the contribution performance management can make to enhancing engagement is potentially considerable. Clearly, however, that contribution will only be made if performance management works well. And too often this does not happen. The issues are formidable. The biggest one is the all too common situation of line managers being compelled to do something that does not come naturally to them (they are there to lead their teams not conduct multi-purpose performance reviews as directed by HR). As a result they do not have the inclination to carry out their performance management duties as required or, even if they are ready to try, do not possess the range of demanding skills required because the organization has not seen fit to spare them from their duties for long enough to learn those skills.

The best way to deal with this problem is to abandon the traditional annual performance review and the ratings associated with it and focus on encouraging and developing managers who will carry out performance management as a natural part of their managerial duties not a duty imposed on them.

References

- Alfes, K, Truss, C, Soane, E C, Rees, C and Gatenby, M (2010) *Creating an Engaged Workforce*, CIPD, London
- Daniels, K (2011) *Employee Engagement Fact Sheet*, CIPD, London
- Engage for Success (2014) *The Four Enablers of Engagement*, engageforsuccess.org [accessed 2 February 2014]
- Gruman, J A and Saks, A M (2011) Performance management and employee engagement, *Human Resource Management Review*, 21 (2), pp 123–36
- Guest, D (2009) *Review of Employee Engagement: Notes for a discussion* (unpublished), prepared specifically for the MacLeod and Clarke 2009 review of employee engagement.
- Hackman, J R and Oldham, G R (1974) Motivation through the design of work: test of a theory, *Organizational Behaviour and Human Performance*, 16 (2), pp 250–79
- Kahn, W A (1990) Psychological conditions of personal engagement and disengagement at work, *Academy of Management Journal*, 33 (4), pp 692–724
- Kuvaas, B (2011) The interactive role of performance appraisal reactions and regular feedback, *Journal of Managerial Psychology*, 26 (2), pp 123–37
- Macey, W H and Schneider, B (2008) The meaning of employee engagement, *Industrial and Organizational Psychology: Perspectives on Science and Practice*, 1, pp 3–30
- Macey, W H, Schneider, B, Barbera, K M and Young, S A (2009) *Employee Engagement*, Wiley-Blackwell, Malden MA
- MacLeod, D and Clarke, N (2009) *Engaging for Success: Enhancing performance through employee engagement*, Department for Business Innovation and Skills, London
- Mone, E M and London, M (2010) *Employee Engagement Through Performance Management: A practical guide for managers*, Routledge, New York
- Purcell, J (2013) Employee voice and engagement, in *Employee Engagement in Theory and Practice*, eds C Truss, R Deldridge, K Alfes, A Shantz and E Soane, pp 236–49, Routledge, London
- Rayton, B, Dodge, T and D'Analeze, G (2012) *Nailing the Evidence*, Engage for Success, London
- Risher, H (2012) Employers need to focus on improving performance management, *Compensation & Benefits Review*, 44 (4), pp 188–90

- Robinson, D (2013) *The engaging manager and sticky situations*, <http://www.employment-studies.co.uk/system/files/resources/files/493.pdf> [accessed 16 February 2017]
- Towers Watson (2012) *Global Workforce Study*, Towers Watson, London
- Watson Wyatt (2008–2009) *Continuous Engagement: The key to unlocking the value of your people*, Watson Wyatt, London
- Wiley, J (2008) *Engaging the Employee*, Kenexa High Performance Research Institute, Wayne PA

Performance management and reward

14

Performance management can play a major role in a total reward system in which each reward element is linked together and treated as an integrated and coherent whole. These elements comprise base pay, performance-related pay, employee benefits and non-financial rewards – intrinsic rewards from the work itself.

It is sometimes assumed that the main purpose of performance management is to generate ratings to inform performance-related pay decisions. But there is much more to performance management than that. It can provide for a whole range of rewards in order to encourage job engagement and promote commitment. These rewards can take the form of recognition through feedback, opportunities to achieve, the scope to develop skills, and guidance on career paths. All these are non-financial rewards, which can make a longer-lasting impact than financial rewards.

Performance management is, or should be, about developing people and rewarding them in the broadest sense. Approaches to using performance management to provide non-financial rewards are discussed below. The rest of the chapter deals with performance management and pay.

Performance management and non-financial rewards

Non-financial rewards are provided by performance management through recognition, the provision of opportunities to succeed, skills development and career planning, and enhancing job engagement and commitment.

Performance management and recognition

Performance management involves recognizing people's achievements and strengths. They can be informed through feedback about how well they are performing by reference to achievements and behaviours. They can be thanked, formally and informally, for what they have done. They can be helped to understand how they can do even better by taking action to make the best use of the opportunities the feedback has revealed.

Performance management and the provision of opportunities to achieve

Performance management processes are founded on joint agreements between managers and their people on what the roles of the latter are and how they can be developed (enriched). It is therefore an essential part of job or role design and development activities.

Performance management and skills development

Performance management can provide a basis for motivating people by enabling them to develop their skills. It provides an agreed framework for coaching and support to enhance and focus learning.

Performance management and career planning

Performance management reviews provide opportunities to discuss the direction to which the careers of individuals are going and what they can do – with the help of the organization as part of its talent management programme – to ensure that they follow the best career path for themselves and the organization.

Performance management and performance pay

Performance management is not inevitably associated with performance pay, although this is often assumed to be the case, especially in the United States. A survey by Armstrong and Baron (2005) found that only 42 per cent of respondents with performance management had performance pay.

However, those who have performance pay must have a means of deciding on increases and this has to be based on some form of assessment or categorization. The most typical approach is the generation of ratings following performance reviews to inform performance pay decisions – they were used for this purpose by 80 per cent of the respondents to the e-reward 2014 performance management survey.

Methods used to decide on pay increases

The following methods were used to decide on pay increases:

- Through a pay matrix, relating performance awards, etc, to ratings by use of a scale – 40 per cent.
- Through forced distribution, performance awards distributed among employees by defining the percentage who should be rated at each level (a 'quota' system) – 8 per cent.
- Through guidelines, guidance on average awards, with restrictions on minimum and maximum amounts that can be awarded – 41 per cent.
- Other – 11 per cent.

The respondents to the e-reward survey who did not use ratings decided on pay increases in the following ways:

- By an overall approach which takes account of the level of contribution and market worth (for more details see below) – 32 per cent.
- By reference to assessments of the market worth of the individual – 3 per cent.
- By reference to the outcomes of a pay review where it has been expressed generally that the level of contribution merits, for example, a high, average or below average increase – 10 per cent.
- By reference to the ranked performance of peers – 7 per cent.
- Other – 47 per cent.

The 'other' methods often involved hybrids of the other categories such as guidelines without maxima and minima or guidance with a higher degree of discretion.

Doing without ratings

One way of making decisions on performance pay without ratings was adopted successfully by a publishing company. Managers conducting the pay review (which was decoupled from the performance review) were simply asked to place people in categories consisting of those whose contribution deserved an above average, average or below average increase or none at all. Managers had to keep within their pay review budget and guidelines were issued to them on how awards should be distributed. The guidelines were not mandatory but any recommendations in which the distribution was significantly different from the guidelines had to be justified by the managers concerned. This process of categorization could indeed be regarded as proxy rating but at least it eliminated the problems of mechanistic rating processes at the time of the formal performance review referred to in Chapter 7.

A more sophisticated approach to deciding on pay increases in the absence of ratings can be based on pay policy. This policy will indicate that employees who are fully contributing at the expected level will be paid at or around what is often called 'the reference point' for the grade (a reference point represents the rate of pay appropriate for someone who is fully competent in the role and is aligned to market rates in accordance with the organization's market pay policies). If, in the judgement of the line manager, individuals are achieving this level of contribution but are paid below their peers at the reference point, the pay of such individuals would be brought up to the level of their peers or towards that level if it is felt that the increase should be phased. Individuals may be paid above the reference point if they are making a particularly strong contribution or if their market worth is higher. The policy guideline would be that the average pay of those in the grade should broadly be in line with the reference point unless there are special market rate considerations, which justify a higher rate. Those at or above the reference point who are contributing well could be eligible for a cash bonus. A 'pay pot' would be made available for distribution with guidelines on how it should be used.

This approach depends largely on the judgement of line managers, although they would be guided and helped in the exercise of that judgement by HR. Its acceptability to staff as a fair process depends on precise communications generally on how it operates and equally precise communications individually on why decisions have been made. The assessment of contribution should be a joint one as part of performance management and the link between that assessment and the pay decision should be clear.

An example of how pay decisions are made in a finance sector company is given below.

We look at a number of things when making a decision on an individual's pay. One will be the size of the role as determined by job evaluation and we also consider market data and location to determine the average salary that you would expect to pay for that role. We then look at how the individual has performed over the last twelve months: Have they contributed what was expected of them? Have they contributed above and beyond their peers? Have they underperformed in respect of what was required of them? These are not ratings, they are just guidelines given to managers as to whether the individual should be given an average, above average or below average increase. We have a devolved budget and managers have to make decisions as to what percentage they should give to different people. We suggest that if, for example, a manager has six people carrying out the same roles then, from an equal pay point of view, if they are delivering at the same level and are all competent, they should be getting similar salaries. Individuals paid below the market rate who are performing effectively may get a bigger pay rise to bring them nearer the market rate for the role.

Reconciling performance management and pay

Focusing on performance management as a means of deciding on pay awards may conflict with the developmental purposes of performance management. This is likely to be the case if ratings are used – the performance review meeting will concentrate on the ratings that emerge from it and how much money will be forthcoming. Issues concerning development and the non-financial reward approaches discussed earlier will be subordinated to this preoccupation with pay. Many organizations attempt to get over this problem by holding development and pay review meetings on separate dates, often several months apart (decoupling). Some such as the finance company described earlier do without formulaic approaches (ratings) altogether, although it is impossible to dissociate contingent pay completely from some form of assessment even if this is limited to making decisions on which employees should have above average, average or below average increases or no increase at all.

But Kessler and Purcell (1993) argued:

How distinct these processes (performance review and performance-related pay) can ever be or, in managerial terms, should ever be, is perhaps debatable. It is

unrealistic to assume that a manager can separate these two processes easily and it could be argued that the evaluations in a broad sense should be congruent.

And Armstrong and Murlis (1998) commented that:

Some organisations separate entirely performance pay ratings from the performance management review. But there will, of course, inevitably be a read-across from the performance management review to the pay-for-performance review.

The issue is that if you want to pay for performance you have to assess the extent to which that performance should be rewarded. But as mentioned in Chapter 7, this need not involve conventional rating as part of a performance review. The alternative is to separate – decouple – performance pay decisions from performance reviews and categorize people according to the level of reward they have earned.

And if you want, as you should do, the process of assessment to be fair, equitable, consistent and transparent, then you cannot make pay decisions, on whatever evidence, behind closed doors. You must convey to people how the assessment has been made and how it has been converted into a pay increase. This is a matter of procedural justice which demands that where there is a system for assessing performance and competence, (1) the assessment should be based on ‘good information and informed opinion’, (2) the person affected should be able to contribute to the process of obtaining evidence to support the assessment, (3) the person should know how and why the assessment has been made, and (4) the person should be able to appeal against the assessment.

References

- Armstrong, M and Baron, A (2005) *Managing Performance: Performance management in action*, CIPD, London
- Armstrong, M and Murlis, H (1998) *Reward Management*, 4th edn, Kogan Page, London
- e-reward (2014) *Survey of Performance Management*, Stockport, e-reward, Stockport
- Kessler, I and Purcell, J (1993) *The Templeton Performance-Related Pay Project: Summary of key findings*, Templeton College, Oxford

International performance management

15

The two interrelated applications of international performance management are covered in this chapter: first, its use by multinational firms in their foreign subsidiaries and second, how expatriate employees are dealt with. The system adopted in either case may be essentially similar to a typical national, one-country approach.

Performance management in the subsidiaries of multinationals

As Dowling et al (2008) observed: 'By its very nature, a multinational is a single entity that faces a global environment which means that it simultaneously confronts differing national environments.' When considering how to operate performance management the dilemma facing multinational enterprises is the extent to which there should be one standardized system throughout the organization rather than local systems, which fit the circumstances of the country concerned. This is the issue of convergence or divergence as discussed below.

Convergence and divergence

All multinational corporations have the problem of achieving a balance between international consistency and local autonomy. They must therefore decide on the extent of convergence (centralization) or divergence (localization). Briscoe et al (2012) remarked that: 'International HRM strategy has to deal with the issue of whether to standardize HRM policies and practices

from headquarters, or to localize them to meet local conditions, or do both (eg combination of core policies established by HQ with localized practices to accommodate local culture and practices).'

If the choice is to adopt convergence to some degree or in selected areas it is necessary to remember Tayeb's (2005) proposition that it is generally easier to transfer strategies and policies than practices. Rather than trying to impose central practices, in certain cases it may be preferable simply to set out broad policy guidelines expressing and underpinning the values that the parent company would like to be applied throughout the organization. Pudelko and Harzing (2007) argued that those who favoured convergence assumed that 'in management, *best practices* can be defined that are universally valid and applicable, irrespective of national culture or institutional context'. But they also observed that: 'We should not expect every subsidiary to be brought into the best practices scheme in the same way.'

Festing and Eidems (2011) reported that: 'In the course of increasing globalization, more and more MNEs [multinational enterprises] are being forced to compete globally and simultaneously adapt their business strategies to changing local demands.' They also suggested that 'firms tend not to standardise a whole HRM system but rather focus on single practices'. Performance management is often one of those practices.

Research conducted by Reilly and Williams (2012) indicted that the following were the upsides and downsides of what they called a 'one-country' approach by HR, ie convergence:

The upsides:

- promotes common values;
- delivers consistent treatment to staff;
- exports good business practice to all parts of the organization;
- greater control over dispersed operations;
- cost control.

The downsides:

- harmonization can stifle innovation;
- centre loses touch with sharp end of the business;
- ill-conceived policies subverted at a local level;
- HR is focus for frustration as agent of the corporate centre.

Approaches to international performance management

The amount of convergence or divergence in international performance management systems can vary in five ways:

- 1 *Total convergence (standardization)* – using the parent company's scheme throughout the international organization.
- 2 *Partial convergence* – foreign subsidiaries use a version of the parent company's system modified to take account of local factors such as culture and work systems. Alternatively, they ensure that their own systems conform to policy guidelines issued by headquarters, possibly including certain requirements such as the design of the forms or methods of rating.
- 3 *Total divergence (localization)* – foreign subsidiaries use their own systems.
- 4 *Partial divergence* – foreign subsidiaries can use their own systems as long as they are in line with certain basic principles, for example, that performance management should be a continuous process of joint planning, agreement, dialogue and feedback.
- 5 *Dual system* – using local, possibly partly converged schemes, for subsidiary company employees and reserving the headquarters scheme for expatriates.

Considerations affecting the approach

A system that has worked well at headquarters will not necessarily transfer well to a foreign subsidiary. A study by Gerringer et al (2002) covering ten countries found that a centralized performance management system generally failed to fulfil its purpose.

The issues discussed below need to be taken into account when deciding on the type of performance management system to be used, the extent to which standardized performance management systems are desirable and, in so far as they are standardized, how they should be managed. There are no easy solutions. Each case has to be decided in accordance with individual circumstances. But it is helpful to be aware of the potential pitfalls so that action can be taken in advance to avoid them, as far as possible.

The particular issues affecting the use of performance management in foreign subsidiaries are cultural differences, environmental differences, the increased difficulty in influencing and controlling line managers and the problem of achieving consistent rating results.

Cultural differences

Cultural differences may affect the ability of a multinational firm to implement a standardized international system. For example, Shen (2005) noted that:

In some Asian countries such as China and Japan, feedback is not normally given in order, to 'save face' and group meetings are often held in performance management processes to achieve group harmony. This aspect of Asian culture is very different from Western culture where individualism is emphasized.

Environmental differences

The maturity of subsidiaries in terms of their productivity, ability to penetrate markets, availability of skilled employees and work practices will vary and it may be difficult for some subsidiaries to meet the standards of performance expected by the parent company. Environmental differences such as levels of political stability and standards of living will also affect the results achieved by subsidiaries. Garland et al (1990) give an example:

One does not fire a Mexican manager because worker productivity is half the American average. In Mexico, this would mean that this manager is working at a level three or four times as high as the average Mexican plant... The way we measure worker productivity is exactly the same, but the numbers come out differently because of the environmental difference.

Account should be taken of these differences but it is easy for a remote headquarters to be unaware of how local factors affect performance levels.

Line managers

Even in a one-country domestic setting, performance management can easily fail because the line managers on whom the system depends lack the skill or the inclination to do it properly. In an international organization control over how line managers implement performance management will be even more difficult owing to the diversity of operations, the geographical separation between headquarters and foreign subsidiaries and, possibly, the unwillingness of local managers to take much notice of commands from a remote centre.

Rating problems

The achievement of reliable and consistent appraisal ratings in a domestic setting is difficult; in an international operation it is virtually impossible. Care should therefore be taken in designing and interpreting rating systems. If it is felt that they are essential it may be best to leave them to the local subsidiary and not try to introduce a suspect universal system.

What happens in practice

The 2014 e-reward survey of performance management established that 71 per cent of the respondents' companies required subsidiaries to operate the standard corporate performance management system. Where this was not the policy, respondents adopted one of the following approaches:

- subsidiaries left to decide for themselves – 12 per cent;
- subsidiaries required to use performance management but allowed to have their own system – 11 per cent;
- subsidiaries required to use performance management but allowed to have their own system subject to following corporate guidelines – 6 per cent.

Briscoe et al (2012) observed that multinational Western country-of-origin companies were likely to use a standardized approach to performance management in their subsidiaries. This was warranted 'for the sake of global integration, uniformity, organizational culture cohesiveness, fairness, mobility of global employees, and as a control mechanism'. And it can be argued that replicating domestic practices simplifies the process of collecting and interpreting data.

Gregersen et al (1996) found in their research sample of US multinational firms that 76 per cent of them used the same standardized appraisal forms internationally. But they also found that subsidiary firms often tended not to follow corporate practices and when they did use standardized procedures this reduced the effectiveness of the appraisals.

The trend towards convergence was confirmed by the Global HR Research Alliance research as reported by Stiles (2007), which concluded that:

In performance management we found little or no difference across the world. We witnessed a concerted effort on the part of group HR departments to

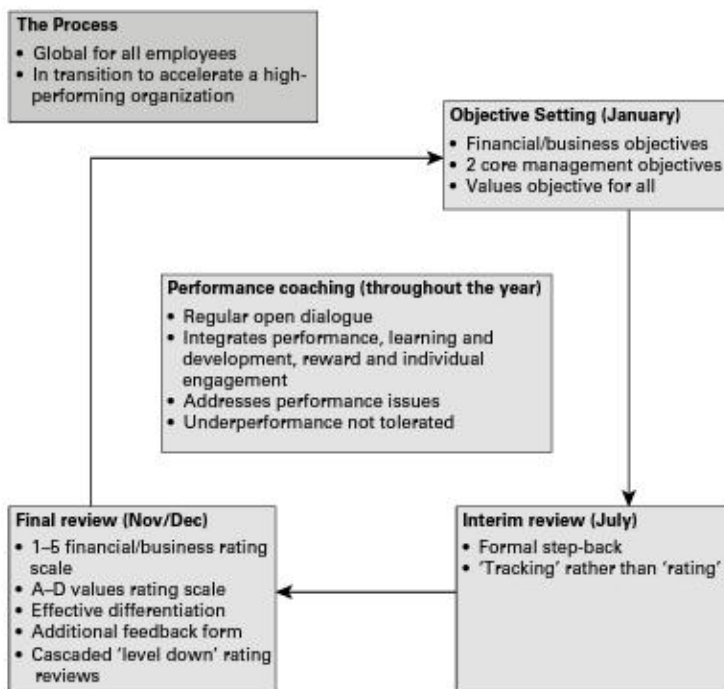
maintain global standards supported by global competencies (at foundation, managerial, technical and leadership level), common evaluation processes and common approaches to rewards. It was difficult, therefore, to find many distinctive local practices.

International performance management in action

Standard Chartered Bank

The international performance management process used by Standard Chartered Bank is illustrated in Figure 15.1.

Figure 15.1 International performance management system – Standard Chartered Bank



SOURCE Armstrong and Baron (2005)

Serono SA

As reported by Coleman and Chambers (2005), Serono SA, the Swiss biotechnology company with offices around the world, needed a performance

management system that was not only consistent but was also flexible enough to adjust to the laws governing employment in each of its far-flung operations.

Each Serono operating unit has its own objectives which are aligned to overarching corporate goals. Units in each country tailor their performance management systems for compliance with local laws, customs and budgets. An information technology system was developed to automate performance management for Serono's global operations. The analytical tools built into this system enable HR at the centre to gain an overview of how the organization as a whole is evaluating its employees. For example, data on assessments presented as bell curves (graphs showing distributions in the form of a curve shaped like a bell), reveal the extent to which appraisal scores are out of line with what is regarded as a normal distribution.

Performance management for expatriates

An expatriate was defined by Lee and Donohue (2012) as 'any individual who relocates from his/her home base to an international location for business or work purposes and sets up temporary residence in the host country'.

The management of expatriates on international assignments is a major factor determining success or failure in a global business. Expatriates are expensive. They can be hard to manage because of the problems associated with adapting to and working in unfamiliar environments and cultures and concerns about their development and careers. Managing their performance presents particular difficulties and the factors involved are discussed below.

Factors affecting expatriate performance

Issues such as culture shock and cross-cultural adjustment may adversely impact on the performance of expatriates. Pinto et al (2012) commented that: 'Socio-cultural adjustment and psychological well-being of expatriates and their families are preconditions for their success.'

One of the challenges of performance management for expatriates is that the type of skills developed and used in an international job are different from those developed and used in a domestic environment. These include managing a workforce with cultural differences, dealing with the different behavioural norms of clients, customers and government officials, and coping with a different legal system.

It may be feasible to set up a standardized set of performance factors at headquarters and get the host country evaluators to use these common headings while setting their own individual performance goals, bearing in mind corporate goals. Lee and Donohue (2012) developed and tested an expatriate performance scale consisting of six elements:

- Task performance.
- Management and administration.
- Teamwork and leadership.
- Demonstrating effort.
- Communication performance.
- Maintaining self-discipline.

Factors affecting performance management for expatriates

The effectiveness of performance management for expatriates is affected by the complexity of international business and the distance separating headquarters and subsidiaries. There may be problems with the choice of evaluator – should it be someone in the host country or the home country and, if the latter, will parent company evaluators know enough about the people they assess and the performance conditions those people face? A parent company evaluator's perception of good performance may differ from the reality of conditions in the subsidiary. There may be problems with long-distance communication. Contacts between the parent company evaluator and the expatriate being evaluated may be infrequent. A host country evaluator may lack the experience of a practised headquarters evaluator and management at head office may not trust local assessments. This problem may be less acute if the initial evaluation is to be carried out locally and reviewed at the centre or, better still, if the host country evaluator discusses the evaluation in advance with the home country evaluator.

If local evaluation is practised the following points made by Oddou and Mendenhall (2007) are relevant:

Regardless of the effectiveness or availability of performance management tools, expatriate performance management success depends largely on the manager and expatriate in question: how well they understand, internalize, and accept performance management, and how skilful they are in its implementation. To

this end, appropriate performance management training should be given to all expatriates, including their superiors.

A performance management system for expatriates may basically resemble the standard headquarters system, but when operating it the considerations set out above need to be remembered. When setting performance goals and standards it is particularly necessary to remember the different conditions in which expatriates work, the performance issues they have to face and the special demands made upon them.

The arrangements may vary according to the level of the employees concerned. Research by Tahvanainen (2000) into performance management practices at Nokia Telecommunications found that although a global, standardized system was in place, there were differences in how expatriate performance was evaluated, particularly in terms of how performance goals were set, who set them and what type of goals they were. Senior host country managers were evaluated by more senior managers at headquarters against the performance goals specified in the incentive scheme. The evaluation of middle manager expatriates was typically done by their senior manager in the host country. If the expatriate also had a manager in the home country the host country manager usually discussed the expatriate's performance with that home country manager prior to conducting the evaluation.

References

- Armstrong, M and Baron, A (2005) *Managing Performance: Performance management in action*, CIPD, London
- Briscoe, D R, Schuler, R and Tarique, I (2012) *International Human Resource Management*, 4th edn, Routledge, New York
- Coleman, T and Chambers, T (2005) Serono case study: global performance, evaluations and compensation, *Compensation & Benefits Review*, July/August, pp 61–65
- Dowling, P J, Festing, M and Engle, A D (2008) *International Human Resource Management*, 5th edn, Cengage Learning EMEA, Andover
- e-reward (2014) *Survey of Performance Management*, e-reward, Stockport
- Festing, M and Eidems, J (2011) A process perspective on transnational HRM systems – a dynamic capability-based analysis, *Human Resource Management Review*, 21, pp 162–73
- Garland, J, Farmer, R N and Taylor, M (1990) *International Dimensions of Business Policy and Strategy*, WS-Kent, Boston MA

- Gerringer, J, Frayne, C and Milliman, J (2002) In search of 'best practices' in international human resource management: research design and methodology, *Asia Pacific Journal of Human Resources*, 40 (1), pp 9–37
- Gregersen H B, Hite, J M and Black, J S (1996) International performance appraisal in US multinational firms, *Journal of International Business Studies*, 27, pp 711–13
- Lee, L and Donohue, R (2012) The construction and validation of a measure of expatriate job performance, *International Journal of Human Resource Management*, 23 (6), pp 1197–215
- Oddou, G and Mendenhall, M (2007) Focusing on the international personnel performance appraisal process, *Human Resource Development Journal*, 8 (1), pp 41–62
- Pinto, L H, Cabral-Cardoso, C and Werther, W B (2012) Compelled to go abroad: motives and outcomes of international assignments, *International Journal of Human Resource Management*, 23 (11), pp 2295–314
- Pudelko, M and Harzing, A-W K (2007) Country of origin, localization, or dominance effect? An empirical investigation of HRM practices in foreign subsidiaries, *Human Resource Management*, 46 (4), pp 535–59
- Reilly, P and Williams, T (2012) The challenges of global HR: one way to go? *People Management*, September, pp 28–31
- Shen, J (2005) Effective international performance appraisals: easily said, hard to do, *Compensation and Benefits Review*, July/August, pp 70–79
- Stiles, P (2007) A world of difference? *People Management*, 15 November, pp 36–41
- Tahvanainen, M (2000) Expatriate performance management: the case of Nokia Telecommunications, *Human Resource Management*, 39 (2 and 3), pp 267–75
- Tayeb, M H (2005) *International Human Resource Management: A multinational company perspective*, Oxford University Press, Oxford

PART FOUR
**Performance
management – reality
and reinvention**

THIS PAGE IS INTENTIONALLY LEFT BLANK

What's wrong with performance management and how it is being put right

16

Performance management is a systematic and continuous process for improving organizational performance by developing the performance of individuals and teams. However, in practice it promises much but can deliver little. The performance of performance management has been subject to strong criticism for many years – hardly any commentators have leapt to its defence and comments like these are encountered frequently.

Performance management issues in the UK as listed by Professor Paul Sparrow (2008) include:

- the ability to produce higher levels of employee engagement as opposed to just more self-awareness or measurement accuracy;
- the level of alignment between rewards (in their fullest sense) produced by the performance management system, and the varied needs of diverse employee segments, who may be working to very different psychological contracts;
- the extent to which stand-alone performance management systems contribute directly to value creation in the organization or rather serve more to protect value by managing only marginal risks.

Pulakus et al (2008) state that the main problems with performance management in the US are that:

- performance management is regarded as an administrative burden to be minimized rather than an effective strategy to obtain business results;

- managers and employees are reluctant to engage in candid performance discussions;
- judgement and time factors impede accurate performance assessments.

Duncan Brown, Head of HR Consultancy at the Institute for Employment Studies (2010), observed that:

The problems [of performance management] are... not of ambition or intent, but rather practice and delivery. Low rates of coverage and even more frequently low quality conversations and non-existent follow-up are commonplace, in the wake of uncommitted directors, incompetent line managers, uncomprehending employees and hectoring HR with their still complex and bureaucratic HR processes.

Professor Samuel Colbert of the UCLA Anderson School of Management (2010) claimed that:

This corporate sham [performance management] is one of the most insidious, most damaging, and yet most ubiquitous of corporate activities. Everybody does it and almost everyone who has been evaluated hates it. It's a pretentious, bogus practice that produces absolutely nothing that any thinking executive should call a corporate plus.

Against this background this chapter includes: (1) a review of the research on how performance management is working, (2) an explanation of why it fails, that includes a summary of the lessons provided by neuroscience, and (3) what is being done to put it right.

How well is performance management working?

A considerable amount of research has been carried out on performance management, most of it with negative results. Summaries of a number of studies in date order are set out below.

Corporate Leadership Council (2002)

The following comments about the importance and difficulty of improving employee performance were made by some of the 19,000 respondents to a survey:

A system that drives improvements in employee performance drives improvements in your business. If you can't use reviews to improve employee performance, then what's the point? (VP of HR, European manufacturer)

The manager has a critical role in driving high employee performance, and HR needs to provide managers with the support to do that well. The problem is we don't really know which manager behaviours drive good employee performance. (VP of HR, North American health care company)

There are many drivers of high performance – leadership, recognition, development. But it is extremely difficult to figure out how to actually create a high-performance environment. (VP of HR, South African financial services firm)

We've learned that you have to have the right reward structure in place or your performance management system won't work. But beyond aligning performance criteria and rewards, we struggle with knowing what else we can do to make sure we're getting the best performance from our employees. (VP of HR, European retailer)

McAdam, Hazlett and Casey (2005)

Research in a public sector organization indicated that staff at all levels understood the new performance management system and perceived it as being beneficial. However, there were concerns that the approach was not continuously managed throughout the year and was in danger of becoming an annual event, rather than an ongoing process. Furthermore, the change process seemed to have advanced without corresponding changes to appraisal and reward and recognition systems. Thus, the business objectives were not aligned with motivating factors within the organization. It was argued that there is a need for increased understanding in relation to developing appropriate performance management approaches within the context of the public sector, particularly the complexity of multiple stakeholders and difficulties in simply adapting and transferring private sector solutions.

Chartered Institute of Personnel and Development (2009)

A total of 507 individuals responded to a web-based survey. In reply to the question of what performance management could achieve, the highest level of agreement (30 per cent) was to the assertion that performance management enables individuals to understand what they ought to be doing.

But 13 per cent disagreed and 57 per cent neither agreed nor disagreed. Twenty-three per cent agreed that performance management helped line managers to manage people better but 25 per cent disagreed. Only 20 per cent agreed that performance management had a positive impact on individual performance and 21 per cent disagreed.

WorldatWork and Sibson (2010)

A survey established that the top three performance management challenges reported by respondents were: (1) managers lack courage to have difficult performance discussions (63 per cent), (2) performance management is viewed as an ‘HR process’ instead of as a ‘business critical process’ (47 per cent) and (3) they experienced poor goal setting (36 per cent). They also noted that: ‘Too much attention has been placed on the design of a [performance management] system and not enough on how it works when implemented.’

Institute for Employment Studies (2011)

The conclusion reached by the research was that:

Managers and employees in the IES study not only found the PM process complex and bureaucratic. They felt this completely masked its fundamental purpose. The commonest criticism by both managers and employees was that it was a box-ticking or form-filling exercise... The loudest message from HR and senior managers is of the need to get the forms filled in on time – a message about administrative compliance. So again in a real sense HR is asking for form-filling, so should not be surprised when managers say it feels like form-filling!

Here are some of the comments made by managers and employees who took part in this study:

Performance management is seen as something you do to keep HR quiet. It’s seen as owned by HR not about how you manage people properly.

Managers don’t give honest feedback and employees don’t tell managers what they are thinking. There is no real conversation. 360-degree feedback is sought only from those who will say positive things.

There is no action resulting from the performance review.

Duncan Brown (2011) observed on the basis of this research that: ‘The main areas of concern [about performance management] were the skills

and attitudes of reviewing managers, the consistency and quality of approach across large organizations, the complexity of the paperwork and the value of outputs... Performance management, it appears, isn't working.'

Society for Human Resource Management (2012)

The conclusions reached by an SHRM study were that:

Traditional performance management processes are often perceived as burdensome, demotivating and without value... Despite years of research and practice, dissatisfaction with performance management (PM) is at an all-time high. More than 75 per cent of managers, employees and heads of HR feel that PM results are ineffective and/or inaccurate. Additionally, study after study has shown that the performance review is dreaded – it is not only perceived to be of little value but it is highly demotivating to employees, even the highest performers. Between formal goal-setting processes, mid-year and year-end reviews, and often extensive rating and calibration processes, a great deal of time and effort is expended on PM activities, costing organizations millions annually with questionable returns.

Towers Watson (2012)

The three conclusions from this survey with 384 participants across Europe were that:

- 1 Only just over a third (36 per cent) of employers say that performance management programmes are effective.
- 2 Forty-seven per cent of organizations have already introduced or plan to introduce new technology to enable better processes.
- 3 Over half of the companies say that managers lack necessary skills and time to manage performance really well.

Chartered Institute of Personnel and Development (2014)

A survey of employees' views in 2014 on the fairness of performance management processes found that less than half (46 per cent) believed that they are very or somewhat fair, while a fifth believed that they are somewhat or very unfair.

Chartered Institute of Personnel and Development (2015)

A small sample of senior HR leaders was surveyed by the CIPD in 2015 (reported in CIPD, 2016) to obtain their opinions about performance management. Their views were compared with those of a number of business leaders working outside the area of HR. It was found that while nearly half (49 per cent) of the HR leaders' organizations used annual appraisals, most of them (55 per cent) did not consider them effective. Six-monthly appraisals seem to work slightly better, but were still seen as ineffective in a third (37 per cent) of cases. Senior leaders from outside HR were even more critical; three in four (73 per cent) considering annual appraisals ineffective and nearly half (46 per cent) considering six-monthly appraisals ineffective.

Conclusions

These studies have produced largely negative results. They have recorded doubts about the effectiveness of performance management and found faults in design (eg too complex), and in execution (mainly with performance appraisal or review problems and the role of HR and line managers). Positive endorsements of performance based on research are hard to find. There has been only one fairly recent study that has produced favourable results. This was a survey by Holdsworth and Jirasinghe (2006) of the opinions of line managers about performance management which established that 68 per cent of respondents believed that it was very effective or excellent in their organization.

Why does performance management fail?

If you ask HR people why performance management fails they are likely to say that it is all the fault of line managers who are either uncommitted to doing it or do it badly or both. The e-reward 2014 survey of performance management revealed that the three major concerns of the HR respondents were:

- 1 The lack of line managers with the skills required to carry out performance management effectively.
- 2 Line managers who are reluctant to conduct performance management reviews.
- 3 Line managers who do not discriminate sufficiently when assessing performance.

On the other hand, if you ask line managers the same question they are likely to say that it is the fault of HR who impose a complex and unworkable system on them, police their efforts but fail to give adequate support, and have unrealistic expectations about what *their* performance management system can achieve because they do not really understand what is involved in managing performance.

The line managers are right. The blame for the failure of performance management generally rests with HR. It is HR people and the HR consultants who advise them who design over-complex systems. For example, in a not-for-profit organization the appraisal forms to be filled up by line managers are six pages long. It is HR people who insist on an annual performance review which demands a level of skill few managers can reasonably be expected to attain and is in any case dreaded by all concerned. It is HR people who insist on ratings and demonstrate their lack of trust in line managers by adopting forced distribution systems (compelling managers to conform to a laid down distribution of performance ratings). It is HR people who fail to persuade management that there has to be a substantial investment in training to ensure that managers acquire essential basic skills in such performance management activities as providing feedback, agreeing goals, preparing development plans and dealing with underperformers. It is HR people who spend their time policing the efforts of line managers rather than supporting them. It is HR people who lack the understanding of business needed to advise on the development of a high-performance culture – an essential ingredient for the success of performance management. And it is HR people who fail to get sustained backing from top management, also essential to performance management's success. The main issues are discussed in more detail below.

Complexity

Willing participation in performance management activities is more likely to be achieved if managers do not see it as a bureaucratic chore. If forms are used they should be as simple as possible, no more than two sides of one piece of paper. Web-enabled performance management eliminates paperwork and can speed up the process but it must not be too complicated. It should be emphasized that performance management is not a form-filling, box-ticking or data-entry exercise and that the important thing is the dialogue between managers and individuals that continues throughout the year. It is not just an annual event.

One problem with the standard model of performance management (as illustrated in Figure 2.1 in Chapter 2) is that it can encourage an over-elaborate approach. Systems designers may be tempted to cover every aspect of the model in detail and turn what should be a natural and straightforward management process into a bureaucratic nightmare with complex procedures and intricate paper- or computer-based forms. Managers don't like this and won't do it properly, if at all. Employees generally regard it as yet another control mechanism imposed from above.

Too much complexity is built into the system when performance reviews are expected to fulfil numerous functions including performance improvement, feedback, coaching, goal setting, skill development, the identification of potential, pay determination and the identification of underperformers. When designing the system it is best to focus the scope of performance reviews on a limited range of functions, eg objective setting, feedback and development planning.

The watchwords are 'keep it simple'. Limit forms, if they are used at all, to no more than two pages. Computerize any recording required but again, resist the temptation to load the process with a multitude of tick boxes.

Avoid jargon. Terms such as role profile, key result areas or key performance indicators make perfect sense to HR as explanations of how the system works. But to the managers and employees who have to run the system they can look like prime examples of managerese or HR speak. Such terms should be avoided or at least minimized in communications about the scheme or during training. The experience of the writer as a practitioner, consultant and researcher has shown that this can be achieved without prejudicing the effectiveness of the system as long as the basic processes of goal setting, feedback and development planning are covered.

Annual performance reviews

There has been almost universal agreement amongst commentators with the comment by Gabriella Jozwiak (2012) that: 'Every workplace has its idiosyncratic seasonal events, and HR is perhaps most visible during the annual performance appraisal. Why? Because employees dislike them. They are time-consuming, involve too much paperwork, HR would even do better to drop them altogether and find a better performance-management tool.' She quoted a recent US poll of 2,677 people (1,800 employees, 645 HR managers and 232 CEOs) by Achievers, the San Francisco-based rewards-and-recognition

consulting firm, which revealed that 98 per cent of staff find annual performance reviews unnecessary.

Abolishing this annual review and replacing it with more frequent feedback conversations during the course of the year have been perhaps the biggest change made by organizations that have reinvented their performance management systems. This recognizes what should be obvious – that managing performance is something that happens throughout the year, not just at infrequent intervals. More frequent get-togethers of managers with individual members of their team are required. These should take the form of a conversation rather than a formal review and can therefore be called ‘performance and development conversations (PDCs)’. They include feedback from the manager and, possibly, some self-assessment by the individual. They focus on the priorities people set for themselves and the progress they are making on meeting those priorities and contributing to the performance of their team and the organization. Discussions take place on immediate and longer-term development needs.

Objectives

There are three issues relating to setting objectives: (1) an overemphasis on quantification, (2) the use of the ‘SMART’ acronym and (3) linking individual and organizational objectives.

Overemphasis on quantification

A performance objective or goal (the terms are interchangeable) describes what someone has to accomplish. Ideally objectives should be defined as specific targets – eg ‘reduce reject levels by 3 per cent within nine months’, ‘introduce X by Y’. The problem is that, as a hangover from the largely discredited management-by-objectives system, some organizations insist that all objectives should be quantified in this way. For some jobs or parts of jobs where the job-holder is responsible for providing advice this can be difficult. For example, HR business partners are there, amongst other things, to provide advice and support to their line manager clients. A quantified target of, say, ‘Provide a minimum of five pieces of good advice a week’ would be meaningless. But it is possible to define the conditions that would exist if the task of providing advice has been well done, for example: ‘The advisory aspect of the job will have been done well when the job holder consistently provides prompt, good and actionable advice to line manager

clients as required.’ This can be termed a standard of performance. Unless this is practised when appropriate, line managers will be frustrated by having to pursue the will-of-the-wisp of quantification for the sake of quantification.

Use of the SMART acronym

The acronym ‘SMART’ is often used to define a good performance objective or goal. Traditionally, S stands for specific (sometimes stretching), M for measurable, A for agreed, R for realistic and T for time-related. But an emphasis on being SMART may give managers the impression that everything has to be quantified, which leads to frustration when they find out that it can’t be done and results in the setting of unrealistic targets.

As Chamberlin (2012) argued, the real aim of setting objectives is for people to know (1) what they have to do, (2) when they’ve done it, (3) that they are able to do it, (4) why they have to do it (ie who for), (5) that it is something they should be doing and (6) how they are progressing along the way. He criticized the conventional acronym and suggested that the last three should be amended to read A for attainable, R for relevant and T for trackable. Chamberlin attached particular importance to *relevant* – the goal has to be linked to the business and its customers. He also emphasized *trackable* because the important thing to do with goals is to monitor progress over time, ie track them. He rejected *time-related* because it did not convey this essential feature and was in any case covered already by *specific*.

Aligning individual and organizational objectives

The textbooks on performance management usually recommend that individual objectives should be aligned to the organization’s. But they do not make it clear how this can be done. It is hard. Individual roles can seem to be remote from the organization’s goals. Where the attempt is made to establish a link it can too easily be expressed as a bland declaration of intent rather than a specific objective. Only half the respondents to e-reward’s 2014 performance management survey (five) said they did it.

Rating and forced ranking

There is a strong case for abolishing ratings although many organizations are reluctant to do so. The pernicious practice of forced ranking should also be discontinued and this is a feature of some recent redevelopments of performance management systems.

There are perfectly good ways of deciding on performance pay increases without the use of crude overall ratings as discussed in Chapter 14. Similarly, there are good ways of identifying potential in the absence of overall ratings. For example, at Deloitte, as reported by Buckingham and Goodall (2015), team leaders are asked to respond to the following four future-focused statements about each of their team members:

- 1 Given what I know of this person's performance, and if it were my money, I would award this person the highest possible compensation increase and bonus.
- 2 Given what I know of this person's performance, I would always want him or her on my team.
- 3 This person is at risk for low performance.
- 4 This person is ready for promotion today.

In effect, team leaders are asked what they would *do* with each team member rather than what they *think* of that individual.

Performance management and performance-related pay

It is often assumed the performance-related pay schemes can only function when there is a rating process, which determines the size of the increase. It is true that most organizations with performance pay base it on ratings. But 20 per cent of the respondents to the e-reward 2014 performance management survey did not. Overall ratings of the A, B, C variety can be abolished but performance pay decisions would still have to be based on some form of categorization. This would mean getting managers to simply place employees in categories such as:

- overall contribution merits an above average award;
- overall contribution merits an average award;
- overall contribution only merits a below average award;
- the level of contribution indicates that no award should be made.

The other issue is whether the rating and performance pay decisions should take place at the same time or whether they should be separated – ‘decoupled.’ Separating them may be favoured because it helps to ensure that the developmental components of the review, such as performance improvement and identifying learning needs, are not prejudiced by concerns over pay

outcomes. The problem of reconciling the developmental aspects of performance management or appraisal and pay has been with us for decades.

Nearly two-fifths of the respondents to the e-reward 2009 contingent pay survey conducted them at separate times. As one of them put it: ‘The performance review should not become a pay negotiation.’

Top management commitment and support

The role of top management is to manage performance. The chief executive with the support of the top management team sets goals, formulates strategies to achieve the goals and ensures that these strategies are implemented. The whole top management team is there to create and maintain a high-performance culture, one in which the values, norms and practices of an organization combine to create a climate in which the achievement of high levels of performance is a way of life.

But HR also has the vital role of encouraging and supporting top management. Their job is not simply to design the system. They have to make out the business case for performance management and they have to make great efforts in conjunction with senior management to see that it works. They will only be able to do this if they understand the business model of the organization and the factors that deliver the results required by that model. They need to know what good performance looks like it and how to ensure that it happens.

Employee development and talent management

Conceptually, the prime concern of performance management is the development of people to perform even better in the future and to advance their careers. The Institute for Employment Studies (IES) research (2011) established that in several of the case organizations, employee development was an important intended purpose of performance management but it was weakly executed compared with objective-setting or performance review. Annual reviews tend to spend most of the time looking backwards, not forwards.

An associated issue is the link between performance management and talent management. This is not always as explicit as it should be. Performance management can support the key talent management activities of identifying talent and developing talent. It is necessary to ensure that line managers are aware of the part they should play in these activities and are given guidance in carrying out that role.

Line managers

Line managers are often blamed for the failure of performance management but the real blame should be attached to those who expect too much of them in handling over-complex systems and fail to provide them with the training, guidance and help they need to develop and apply the demanding skills required. The research conducted by the IES (2011) found that:

Training in performance management (PM) was quite haphazard or cursory in several of the cases. It could be included as a small item in a general introduction to management. Such training often concentrated on how to fill in the forms rather than the purpose of PM or how to have performance and development conversations. Some cases had modules in managing poor performance, but PM training was often not mandatory. Training in PM still tends to the 'sheep dip' approach rather than being tailored to the manager's needs and level of existing expertise.

Implementing performance management

Organizations introducing performance management or amending an existing scheme start with good intentions. They know what they want to achieve and believe they have the answer to the question 'How should it be achieved?' But intent is not converted into action. The design of the scheme (eg over-complex) and its method of introduction (poor communications or inadequate training) predicate failure.

Evaluating performance management

A process as demanding and complex as performance management needs to be evaluated regularly to check that it is functioning as planned and to identify any actions required to improve its effectiveness. Yet only 31 per cent of the respondents to the e-reward 2014 survey of performance management reported that they conducted formal evaluations. Previously, Guest and Conway (1998) commented that it was impossible for them to reach any conclusion on the extent to which performance management improves performance because the survey upon which they were basing their assessment revealed that very few organizations were evaluating their schemes. Evaluation is essential and the criteria for evaluating performance management should have been defined when the system was introduced or amended.

They will be based on its objectives and how well they have been achieved. If, for example, performance development is a major objective, the method of measuring the impact of the system on performance should be described. The system design should specify how it is intended to operate and the evaluation will aim to determine the extent to which these operational requirements are being met.

Success criteria such as those set out below should be defined in advance and used as the basis for evaluation:

- Measures of improved performance by reference to such terms as output, productivity, sales, quality, customer satisfaction and return on investment.
- Achievement of defined and agreed objectives.
- Assessments of reactions of managers and employees to performance management.
- Measures of employee engagement before and after the introduction of performance management and then at regular intervals.
- Development plans agreed and implemented.

Lessons from neuroscience

Research by the Neuro-Leadership Institute reported by David Rock et al (2014) showed why numbers-based performance management is obsolete. Labelling people with any form of numerical rating or ranking automatically generates an overwhelming ‘fight or flight’ response that impairs good judgement. This neural response is the same type of ‘brain hijack’ that occurs when there is an imminent physical threat like a confrontation with a wild animal. It primes people for rapid reaction and aggressive movement. But it is ill-suited for the kind of thoughtful, reflective conversation that allows people to learn from a performance review. A neuroscience-based framework devised by David Rock (2009) indicates that five organizational factors have an immense, but often unnoticed, effect on negative human reactions. These factors are *status* (the perception of being considered better or worse than others); *certainty* (the predictability of future events); *autonomy* (the level of control people feel over their lives); *relatedness* (the experience of sharing goals with others); and *fairness* (the sense of being respected and treated equitably, especially compared with others). When an organization’s perceived level of any of these factors is low, people feel threatened and perturbed.

Another problem with performance management identified by neuroscience is that it fosters an incorrect but prevalent view of human growth and learning. Carol Dweck (2006), Professor of Psychology at Stanford University, has discovered that most people hold one of two implicit theories about human growth and learning. The 'fixed mindset', as she calls it, holds that intelligence and talent are basically established at birth and remain static throughout life. People are born smart or not, and there's not much anyone can do about it. The 'growth mindset', by contrast, holds that people learn, grow, and improve all their lives. But they could learn far more effectively, and bring more of a high-performance attitude to everything they did if they weren't held back by the mental paralysis associated with the fixed mindset. The fixed mindset is often reinforced by performance management systems and when this happens people will typically strive to avoid difficult challenges. Any demanding objective will be seen as an invitation to fail. To make performance management work it is necessary to encourage managers to adopt a growth mindset and thus promote continuous development.

Conclusions

The evidence suggests that performance management is too often an expensive, complex system for making people unhappy. It can fail when expectations are much higher than the ability to deliver results. Any of the factors listed above will create problems with performance management, but they can combine in various ways leading to total failure. So a badly designed and complex system can be poorly implemented in an environment where high performance is not given sufficient priority and where the onus of delivering performance management is left to HR rather than being the concern of top management.

The recognition that the traditional performance management system isn't working has prompted many organizations to 'reinvent' their approach to managing performance as described below.

Putting performance management right

Organizations have recently been looking very hard at their performance management systems and haven't liked what they have seen. The e-reward

2014 survey established that there was generally less focus on bureaucracy and form filling exercises and more on performance management becoming an ongoing process and part of the company's culture. Here are four examples of the steps respondents were taking:

- 'We removed the need for individuals to be awarded a performance rating (eg exceptional, good, poor, etc). The link to a non-consolidated pay award was also removed.'
- 'Removal of "process camouflage" (eg five-point rating scale, interim review, rating calibration systems) to enable focus on actionable feedback, coaching and growth.'
- 'Moved from a forced distribution system to more qualitative developmental discussions.'
- 'Focus on conversations, moving away from a forced distribution curve. Aim is to engage our people, build trust and leverage to obtain greater potential value from the conversation.'

Kinley (2016) identified two main changes taking place. First, forced ranking has been eliminated and second, performance review meetings have become more frequent and less formalized than the traditional annual review.

In the United States many businesses have been making significant changes to their performance management systems. Here are seven examples.

Adobe

Adobe, the computer software company based in California, has 13,000 employees. It flourishes in a highly competitive industry. The company's founding values are to be genuine, exceptional, innovative and involved. Attempts had been made over five years to realign their performance management system to these values but they had failed. It was estimated that managers were spending 80,000 hours a year on it.

It was decided to introduce an entirely new system the features of which were:

- no ratings, no prescribed format, no forms, no technology 'system';
- the annual review meeting replaced by manager and employee 'check-ins' covering expectations, feedback, growth and development agenda, to be whenever sensible but at least quarterly;

- extensive training support was provided for managers – role plays, lectures and online;
- an employee support centre was established;
- managers were made entirely responsible for managing their pay budgets and pay outcomes and allocated budgets;
- managers were able to define their own processes and requirements for HR support;
- regular surveys were held to measure engagement and provide insights on decisions and impact.

The outcome was that the focus was no longer on process, chasing numbers and ratings. Frequent feedback was provided in the regular check-ins (average one a month per employee) and became the new currency for employees and managers – feedback was no longer feared, managers' knowledge of performance of individuals was significantly greater than ever before, and the demand for training on coaching others, handling difficult conversations, mentoring, career development and managing reward increased. Levels of engagement increased and voluntary turnover decreased by 30 per cent in two years.

Accenture

Pierre Nanterme, CEO of Accenture, a global professional services firm with over 300,000 employees, explained to a *Washington Post* interviewer in 2015 what was happening to performance management in his company.

We're going to get rid of it. Not 100 per cent but we're going to get rid of probably 90 per cent of what we did in the past. It's not what we need. We are not sure that spending all that time on performance management has been yielding a great outcome.

And for the millennium generation, it's not the way they want to be recognized, the way they want to be measured. If you put this new generation in the box of the performance management we've used the last 30 years you lose them.

Performance is an ongoing activity. It's every day after any client interaction or business interaction or corporate interaction. It's much more fluid. People want to know on an ongoing basis, am I doing right? Am I moving in the right direction? Do you think I'm progressing? Nobody's going to wait for an annual cycle to get that feedback. Now it's all about instant performance management.

All this terminology of rankings – forced rankings along some distribution curve or whatever – we’ve done with that. We’ve totally done too much effort for a limited outcome. We’re going to evaluate you in your role, not vis-à-vis who might work in Washington, who might work in Bangalore. It’s irrelevant. It should be about you. How are you performing now and do we believe you are prepared to move to another role? We are getting rid of the comparison with other people.

Deloitte

As reported by Marcus Buckingham and Ashley Goodall (2015) a complete redesign of the Deloitte performance management system was undertaken because it was believed that the current approach was completely out of step with the firm’s objectives. A further incentive to change was provided by a survey, which revealed that 58 per cent of their executives failed to drive either employee engagement or high performance.

In the typical existing performance management system objectives were set for each of the 65,000-plus employees at the beginning of the year and each of them were rated for each completed project (the work is mainly project-based) on how well the objectives were met. These evaluations were factored into a single year-end rating, arrived at in lengthy ‘consensus meetings’ at which groups of ‘counsellors’ discussed hundreds of people, comparing them with their peers.

As part of the research conducted before planning a new approach Deloitte counted the number of hours the organization spent on performance management and found that completing the forms, holding the meetings, and creating the ratings consumed close to 2 million hours a year. A review of research on ratings was conducted from which it was discovered that they were determined mainly by the peculiarity of the perceptions of raters rather than by actual performance and that ratings of skills were particularly prone to error. Finally internal research was conducted to establish the validity of a ‘strengths-based’ approach to performance management. A total of 60 high-performing teams with 1,287 employees was identified and a control group of 1,954 employees was set up. A six-item survey was conducted which revealed that three items correlated best with high performance for a team: ‘My co-workers are committed to doing quality work’, ‘The mission of our company inspires me’ and ‘I have the chance to use my strengths every day’. Of these, the third was the most powerful across the organization.

The system then developed by Deloitte was characterized by speed, agility, one-size-fits-one, and constant learning. It was underpinned by a new way of collecting reliable performance data. It has no cascading objectives, no once-a-year reviews, and no 360-degree feedback tools.

Every team leader is required to check in with each team member once a week. These check-ins are not *in addition* to the work of a team leader; they *are* the work of a team leader. There was a direct and measurable correlation between the frequency of these conversations and the engagement of team members. However, team leaders have many demands on their time and it was established that the best way to ensure frequency was to have check-ins be initiated by the team member – who more often than not is eager for the guidance and attention they provide – rather than by the team leader.

Gap Inc

In 2014, Gap Inc launched a new performance management process for its headquarters' employees worldwide – 'Grow. Perform. Succeed' (GPS). The company is also introducing a slightly modified version of GPS for its retail store and distribution centre staff. As Rob Ollander-Krane, Senior Director, Organization Performance Effectiveness at Gap Inc who devised the new scheme, commented to the e-reward researcher (e-reward 2016): 'We really wanted to drive performance and engage our employees and I don't think that a once-a-year, mostly administrative process that's tied to a fixed distribution curve can do that.' Gone are the formal reviews and performance ratings of the past – instead, managers and employees are encouraged to have 12 informal, undocumented conversations (called 'touch base' meetings) about performance over the course of the year. Gap Inc believes that GPS has 'repurposed' thousands of working hours and millions of dollars from tasks that did not drive performance to discussions that do. What's more, staff surveys suggest employees feel that the new process is providing them with better feedback, offering more opportunities to learn and driving them to higher levels of performance.

General Electric

As reported by Nisen (2015), General Electric for decades practised (and proselytized) a rigid system, championed by then-CEO Jack Welch, of forced ranking employees. Formally known as the 'vitality curve' or 'stack

ranking', but frequently called 'rank and yank', the system hinged on the annual performance review, and boiled the employees' performance down to a number on which they were judged and ranked against peers. A bottom percentage (10 per cent in GE's case) of underperformers were then fired.

The company got rid of formal, forced ranking around 10 years ago. But now, GE's in the middle of a far bigger shift. It's abandoning formal annual reviews and its legacy performance management system for its 300,000-strong workforce over the next couple of years, instead opting for a less regimented system of more frequent feedback via an app. For some employees, in smaller experimental groups, there won't be any numerical rankings whatsoever.

With the decision, GE joins other high-profile companies that have started dumping or have already got rid of formal annual reviews. GE may not have invented stack ranking, but it's the company most identified with it. And given the longstanding and pervasive influence GE has had over the business world, its move could represent the beginning of the end for a practice that has been at the heart of how corporations have managed people for many decades.

'It existed in more or less the same form since I started at the company in 1979,' GE's head of human resources, Susan Peters, commented. 'But we think over many years it had become more a ritual than moving the company upwards and forwards.'

IBM

The impetus for changing the performance management system in IBM was the realization that IBM employees were doing work differently from the way the system assumed. This involved the setting and review of annual objectives. But during the year new requirements frequently arise which means that employees are not necessarily working towards what was originally listed as an annual objective. The result was that they would end up in an irrelevant discussion in December trying to assess whether they had fulfilled the goals they'd drafted eleven months earlier.

A post on IBM's internal social media platform was used to crowdsource the views of IBM's 380,000 employees in 170 countries. The post received 75,000 views and 2,000 comments from employees. Employees said that they wanted to receive feedback more frequently. They rejected the idea of self-assessment and objected to relative performance rankings – in which managers met with one another and compared their employees.

The end result was a new app-based performance review system called Checkpoint. This enables employees to set shorter-term goals, and managers will provide feedback on their progress at least every quarter. At the end of the year, employees will be judged across five criteria – business results, impact on client success, innovation, personal responsibility to others, and skills. Managers will assess whether employees have exceeded or achieved expectations for their role in each of those five dimensions or if there's a need for improvement.

A full description of the IBM experience is given in the appendix to this book.

Microsoft

In 2013, Microsoft removed its previous system of performance management which involved an annual formal performance review and used a process known as 'stack ranking' to divide employees into five performance categories along a targeted distribution of ratings. It was replaced with an approach that focuses on collaboration, feedback and rewards for impact. To emphasize the importance of personal development the new approach is referred to as 'performance and development' rather than 'performance management'.

The formal annual performance review was replaced by less formal but regular performance and development conversations between managers and employees called 'Connects'. Every employee is expected to have a minimum of two Connects a year – but beyond this, Microsoft does not apply any strict rules. Ratings were abolished.

As Microsoft's Director of Global Performance Programmes, Lisa Dodge, explained to the e-reward researcher (e-reward, 2016):

The outcome of the old end-of-year review usually felt like a judgement, rather than an opportunity for employees to learn and get better. The previous approach tried to do too many things. It was like a Swiss army knife of performance management – we were using it for everything from allocating reward to categorizing talent. The ratings people received became an overarching label of everything anyone in the company felt they needed to know about someone. And it became a gate to things – whether or not an employee could transfer, for example, or even whether or not they should transfer. It wasn't intentional, but it happened. And our employees didn't like it – which worked against the programme's ability to help improve performance.

The focus of their current approach is designed to help people deliver great impact by working together, reflecting and getting feedback more often, and more intentionally considering learning and growing – and as a result deliver continually better business results. Regular performance conversations have been separated from the reward conversations. Instead of the end-of-year review, managers and employees have a short reward discussion to share the merit, bonus and stock outcomes with the employee. Meanwhile, the regular discussions employees and managers have during the year focus on the impact someone is having, what they are learning and what they can do in the upcoming few months – there is no discussion of rewards.

Lisa Dodge also observed that:

With the old system people were too distracted by their rating. Under the new approach, they are able to more fully appreciate their rewards... Our employees don't need ratings to know how they are doing... We want rich conversations rather than assuming an employee's performance can be boiled down to a simple label.

Conclusions

The common thread running through all these case studies is disillusion with the relevance and effectiveness of formal performance reviews and their replacement with more frequent and less formal conversations about progress and development between managers and individuals, called variously check-ins, touch-base meetings or connects. Traditional overall ratings or forced ranking systems were abolished in six of the seven cases.

References

- Brown, D (2010) Practice what we preach? Posted by Reward Blogger, 6 December, CIPD, London
- Brown, D (2011) Performance management – can it ever work? *Manager*, Summer, p 16
- Buckingham, M and Goodall, A (2015) Reinventing performance management, *Harvard Business Review*, April, pp 40–50
- CIPD (2009) *Performance Management in Action: Current trends and practices*, CIPD, London

- CIPD (2014) *Employee Outlook*, <http://www.cipd.co.uk/hr-resources/survey-reports/employee-outlook-autumn-2014.aspx> [accessed 16 November 2015]
- CIPD (2016) *Could Do Better: What works in performance management*, <https://www.cipd.co.uk/knowledge/fundamentals/people/performance/what-works-in-performance-management-report> [accessed 3 March 2017]
- Colbert, S A (2010) *Get Rid of the Performance Review*, Hachette Book Group, New York
- Corporate Leadership Council (2002) http://talentexperiment.com/images/CLC_Building_the_High_Performance_Workforce_A_Quantitative_Analysis_of_the_Effectiveness_of_Performance_Management_Strategies_1_.pdf [accessed 20 January 2016]
- Dweck, C S (2006) *Mindset: The new psychology of success*, Random House, New York
- e-reward (2009) *Survey of Contingent Pay*, e-reward, Stockport
- e-reward (2014) *Survey of Performance Management Practice*, e-reward, Stockport
- e-reward (2016) *Performance Management Case Study*, e-reward, Stockport
- Guest, D E and Conway, N (1998) An analysis of the results of the IPD performance management survey, in *Performance Management: The New Realities*, M Armstrong and A Baron, CIPD, London
- Holdsworth, E and Jirasinghe, D (2006) *Managing and Measuring Employee Performance*, Kogan Page, London
- Institute for Employment Studies (Hirsh, W, Brown, D, Chubb, C and Reilly, P) (2011) *Performance Management: The implementation challenge*, <http://www.employment-studies.co.uk/system/files/resources/files/mp89.pdf> [accessed 10 March 2016]
- Jozwiak, G (2012) Is it time to give up on performance appraisals? <http://www.hrmagazine.co.uk/article-details/is-it-time-to-give-up-on-performance-appraisals> [accessed 10 March 2017]
- Kinley, N (2016) The end of performance management: sorting the facts from the hype, *Strategic HR Review*, 15 (2), pp 90–94
- McAdam, R, Hazlett, S-A and Casey, C (2005) Performance management in the UK public sector: addressing multiple stakeholder complexity, *International Journal of Public Sector Management*, 18 (3), pp 256–73
- Nisen, M (2015) *Why GE Had to Kill Its Annual Performance Reviews after More Than Three Decades*, <http://qz.com/428813/ge-performance-review-strategy-shift> [accessed 9 March 2017]
- Pulakos, E D, Mueller-Hanson, R A and O'Leary, R S (2008) Performance management in the US, in *Performance Management Systems: A global perspective*, eds A Varma, P S Budhwar and A DeNisi, Routledge, Abingdon
- Rock, D (2009) *Managing with the Brain in Mind*, Strategy+Business, New York

- Rock, D, Davis, J and Jones, B (2014) *Kill your performance ratings*, Strategy+Business, <http://www.strategy-business.com/article/00275?gko=c442b>
- Society for Human Resource Management (2012) *Performance Management Survey*, <http://www.shrm.org/HRStandards/PublishedStandards/Pages/ANSISHRM090012012,%20Performance%20Management.aspx> [accessed 22 December 2015]
- Sparrow, P (2008) Performance management in the UK, in *Performance Management Systems: A global perspective*, eds A Varma, P S Budhwar and A DeNisi, Routledge, Abingdon
- Towers Watson (2012) *Global Workforce Study*, London, Towers Watson, <https://www.towerswatson.com/en-GB/Insights/IC-Types/Survey-Research-Results/2015/12/Traditional-approaches-to-performance-management-still-dominant>
- Washington Post* (2015) Accenture CEO explains why he's overhauling performance reviews, <https://www.washingtonpost.com/news/on-leadership/wp/2015/07/23/accenture-ceo-explains-the-reasons-why-hes-overhauling-performance-reviews> [accessed 18 February 2017]
- WorldatWork and Sibson (2010) *The State of Performance Management*, WorldatWork, Scottsdale, AZ

Reinventing performance management

17

The problems of the traditional approach to performance management as described in the previous chapter are serious. Some commentators have argued that performance management is broken. The conclusions reached by the Institute for Employment Studies (2011) following their research were:

Performance management is about how people are managed all year round. This is the central message which so often seems to get lost. So managers and employees need to hear about performance management throughout the year, not just when the forms have to be filled in... They should hear about performance management in terms of priorities, feedback and development and how these link to business results. These messages need to come from senior managers, not just from HR. Even just talking about managing performance (what people do) rather than performance management (an odd piece of HR jargon) may help HR people remember what this is really about when they are talking to others.

The fundamentals of performance management are setting priorities, giving feedback and agreeing action, especially development action. All the other stuff – ratings, links to reward, competencies, potential and talent assessments – are legitimate concerns but should not be allowed to compromise the quality of actually managing performance. If your managers are still struggling with giving honest feedback or with agreeing sensible priorities, leave the other clutter out for now.

A case can indeed be made for doing without formal performance management systems altogether and this is considered in the final section of the chapter. Such a solution may be going too far for most organizations. But there is no doubt that traditional methods should be reconsidered. This is

what a number of organizations are doing as was described in Chapter 16. Most of this chapter is therefore devoted to what needs to be done and can be done to reinvent or at least revive existing systems.

Areas for reinvention

While the performance management problems concerning top management support, learning and development, implementation and evaluation are important, a reinvention programme might focus initially on the key issues of the performance review and rating. The common thread running through the cases mentioned in Chapter 16 is disillusion with the relevance and effectiveness of formal performance reviews and their replacement with more frequent and less formal performance and development conversations between managers and individuals. Overall ratings or forced ranking were abolished in six of the seven cases. Decoupling appraisals and pay reviews was also an issue in some cases. And in one company (Microsoft) the process referred to agreeing priorities rather than setting objectives.

The reinvention programme

The reinvention programme should start with an analysis of the present arrangements. This will lead to an assessment of the possible areas for action taking into account the advantages and disadvantages of the alternatives in the context of the organization's situation and requirements. The programme should include discussions with managers and other employees on their views about current arrangements and their thoughts on future developments. Formats for this assessment of views and analysis of options are set out in Figures 17.1 and 17.2.

Assessment of current arrangements

The employee survey in Figure 17.1 can be used to assess the effectiveness of the present performance management arrangements.

Analysis of possible new arrangements

A framework for analysing possible new arrangements is shown in Figure 17.2.

Figure 17.1 Performance management survey

Rate the extent to which you agree or disagree with the following statements about how performance functions in this organization on a scale of 1–5 where: 1 = fully agree, 2 = agree, 3 = not sure, 4 = disagree, 5 = strongly disagree	
1. Performance management is perceived by top management as a key process for managing the business.	1 2 3 4 5
2. Line managers are committed to performance management.	1 2 3 4 5
3. Line managers have the skills to manage performance effectively.	1 2 3 4 5
4. Performance management processes are clear, simple and easily understood by all concerned.	1 2 3 4 5
5. Clear, demanding but achievable work objectives or priorities are agreed by managers and their team members.	1 2 3 4 5
6. Performance management is concerned not just with <i>what</i> people achieve but also <i>how</i> they achieve it.	1 2 3 4 5
7. The performance management system helps managers to manage more effectively.	1 2 3 4 5
8. Performance management makes a positive impact on individual performance.	1 2 3 4 5
9. I look forward to performance review sessions.	1 2 3 4 5
10. Helpful performance and development conversations with useful feedback are held at frequent intervals during the year.	1 2 3 4 5
11. Managers take their coaching and employee development responsibilities seriously.	1 2 3 4 5
12. I believe that our performance management system is a waste of time.	1 2 3 4 5

Approach to reinvention

The approach adopted to reinventing performance management has to recognize the problems involved in meeting possibly demanding aims and overcoming the practical and political difficulties that will occur.

Figure 17.2 Analysis of possible new arrangements

Possible new arrangement	Advantages	Disadvantages
Annual performance review Replace the annual performance review with more frequent 'performance and development conversations' which provide informal feedback and include the discussion and revision of priorities and development plans.	Gets rid of the 'dishonest annual ritual' of the yearly formal performance review and appraisal session which is often dreaded by both managers and individuals and, if done at all, is carried out perfunctorily. This is replaced by much less formal conversations which arise naturally out of the normal process of work.	Abolishing the annual review means that there will no longer be an opportunity to hold what might be called a stock-taking exercise which provides a defined framework for development planning and objective setting.
Ratings Abolish ratings.	Overcomes the fundamental objections to rating performance. These are that ratings are largely subjective and it is difficult to achieve consistency between the ratings given by different managers. Even if objectivity is achieved, to sum up the total performance of a person with a single rating is a gross oversimplification of what may be a complex set of factors influencing that performance. To label people as 'average' or 'below average', or whatever equivalent terms are used, is both demeaning and demotivating.	Abolishing ratings would mean that the following advantages would disappear: • They provide a convenient means of summing up judgements. • They motivate people by giving them something to strive for in the shape of higher ratings. • They provide a basis for identifying potential. It can also be argued that it is impossible to have performance pay without rating, but there are ways of overcoming this.

Forced ranking Abolish forced ranking.	Get rid of the climate of fear and the likelihood that those ranked highest on the scale are more competitive and less cooperative than those ranked.	No longer possible to use forced ranking as a means of identifying those employees who should be dismissed for poor performance.
Link with performance pay Decouple performance pay decisions from performance reviews.	Avoids the conflict between focusing on performance management as a means of deciding pay increases and satisfying its developmental purposes.	Makes the process more complex.
Objective-setting Replace complex objective-setting procedures involving, for example the requirement for 'SMART' objectives, key result areas and key performance indicators, with a system based simply on determining and agreeing a limited number of key priorities. The priorities can include targets and delivery timescales as appropriate and will indicate how the extent to which they have been met can be assessed.	The process is simpler and easier to understand and operate. Managers can feel that they have better things to do than draw up lists of key result areas and performance indicators and may find it difficult to meet the SMART objective criteria.	Abandoning the discipline of setting SMART objectives related to rigorous definitions of key result areas and performance indicators might result in a vacuum which will not be filled by the vaguer concept of priorities. This might fail to provide people with adequate information about job requirements and leave them with insufficient direction.

Following their research Strebler et al (2001) commented on design issues as follows.

Personnel management textbooks are full of touching accounts of how to design and implement performance appraisal and management schemes in organizations. The models they propose are based on a rational and linear logic, which assumes that an organization's goals can be translated into individual goals, which, in turn, can be delivered through feedback, training, development and reward. The reality of organizational life is somewhat different.

Developing the skills required

Some managers such as those quoted later in this chapter are naturally good at managing performance because they are effective managers and have learned to be so over the years from experience, observing other successful managers and more formal coaching and mentoring procedures. However, these skills are not shared amongst all managers and steps need to be taken to develop the essential skills, namely:

- defining roles and setting objectives;
- conducting informal performance and development discussions;
- giving feedback;
- handling challenging conversations.

The learning required will not be achieved by a 'sheep-dip' process of half-day training sessions. It is far better to cater for it by an extended leadership development programme, an important part of which should be conducted through mentoring and coaching. Experienced managers who have demonstrated that they have the skills required and are keen to help can usefully act as mentors.

Practical advice

The following practical advice on the dos and don'ts of introducing performance management or making substantial changes to an existing scheme was given by the respondents to the e-reward 2014 survey.

Do

- 'Keep it simple and easy to understand. If changing an existing scheme, review what is wrong with the current system before designing a new one.

Time may be better spent embedding the existing one than changing it. Ensure the system is backed up with regular performance discussions, not just a discussion once or twice a year.'

- 'Work out why the organisation wants to have a performance management system. If the decision is to introduce or change the performance management system then make sure that the way it works reflects the organization culture.'
- 'Gain the support of senior people in the organization. Do a lot of prep work including consultation with staff and managers to find out what kind of performance management system would work in this particular environment. Once agreed really invest in regular training and revision of how the process works.'
- 'Think about what you want from any performance management approach – why have it at all? Listen to feedback from your business owners/shareholders, senior management and staff/employee representatives and decide on the things that will make a difference to your business in the next five years and design your solution to meet that need. Remember, designing a system which picks out the best and worst can ignore the majority who become disenfranchised with performance management. Design it to engage the majority as this creates value.'
- 'Spend most time on consulting/communicating, particularly with the managers expected to do it, rather than on a clever "design".'
- 'Involve line managers in the design phase; asking what works and doesn't. Keep it simple. Explain the process to the whole workforce. Let line managers own the process.'
- 'Get senior management to support you, otherwise it won't work. All the effort will be wasted. The biggest success factor is based on how it's rolled out.'
- 'Get senior management buy-in to the process as any change needs to be driven from the top. Design your system through employee focus groups as they will tell you what they like and don't like about it. Use the feedback to improve the system. The employee focus group staff are more likely to champion the system as they have been instrumental in developing it which helps with engagement.'
- 'Make it about good conversations, not just a process.'

- ‘Create a climate where implementing performance management systems are an absolutely necessary part of a manager’s role and a real requirement of the job.’

Don’t

- ‘View performance management as an annual task such as appraisals; view it as a daily part of operations. Don’t use appraisals as a means of dealing with performance issues, tackle them as soon as they become apparent through use of performance improvement plans for example, or if it is a conduct issue adopt a different line.’
- ‘Use the process to emphasize the past. If you cannot pay much, then do not use money as a key motivator.’
- ‘Underestimate the role of middle and line managers – they are the ones that will make or break your performance management process. Don’t assume that because the goals and benefits of the scheme are clear to you, they will be understood, agreed and considered a priority by others. Don’t forget that no matter what, the user interface of your performance management system in it must be ridiculously easy to understand – even if the concepts behind them are not.’
- ‘Try to do too much too soon – evaluate the culture of the business and ask if it’s ready for the changes that you want to implement.’
- ‘Think you will not have anomalies in trying to link pay and performance.’
- ‘Think line managers will have this on the top of their to do list unless there is a either some pain or gain.’
- ‘Think that a clever system is best.’
- ‘Spend a lot of time designing forms and scoring systems.’
- ‘Overcomplicate – it isn’t necessary, do it for the sake of it, don’t force people down an over-engineered process. If they set aligned objectives and have the skills to review these as well as the skills for challenging conversations – this is performance management!’
- ‘Make the process too cumbersome with too many steps; if managers have too many evaluations to prepare, too many to validate, quality will be lost.’
- ‘Make the appraisal such a big “event”; it should be part of a continuous process of coaching and feedback... increasingly thinking that the performance conversation should be de-linked to pay increase as it distorts the thinking.’

- 'Link the performance management directly to incentive pay. The focus switches from assessing employees – and getting the best out of them – to having an incentive pay figure in mind for an employee and using the performance management system to secure the incentive pay figure.'
- 'Let it become a box-ticking exercise, to be completed once or twice a year and then forgotten about. Don't let it be a negative experience for all involved, which might be overly bureaucratic and time-consuming, or punitive in nature.'

A radical way ahead

There is a fundamental question that should be answered: 'Is there any need for a formal performance management system at all?' The IES as quoted at the start of this chapter expressed some doubts about such systems. And here is what an 'engaging' manager told Dilys Robinson of the Institute for Employment Studies (2013):

This organisation has a very structured performance management framework, as you would imagine from a big company. I try and avoid using it unless I have to, I would rather try and develop the personal relationship with someone, to understand their issue and try and improve their performance by working with them, rather than going through procedural ways of managing performance.

And this is what other managers in the same study had to say:

I am incremental, as in trying to deal with things as they come up... rather than saving something until it becomes a problem. So, saying when things are good, saying when things aren't quite so good, or asking what the issues are around it, and hopefully trying to do it in a sort of coaching way, so getting people to explain themselves how they think things have gone and what issues have come up.

I treat people the way I want them to treat me. If I want them to achieve X, Y or Z they need to know what it is that I want from them to start off with. I like to talk to them about what the goals are and then how we are going to get there... And through regular one-to-ones and coaching and observations and feedback, that's where I highlight any gaps and identify, okay, you're not performing in this area, so what are you going to do?

I've developed over the years, the last couple of years, more of a coaching style to performance management. Very much discussion, very much gathering

information, gathering the ideas, looking at how realistic those sorts of ideas are going to be, throwing out a few scenarios and a few what ifs with people and generally encouraging people to set their own targets and their own objectives... I'm on the phone every day of the week reviewing what we've done and just looking at it, challenging, looking for new ideas.

Managing performance is huge in the contact centre, because we've got so many targets, key performance indicators... it's important that from day one, that they know exactly what's expected of them, so they know what they need to deliver.

To keep the team generally motivated and performance levels up, I will make sure I'm speaking to people, praising them when they do a good job, finding out what their problems are, helping them with whatever needs to be done...

It's difficult, because if things aren't going right you can get under tremendous pressure... but we try and build on successes rather than reflect on disasters.

So, the key for me is just one-to-one time, and they know what they're aiming for, and we talk about it regularly. So it never really gets to the situation where there's like a really great big formal sit-down to say let's review everything you've done.

I think it's regular dialogue... at least once a fortnight for an extended period of time, just one to one and just about them and the work they're doing and what's going on... just so that I understand what they're doing and so I can give a bit of a steer or give them a bit of coaching if they need some coaching; help them if they want some help and support.

Every week I have a one-to-one session with people who work for me. And it's half an hour; it's the opportunity to talk things over with people. I say to people it's your time with me. But, to be honest, it's not just that; it's me getting to talk to them.

The best way to deal with the whole problem of making performance management work is to ensure that the organization has managers who act like this rather than compelling them to conform to the bureaucratic requirements of a typical traditional performance management system. These managers are managing performance not operating a system. They are constantly communicating with their team members, they clarify what has to be done and take swift action to deal with underperformance, they praise when praise is due and they coach their staff. To get this sort of manager is a matter of selection, development through coaching and mentoring, and constant encouragement. It would take a lot of time and effort but it would be time well spent.

References

- e-reward (2014) *Survey of Performance Management Practice*, e-reward, Stockport
- Institute for Employment Studies (2011) *Performance Management: The Implementation challenge*, <http://www.employment-studies.co.uk/system/files/resources/files/mp89.pdf>
- Robinson, D (2013) *The engaging manager and sticky situations*, <http://www.employment-studies.co.uk/system/files/resources/files/493.pdf> [accessed 21 February 2017]
- Strebler, M T, Bevan, S and Robertson D (2001) *Performance Review: Balancing objectives and content*, Institute for Employment Studies, Brighton

THIS PAGE IS INTENTIONALLY LEFT BLANK

APPENDIX

Case study: IBM co-creates a radical new approach to performance management (research conducted by e-reward)

In 2015 IBM decided to reinvent its approach to performance management for its 380,000 employees. The previous, 20-year-old programme – Personal Business Commitments, known as PBC – with its traditional model of annual, top-down goals and a single numeric rating for all employees at year-end – no longer matched the dynamic and agile way that the company now operates. So IBM worked hand-in-hand with its employees to ‘co-create’, a brand new approach through an online social dialogue.

The result was ‘Checkpoint’ – a performance management programme with quarterly formal feedback conversations, continuous informal feedback and an end-of-year assessment process that rates employees along five separate dimensions.

Who e-reward interviewed

- Michelle Rzepnicki, Director of IBM Performance Management.
- Carrie Altieri, VP of IBM Communications – People and Culture.

The case for change

Michelle Rzepnicki traced many of the problems to the age of the programme – it was designed when employees worked in a very different way. ‘IBM has transformed over recent years and as we enter the

“cognitive era” for the company the way that people work no longer sticks to a 12-month calendar,’ she said. ‘What I was working on in January is completely different to what I’m doing in December – everything is more agile, it’s more real time, it’s more mobile. And the PBC programme wasn’t designed to handle that.’

Further reasons for change were the negative reactions of employees to the process and the lessons from research and practice outside the company which showed that traditional performance management approaches weren’t effective at improving performance.

Designing the new programme

Michele Rzepnicki’s role was created to lead the project. From the start, the company was clear that it wanted one single programme that would apply across the entire 380,000-strong workforce. ‘We are an extremely large and dispersed organisation, with people working in a lot of different roles and performing very different types of work,’ said Rzepnicki. ‘The new programme had to work for all of them because at the end of it we wanted to speak one language when it came to performance – not “this is the language if you’re a consultant” and “this is the language if you’re an IT architect”. We wanted something that would bring us together.’

A co-creation approach

Rzepnicki was also clear that the new programme had to engage the workforce – and so she decided to adopt a ‘co-creation’ approach to the design process. ‘We knew that the workforce had a really strong point of view on this and that they were very passionate about it – they had already shown us that in forums,’ she said. ‘So we wanted to harness this passion and involve as many IBMers as we could.’

‘This was important for a couple of reasons,’ she continues.

First, we really needed to make sure that the programme we ended up with was going to resonate and work for everybody – so it was important to hear from as many people as possible. And second, this was going to be a hugely significant change for people and by bringing them into the process early on we knew we were going to make them feel like ‘co-owners’ in this rather than just consumers of something we created ourselves. We wanted that change journey for employees to start while we were still designing it.

Given the size of the company and the dispersal of employees across the globe, focus groups and small pilots were not going to achieve collaboration on the scale Rzepnicki was aiming to achieve. Instead, she set up an online project on IBM's internal social platform, where employees could engage with the design of the new programme – viewing prototypes and submitting their comments and ideas.

Design thinking

Alongside this co-creation approach, Rzepnicki and her team also applied 'design thinking' to the process. 'At the heart of design thinking is listening,' she said. 'Focus on the end-to-end experience and outcomes for the workforce, combined with feedback and iteration can deliver solutions at great speed and scale.'

Rzepnicki added: 'Instead of looking at the prior programme and saying "OK, how should we update the process?" we stood back and said "What kind of experience do we want IBMers and their managers to have with this new programme?" and then began to design that experience. And with rapid prototyping, rather than waiting until you have a really polished product to show anybody before you share it, you push out a minimum viable product – a "rapid prototype" – and you start getting feedback almost immediately. Then you use those responses to make the next iteration and then quickly push that out there to gather more feedback – and you repeat until you have your final design.'

Rzepnicki and her team produced the first performance management prototype in a targeted 'design thinking workshop' with a group of 50 global IBMers specially selected to represent every demographic and role that they could fit into one room. The group were asked to describe the 'as is' experience of PBC and the 'to be' experience that they wanted to have.

By combining this feedback with the results of the initial jams and forum feedback, as well as the experiences of other companies and scientific research, the first prototype was created. 'This gave us a little bit more structure to start the co-creation process – it would have been really difficult in a short space of time to manage a co-creation dialogue with the entire workforce that was completely blue sky,' said Rzepnicki. 'But we were then able to put that prototype out there and start the online social dialogue at the end of July 2015 with a message to all employees across the world, saying "The time is now, we're ready – we want you to come into this design process and contribute."'

Overcoming scepticism

There was a degree of scepticism among the workforce at launch, admitted Carrie Altieri.

A lot of our people have been with us for a long time and there was a healthy level of scepticism among them about how much input they would really have into the final design. There were some comments along the lines of ‘You already have it sorted out and the plans are in your bottom drawer – you’re not really going to listen to what we have to say.’ And this didn’t just drop away – it was not a sugar-coated process. Even when we went back to them with new iterations that we’d made in response to their feedback, we were getting some people to change but not everyone was on board with it.

‘But that tide had definitely turned by the end of the process,’ said Rzepnicki.

At the end of the journey when we announced the final design, many of the comments we received were ‘I’m amazed, you actually listened’ and ‘I was sceptical, I didn’t believe this was going to be real and it was.’ So taking them with us on that journey really helped – it made sure that when we launched, all the scepticism had already passed.

Gathering insights and feedback

While there were opportunities for employees to provide some free-ranging feedback on all elements of performance management and the prototypes put before them, Rzepnicki and her team also created forums to help provide structure and to generate discussions on specific areas of the design.

‘We asked some difficult questions,’ she said. ‘Questions like: “We know feedback is going to be extremely important to improving performance – but how can we create a culture of feedback if it’s not flowing as freely as we would like?” So we really challenged people to think about how the programme would actually work in practice.’

The forums generated thousands of comments and a great deal of discussion. ‘Between us we read everything,’ said Rzepnicki, ‘although we were really aided by our own analytics. We ran regular sentiment analysis, for example, to find out how people were thinking, what ideas and thoughts they were gravitating towards and to validate what we were reading in their comments.’

And these comments were typically well thought out and often quite lengthy, said Altieri.

People didn't just come into the discussion to say 'That's a good idea' or 'I don't agree with that' – they offered their own thoughts and ideas too. Some of them were almost writing a treatise on the topic, with 600 or 700 words on what the system should do. It was a fascinating public debate.

'We were really dedicated to making sure we interpreted employees' comments as accurately and authentically as possible,' adds Rzepnicki.

If we weren't quite sure what someone's comment meant we would go back to them and ask them to clarify it. And if the workforce was squarely split down the middle on an issue we'd ask them to vote on it, then and there. So there was a level of transparency that people appreciated. We even had people lobbying to be able to take part in these kinds of votes while they were on vacation – it was great to see that level of engagement with the process.

Dealing with negative comments

Not all of the comments were positive, of course. But Rzepnicki was still able to harness these voices – and, in many cases, derive great value from them. 'We learned that in a social dialogue like this, some people just drop into a conversation for 20 seconds, leave their comments and go,' she said.

And we appreciated that with a subject as intense as performance management and all the connections it has throughout the business, people might not always have the time to fully understand all of that and put across a fully considered argument. So we actually called up some of the most negative commenters to ask if they wanted to talk more about the process and why they felt like they did.

We didn't call them up to scold them – we said 'You've got a strong point of view, let's talk about that.' And in the course of talking about it – when they realized just how deeply we had thought about the whole approach and how authentic we were in our co-creative approach – every one of them changed their views and actually became champions of the process. They became valuable contributors that we would call up to test ideas.

Amplifying the conversation

While there will always be a core of employees who want to participate in social dialogues such as this and make their opinions heard, IBM wanted to

hear from as many people as possible. ‘We didn’t want the minority to represent the majority,’ said Altieri.

To encourage wider participation and ‘amplify’ the conversation across the business, the company used ‘social champions’ to inspire others to join in. ‘We refer to IBM as a “social business” and we have the underlying platforms and technologies to support dialogue between everyone in the company,’ said Altieri.

So just as people might go on to Facebook to post a status update, we encouraged our ‘social champions’ – or ‘mobilizers’ as we call them – to post snippets of the design conversations on their walls and encourage others to take part too. It became the virtual water cooler conversation for the company.

The team was also able to target any groups that were underrepresented in the dialogue using its range of analytical tools. ‘We could look at the demographics of the commenters and ask, “Are we hearing from every business unit? Are we hearing from every geography?”’ said Rzepnicki.

And where the conversation was a bit light, we were able to go out to those geographies and ask our HR teams to carry out more traditional roundtables with their employees. We wanted to make sure we were validating our ideas with everyone and that what we were gravitating towards wasn’t going to be completely off target in those locations.

Playback

The team’s approach also implemented another important element of IBM’s approach to design thinking – the ‘playback’. This involved creating a video of the proposed programme to enable participants to get a clearer, and more engaging, understanding of it. ‘We didn’t want to come back to the workforce and say “Here is a flowchart of the new process that you’re helping us define.” Instead, because this was all about designing an experience, we made a video to show people how it would work in practice,’ said Rzepnicki.

We created characters, we had IBMers from around the world pose for still shots to tell the story, and we had members of the team narrate the parts – and we said to employees ‘This is what your experience of the new programme will be like.’

The videos were posted online for employees to watch and leave feedback – and then, once this had been taken on board and a new prototype had been designed, another video was recorded and posted online.

‘We posted these videos, saying “Check out the new refined experience, based on your input,”’ said Rzepnicki.

It was a great, visual way of showing that we were aligned with the workforce and making sure they felt we were being responsive – that we understood their input and were acting on it. And it was really accessible too – even people who didn’t have time to read through the forums could find a few minutes to watch the videos.

Making changes to the design

The team made numerous changes to the design of the new programme over the course of the dialogue process. One such amendment was the removal of employee self-assessment, which was included in the original prototype.

‘We thought having a self-assessment would give managers some insight into what their team members thought about their own performance and to help prepare for a meaningful conversation,’ said Rzepnicki.

But we got a lot of negative reaction to that, with people saying that it adds a lot of unneeded stress to the process and asking what point it really serves if the manager is the one ultimately making the assessment. And so we responded to that and we dropped it from the programme.

There was also a lot of discussion about how public people’s performance goals and manager feedback should be. ‘Some employees and managers felt it would be useful to be able to see other people’s goals and make sure they aligned with one another – but there was concern from others that they couldn’t openly say “This is what I’m working on” because of the confidentiality of their projects,’ said Rzepnicki.

So we didn’t push that aspect of the design. We ended up making it a voluntary option – if somebody wants to share their goals publicly they can, but the tool doesn’t do it automatically.

Announcing the new programme

The final design for the programme was unveiled at the end of October 2015 – just four months after IBM decided to launch the new process. And the reaction of the workforce was overwhelmingly positive, said Rzepnicki.

It's a further testament to how important the co-creation approach was. Typically when you ask employees about a performance management process, their reaction is pretty negative. But when we announced the new design, our sentiment analysis revealed that 90 per cent of the comments were positive and just 5 per cent were negative.

At this point, the programme still did not have a name. In keeping with the co-creation ethos, the company turned to its employees to come up with its title. 'It was important that we didn't take this new programme that had been designed in partnership with the workforce and stamp our own name and brand on it,' explained Rzepnicki.

So we went out to our employees and said, 'You've helped us design this new programme and you have a great understanding of what it is – so what do you think we should call it?'

The team brainstormed with a group of employees to come up with a short-list of possible names and then carried out a quick, internal survey – which received 17,000 votes. The winning name was 'Checkpoint'.

The launch of checkpoint

The new Checkpoint programme was launched 1 February 2016 – just eight months after Rzepnicki was appointed to lead the design process. The time between announcing the new programme in October and its launch in February served several purposes, including preparing for deployment by rolling out training and making sure the team had the right communications in place to reach the workforce and help them understand the new process.

The company also needed to close down the old PBC programme, which meant waiting for the end-of-year assessments to be carried out in January. However, one important change to the process was made in its final year.

'We knew that two of the things our managers and employees really disliked about the PBC programme were the distribution guidelines and the team-based decision meetings where managers calibrated their ratings,' said Altieri. 'So we actually decided to get rid of these elements as we closed out the old system.'

'We looked at the Checkpoint system and asked ourselves if there was anything we could start sooner, without waiting,' said Rzepnicki. 'Most of it

required waiting for the proper launch – but we felt we could drop the distribution guidelines and calibration sessions immediately. And it really helped kick-start the new process.’

As Altieri explained: ‘It built a lot of trust with managers too. They had been asking for more empowerment – and by getting rid of the guidelines we showed them that we trusted them to do the right things.’ What was striking was that the results showed that this trust was well placed, as the differentiation of bonus payments, a key reason the distribution guidelines existed in the past, were similar to previous years.

Checkpoint in practice

A summary of the differences between Checkpoint and the old system is given in Figure A.1.

Figure A.1

PAST		FUTURE
Annual goals	▶	Prioritized shorter-term goals
Single element assessment	▶	Multiple performance ratings
One or two ritualized meetings on performance annually	▶	Practice of continuous feedback
Documenting results annually	▶	Updating milestones and achievements regularly
Team based decision making and distribution guidelines	▶	Managers are empowered and accountable

SOURCE IBM

More regular, short-term goals

Under the PBC programme, individual goals were set on an annual basis – at the beginning of the year. Then, unless somebody changed role part way through the year, they generally stayed as they were until year-end.

‘This was completely at odds with the way the company now works – and it led to other problems,’ said Rzepnicki.

The lack of alignment between goals and what people were actually working on meant that many employees did not take them seriously – some would just copy and paste their goals year on year. They didn't put thought into it or ask themselves 'Is this what I'm working on?' or 'Do these goals really apply to my role?' In the early stages of the Checkpoint design process we asked several people to talk us through their PBC goals and in many cases they were not working towards their stated goals because their priorities had shifted – and some didn't even know what their goals were. This was a big problem because goals are not intended to be just an administrative exercise.

So in Checkpoint, goals are now set for much shorter time frames – typically between three and five months. And employees can make changes to their goals at any time, without getting prior approval from their managers.

'We want to make sure that people's goals reflect what they are actually working on and are contributing towards the larger organizational priorities – they should be aligned with the business and driving it forward,' said Rzepnicki.

And we didn't want a rigid approval chain. We need people to be able to react quickly to changes in their role and their work – so employees can go into the tool at any point to adjust their goals or add a new one. This triggers an email to their manager to check that the goal is aligned to the priorities of the organization and is at the right level – but it's our employees who are really in charge. They start the process, they set their goals and they say 'This is what I think I should be focused on, this is what I'm working on.' So that is a big cultural change – there's no more 'set and forget'.

The Checkpoint guidelines suggest that employees should aim to have between three and five active goals at any one time – but there are no hard and fast limits. 'Everyone has to have at least one goal but we have not put any maximum limits in place,' said Rzepnicki.

Instead, we regularly generate reports from the system that tell us if anyone has over ten goals and we keep a check on things that way. At the moment there is no problem, but if we see a lot of people taking on a high number of goals, we might have to do some more outreach and training on the role of goal prioritization in Checkpoint.

Regularly updated milestones and achievements

A Checkpoint tool is available to employees, which enables them to add new goals at any time, they can also track their progress against goals throughout

the year by checking off key milestones or achievements. This helps ensure goals stay aligned with what employees are working on and helps instigate feedback conversations with managers. It also helps employees and managers save time at year-end. Gone are the days when they need to try to recall the work they had undertaken in the first or second quarters and then gather evidence of their performance – it should be there in the system already.

Rzepnicki told e-reward: ‘This is a key element as it really spreads out the time you need to invest in the performance management process across the year instead of back loading it all at the end of the year. It should also be more effective at raising performance, as issues can be addressed and fed back on at the time instead of relying on recollection after the fact.’

Multiple performance ratings

The new programme still has an end-of-year assessment. However, whereas under the PBC programme employees’ performance was boiled down into one single numeric rating, under Checkpoint employees are assessed against five separate dimensions.

The five dimensions of performance

‘The guidance for the old system instructed managers to consider both the business results employees achieved – the “what” – as well as their behaviours – the “how”,’ said Rzepnicki.

But in reality, the actual results really trumped how they were achieved. So often an employee’s rating didn’t really tell the whole story and the leadership team would often find itself having to look behind the ratings and say ‘Well, this person was working in a really troubled area so the results weren’t there – but they are a role model for our values and have very strong skills.’ It created this underlying narrative that was needed to explain each person’s number.

The new programme is designed to raise the importance of how results are achieved when assessing performance. ‘Business results’ is now just one of five elements that are given a rating. The five dimensions are set out in Figure A.2.

‘The skills dimension is really important for a business like ours,’ said Rzepnicki. ‘Skills are our currency here. Even if you have all the skills you need for the role and task you are doing right now, if you’re not thinking about the future, and if you’re not growing your skills towards that, then

Figure A.2

Each goal should allow you to be assessed on one or more of the five dimensions.
Ensure that at least one of your goals demonstrates skills growth. If not, draft a separate goal for skill development.



Business Results

Your achievement against agreed upon goals.



Client Success

Dedication to every client's success. You are passionate about every client's success, so you put them first, listen for need and find opportunities to bring new ideas and add value. Partnering with all relevant IBM stakeholders, you focus on outcomes – helping every client succeed *however* they measure success.



Innovation

Innovation that matters – for our company and for the world. You are a forward thinker. You seek out grand challenges as well as incremental improvements – whether in technology or in how you work and in what you deliver.



Responsibility to Others

Trust and personal responsibility in all relationships. You prioritize collaboration and focus on building trust and earning it anew every day, in every relationship – with IBMers, clients, partners and more. For those of you entrusted with management or executive responsibility, this includes your effective leadership and showing personal interest in IBMers, their careers and their development.



Skills

IBMers are dedicated to growing skills that matter to our business and to being essential now and in the future. You continuously find opportunities to learn and apply new skills strategic to IBM and needed to be successful in your role. You are recognized for your expertise and you share it with others.

SOURCE IBM

you're not going to be as relevant as we move forward. So we included skills in the five dimensions of performance to really emphasize how important it is here.'

The year-end assessment and rating

At year-end, managers assess each of these five dimensions on a three-point scale – although this is descriptive rather than numeric. The three ratings are:

- Exceeds.
- Achieves.
- Expect more.

Managers are under clear instruction to keep their ratings for each dimension separate. 'It is an extremely important part of the programme that these five ratings don't get combined into one composite number or rating,' said Rzepnicki. 'By staying separate they provide a lot more insight into performance.'

Some managers expressed concern that this change would create additional work for them, but this was quickly addressed by Rzepnicki and her team. ‘We did have some reaction along the lines of “This is really complicating things for us – it was so simple when we just had to produce one number,”’ she said.

My response to that was that managers who were doing a great job when delivering an assessment under the PBC scheme were already letting their team members know what was driving that rating – so effectively they were already doing this. And managers who weren’t doing that weren’t really helping their people much at all – so we want them to put in that extra effort. If a manager isn’t able to find the time to do this, then we really need to work on that rather than design something for managers who don’t spend enough time with their people.

Continuous feedback

The amount and type of feedback employees receive have also changed significantly. In the PBC programme, feedback was a very formal process – at mid-year managers were expected to have a conversation with their team members to discuss progress against goals, while at year-end they were required to carry out the annual assessment.

Under Checkpoint, managers are encouraged to give formal feedback to employees at least quarterly – but also to have regular informal conversations with their teams. ‘This is a complete change. Whereas before, the whole year was effectively geared towards that one, end-of-year assessment, under the new programme that end-of-year conversation should really just be a recap of everything that’s been discussed over the last 12 months,’ said Rzepnicki.

‘The other new aspect of the ecosystem is the informal feedback – we want to drive continuous, informal feedback throughout the year. We want to get IBMers to be interested in helping each other – to take notice of others’ performance and feel able to pull each other aside and say “You did a great job there” or “I think it would be so great if you tried this.” Encouraging that continuous feedback, whether peer-to-peer, upward or downward, is really important.’ Rzepnicki added: ‘We have places where that works really well, but there are places where we could do much better.’ Employees are encouraged to consider these five dimensions when defining their goals. ‘We’ve said to IBMers, “When you are defining your goals, you should be able to see these dimensions in all of them,”’ said Rzepnicki.

A goal might encompass three or four of the dimensions, or perhaps just one. But we've told our people 'If you can't see at least one of these dimensions in a goal, you should rethink that goal – and if you don't see how you are going to get skills development into one of your goals, then set a separate goal for that.' The important thing is that people get skills into their goals somehow.

IBM's digital learning marketplace

To support skills development across IBM, the company launched a new digital learning marketplace – entitled 'Your Learning' – for employees alongside the new Checkpoint programme. This provides a portal for accessing training on any digital platform – including mobile devices, such as an iPad. It also tracks the training that each employee completes and recommends additional training using this and other employee data.

'It's part of the IBM cognitive era,' said Altieri.

It's analytics driven. It will say 'People with your background and role have taken this training and done very well with it' – meaning they've completed it and rated it highly. It's going to serve up these educational suggestions to people. And if people don't take the recommended courses, the system will learn from that and serve up something else instead – it has a sense and response loop running in the background... The important thing is, we are not just relaunching performance management in a vacuum... We are trying to facilitate the change the best we can.

Moreover, like Checkpoint, the platform was designed in a collaborative fashion. 'We went out to the workforce with an early version to get their input and we got 700,000 page views and 40,000 employees ended up weighing in with their comments and ideas,' said Altieri.

Guiding the feedback conversation

The five dimensions also provide structure for feedback conversations between managers and their team members. 'We encourage managers to ask their team members what dimensions they think they are doing well on and if there are any dimensions they are struggling to exhibit,' said Rzepnicki. 'They can then discuss their own observations and offer guidance on how they might be able to improve in these areas.'

IBM encourages people to have conversations with each other, to send e-mails or to use their instant messaging system. But an app called ACE – Appreciation, Coaching and Evaluation – has been developed as a dedicated means of providing this kind of informal feedback.

The ACE app enables all IBMers to give feedback to one another instantly, on the spot, at any time. The team launched it at the same time as Checkpoint to try to encourage employees and managers to embrace the informal feedback aspect of the process. ‘It’s completely transparent – you can see who sent you feedback,’ said Altieri.

You can choose whether to share your thoughts with someone’s manager or to just go to them direct. And you can request feedback too – you can send messages to people asking ‘What’s one thing I could have done better in that meeting?’ or ‘How could I have improved that presentation?’

Feedback training

In February 2016, IBM hosted a two-hour, virtual classroom training session for all its managers around the globe to help them understand the new Checkpoint process – and around 26,000 of its 35,000-strong management population completed the course, with many others viewing the replay afterwards.

‘The focus was on the new programme – but it wasn’t intended as a practical guide to using the new tool,’ said Rzepnicki. ‘It was really to say to managers “This is a big cultural shift and this is what it means for you.” It had a big focus on feedback – how to give it, how to receive it and how to make it effective.’

Monitoring the process

Managers and employees are not required to document their quarterly meetings. ‘There is no need to flag that these meetings have happened in the system – people can, but they don’t have to,’ said Rzepnicki. Instead, to ensure that these regular feedback conversations are happening, IBM is running quarterly surveys to ask about feedback quality. Questions may include, for example:

- Have you had effective feedback in the last three months?
- Do you feel like you can give your manager feedback?

The survey provides an overview of how well the process is being followed across the company – and the data can also be broken down to see what is

happening in different countries, for example, or different parts of the business. 'So we are not monitoring the process itself – but we are looking at the impact and the outcomes,' said Rzepnicki.

In addition, the team is going to add some 'quality of feedback' questions to IBM's annual end-of-year engagement survey and use the results to create a dashboard for managers that shows them how well they are doing in this respect. 'Managers who get responses from at least six of their team members will be able to see their results – six responses are required so that the data can be properly anonymized,' said Rzepnicki. 'And the manager's upline manager will also be able to see the dashboard, to help create that accountability and transparency around the process.'

The dashboard will also contain other metrics around the end-of-year assessment. For example, it will show how managers distributed their performance bonuses – did they differentiate heavily or did they spread it fairly evenly across their whole team? 'It will also indicate whether they have employees with active goals during the year,' said Rzepnicki.

If, as a manager, I'm letting people sit there without any goals, that says a lot about my management. So we're really saying 'We're not going to follow up with you and ask if you have had the quarterly conversations – but we are going to be looking at the wider picture and checking that you are achieving the outcomes we want.'

Empowered managers

The Checkpoint programme is designed to give more power to managers. They no longer have to follow distribution guidelines when assessing performance; they are not required to calibrate their assessments with each other; and they have more latitude when it comes to compensation decisions.

'In the past, performance bonuses were tightly aligned to the PBC ratings – which were themselves tightly aligned to business results,' said Rzepnicki.

For example, someone receiving a 1 rating would receive a bonus in a certain range. If managers wanted to go outside this range, they would have to submit a reason to their upline manager and get it approved. Under Checkpoint, managers can use all five dimensions to determine their employee bonuses – business results are a primary factor and the other dimensions are leveraged to differentiate the investment. They have a lot more evidence on which to base their decisions and to differentiate between employees.

A positive start

The Checkpoint programme is still in its infancy, but progress so far has been positive, according to IBM. At the beginning, the focus of Rzepnicki and her team was on ensuring people start setting their goals and begin having regular feedback conversations. ‘I think some people were reluctant to get started with the whole process – to get into the tool and start putting goals in there,’ she said.

Under PBC they had to wait to be told ‘These are what your goals are’ and they sometimes waited for permission to put goals into the system. So we really made a big push right after launch to say ‘You can start this and then align with your manager afterwards.’ We stressed that the tool was interactive and that your goals aren’t frozen once you enter them – you can go back in and change them. So we spent some time early on trying to overcome those barriers.

Progress has been positive though – more than 95 per cent of IBM’s 380,000-strong workforce have now interacted with the system in some way. And Rzepnicki puts much of this success down to the collaborative way in which the programme was designed. ‘The way we started this journey, in such an open and co-creative way, has actually transcended the launch,’ she said.

Because IBMers feel like they are co-owners of Checkpoint – because they contributed so fully to this – when we launched they weren’t complaining and saying ‘Why doesn’t it do X, Y and Z?’ Instead, they already knew what the new process was and could embrace it straightaway.

The culture of openness and collaboration has continued post-launch too. IBM has established an ‘ideation blog’ where employees can post their ideas for how the programme could be improved.

The last word goes to Rzepnicki: ‘I think the programme has actually helped build more of a culture of trust across IBM. We had a lot of sceptics at the beginning, and even halfway through the process – but by the end we could say to them “This wasn’t for show, your ideas truly drove the design.” That trust helps us to operate in a more open, collaborative way in other areas of the business as well.’

THIS PAGE IS INTENTIONALLY LEFT BLANK

AUTHOR INDEX

- Aguinis, H 9, 98
 Ainsworth, E 128, 130
 Alfes, K 171
 Ariyachandra, T R 147
 Arkin, A 97
 Armstrong, K 88, 145
 Armstrong, M 22, 76, 88, 180
 Atkinson, A A 146

 Bailey, C 129
 Bailey, T 11
 Bandura, A 18
 Baron, A 3, 22, 76, 88, 180
 Bartlett, C J 81–82, 95
 Bartol, K M 84–85
 Bates, R A 8
 Becker, B E 152
 Beer, M 150
 Bernadin, H J 9, 45, 95
 Boltizar, S 145
 Borman, W C 10
 Bourne, M 143
 Boxall, P F 11
 Briner, R 75
 Briscoe, D R 185–86, 189
 Brown, D 198, 200–01
 Brown, M 75
 Brown, T C 47–48
 Brumbach, G B 10
 Brutus, S 91
 Buckingham, M 207, 214
 Budworth, M 48, 75, 123–24
 Bunderson, S 164

 Campbell, J P 9–10
 Cappelli, P xi, 1, 121–22
 Cardy, R L 12
 Casey, C 199
 Chambers, T 190
 Clarke, N 172
 Cleveland, J 81, 86
 Clutterbuck, D 135
 Coens, T 2, 12, 13, 149
 Colbert, S 198
 Coleman, T 190

 Coley-Smith, H 154
 Conway, N 45–46, 209
 Corgnet, B 48
 Cummins, T G 150

 Daniels, K 172
 Deming, W E 2, 12
 DeNisi, A S 18, 48, 81, 120
 Dobbins, G H 12
 Donohue, R 191, 19
 Dover, C 158
 Dowling, P J 185
 Dugan, B 158
 Dweck, C 211

 Egan, G 22
 Eidems, J 186
 Elliot, S 154
 Evered, R D 134

 Festing, M 186
 Flaherty, J 149
 Flanagan, J C 92
 Fletcher, C 35, 91, 128–29
 Frisch, M H 130
 Frolick, M 147

 Garcia, G 98
 Garland, J 188
 Geringer, J 186
 Gheorghe, C 141–42
 Gjerde, K A 154
 Gladwell, M 12
 Goodhall, A 207, 214
 Gray, A 120
 Gray, D A 136
 Gregersen, H B 189
 Grint, K 2
 Gross, S E 164
 Gruman, J A 170, 176
 Guest, D E 45–46, 171, 209

 Hack, J 141–42
 Hackman, J R 172–73
 Hallbom, T 135

- Hamlin, R G 137
 Handley, C 129
 Handy, C 110
 Handy, L 1286
 Harkin, B 48
 Harkins, S G 48
 Harrington-Mackin, D 165–66
 Harrison, R 10–11
 Hazlett, S-A 199
 Hoffer, J 105
 Holton, E F 8
 Hughes, S B 154
 Hull, C 19
 Hunter, J E 47
 Huselid, M A 152
- Jaeger, A 48
 Jawahr, I M 90–91
 Jenkins, M 2, 12, 13, 44, 149
 Jones, P 164
 Jones, T W 13
 Jozwia, G 204–05
- Kahn, W A 171
 Kane, J S 9, 95
 Kaplan, R S 67, 68, 143, 158
 Katzenbach, J 163
 Kendall, L M 93
 Kessler, I 183–84
 Kinley, N 1, 212
 Kleingeld, A 48
 Kluger, A N 18, 48, 77, 120
 Kochanski, J 47
 Kramer, J A 156
 Kuvaas, B 175
- Latham, G P 17, 47–48, 49, 94, 95
 Lawler, E E 59, 63, 98, 150
 Lee, C D 20, 90, 119
 Lee, I 191, 192
 Lindbom, D 136–37
 Linna A 75–76
 Locke, E A 17
 London, M 119, 170, 172
- Macey, W H 171, 172, 175
 MacLeod, D 172
 Mani, B 76
 Maurer, T 131
 McAdam, R 199
 McCloy, R A 11
 McDermott, M 150
- McDonald, D 46–47
 McGregor, D 2, 79–80
 Megginson, D 135
 Meisler, A 97, 98
 Mendenhall, M 192–93
 Mesmer-Magnus J 48–49
 Miller, E 12
 Mone, E M 170, 172
 Morgan, A 130
 Motowidlo, S J 10
 Moullin, M 147
 Mount, M K 91
 Murlis, H 3, 75
 Murphy, K R 81, 86
- Nadler, D A 13
 Neely, A 146–47, 154–55
 Nir, D 77
 Nisen, M 215
 Norton, D P 67, 68, 143, 158
- Oddou, G 192–93
 Oldman, G R 172–73
 O'Malley, M 98
- Pfeffer, J 97
 Pinto, L H 191
 Pollack, D 129
 Pollack, L 129
 Pritchard, A 149
 Pritchard, R D 18, 81
 Pudelko, M 186
 Pulakos, E D 35, 49, 90, 197–98
 Purcell, J 11, 163, 171, 183–84
- Quinn, F J 154
- Rayton, B 171
 Reilly, P 76, 186
 Rice, A 12
 Risher, H 45, 110, 170
 Roberts, E R 86–87
 Robertson, D 17
 Robinson, D 80, 114, 172, 229
 Rock, D 105, 210
 Rodgers, R 47
 Rowe, K 100
- Saffie-Robertson, M C 91
 Saks, A M 170, 176
 Schaffer, R H 109
 Schneider, B 175

- Scullen, S E 91
Selman, J C 134
Shen, J 186
Shields, J 20, 68
Shih, H-A 153
Silverman, M 91, 129
Sink, D S 142
Smith, A 46–47
Smith, D 163
Smith, P C 93
Sparrow, P 197
Stiles, P 189–90
Stoskopf, G A 35
Strebler, M T 26, 91
Sutcliffe, K M 164
Sutton, R I 97

Tahvanainen, M 193
Tavis, A xi, 1, 121–22
Tayeb, M H 186
Tushman, M 13
Tuttle, T C 142

Van Den Berghe, L 20
VerWeir, K 20
Viswesvaran, C 48–49
Vroom, V 11, 18

Ward, A 88, 145
Ward, P 124
Warr, P 128, 130
Warrenton-Smith, A 135
West, M 49
Wexley, K N 94
Wherry, R J 81–82, 95
Wiley, J 171
Williams, C R 90–91
Williams, T 186
Wolff, C 109, 110
Woodruffe, C 134
Worley, C G 150
Wortzel-Hoffman, N 145

Yaping, G 164

SUBJECT INDEX

- Accenture 213–14
- Adobe 212–13
- AMO model of performance 11–12
- analysing performance, *see* performance analysis
- analytical performance narratives 100–01
- appraisal, *see* performance appraisal
- appraisal and feedback 128–29
- assessing performance, *see* performance assessment
- balanced scorecard 56, 67–69, 158
- behavioural objectives 60
- behavioural observation scales 94–95
- behaviourally anchored rating scales (BARS) 93–94
- bundling and performance management 8
- business performance management systems 147–48
- capability procedure 114–16
- CEMEX 36
- Centrica 36
- challenging conversations, handling of 113–14
- Chartered Institute of Personnel and Development Management (CIPD) 1, 47–48, 77, 134, 199–200, 201–02
- check-ins 121
- coaching
 - approach to 134–35
 - defined 133–34
 - process of 134
 - skills 135–36
 - techniques 134
- competency-based scales 96
- control theory 18
- Corporate leadership Council 198–99
- critical-incident technique 92–93
- critical success factors 56
- dashboards 158–59
- Deloitte 214
- development planning 63–64
- DHL 37
- engagement, *see* employee engagement
- employee engagement and performance management
 - contribution of performance management 172–76
 - employee engagement defined 170–71
 - enablers of engagement 172
 - importance of 171–72
- employee relations climate and performance 14–15
- e-reward 20–21, 43, 69, 81, 131, 189, 202, 209, 211–21
- ethical principles of performance management 23–24
- European Foundation for Quality Management (EFQM) 156
- evidence-based performance management 26, 118
- expectancy theory 18
- feedback
 - constructive feedback 122–23
 - continuous feedback 121–122
 - defined 117–18
 - feedforward interview 123–24
 - guidelines on providing feedback 120–21
 - and learning 64
 - nature of 118
 - 180-degree feedback 124–25
 - and reinforcement theory 19
 - 360-degree 124–31
 - and underperformers 111
 - use of 119
- Feedback Project 125
- feedforward interview 123–24
- forced distribution 87–88
- forced ranking 2, 87–89, 97–98, 206
- Gap Inc 215
- General Electric 122, 215–16
- goal theory 17
- goals, *see* objectives
- graphic rating scales 92

- HalifaxBOS 38
- handling challenging conversations 113–14
- high performance culture, development of 151–52
- high performance work systems 152–53
- HR and performance management 200, 202–03,
- human capital management 150–51
- IBM 216–17, 233–49
- impact of performance management
 - conclusions on impact 49–50
 - establishing the impact 44–45
 - evidence of the impact on individual performance 47–49
 - evidence of the impact on organizational performance 45–47
 - how performance management is expected to improve performance 43–44
 - potential impact 8
- Institute for Employment Studies (IES) 200–01, 208, 221
- Institute of Personnel Management (IPM) 46
- international performance management
 - approaches to 187–90
 - convergence and divergence 185–86
 - for expatriates 191–93
 - and line managers 188
 - in practice 189–91
 - rating problems 189
 - in subsidiaries of multinationals 185, 189
- key performance indicators (KPIs) 56, 157
- key result areas (KRAs) 57–59, 60
- learning objectives 60
- line managers and performance management 203, 209
- Lloyds Banking Group 64–65, 69
- management, *see* top management
- managers, *see* line managers
- managing organizational performance
 - business performance management systems 147–48
 - defined 141
 - overall approach to 142
 - process of 141–42
 - strategic approach to 143–45
 - managing performance 8
 - managing team performance
 - definition of a team 163
 - factors affecting team performance 163–64
 - reviewing the performance of individual team members 168–69
 - setting process objectives 167
 - setting team performance objectives 166–67
 - team competencies 164
 - team performance management processes 166
 - team performance measures 165–66
 - team performance reviews 167–68
 - teams and performance 163–64
 - managing performance throughout the year 31
 - managing underperformance 109–16
 - measuring performance
 - approach to 154–55
 - balanced scorecard 158
 - dashboards 158–59
 - defined 153–54
 - developing measures 160
 - key performance indicators 56, 157
 - scorecards 157–58
 - significance of 154
 - types of measures 155–57
 - Microsoft 62–63, 99, 217–18
 - monitoring performance 31–32
 - multi-source feedback 124 *see also* 360-degree feedback
 - narrative assessment 99–100
 - neuroscience 210–11
 - objectives
 - alternative to 62
 - criteria for 61–62
 - defined 59, 60
 - issues 205–06
 - as part of a performance agreement 31
 - SMART objectives 56, 61–62, 206
 - targets 60
 - objective setting 61–62
 - 180-degree feedback 124
 - organization culture and performance 14
 - organization structure and performance 14
 - organizational capability 149–50
 - organizational development 150
 - organizational performance management, *see* managing organizational performance

- performance
 - AMO model 11–12
 - as behaviour 9–10
 - factors affecting performance 10–17
 - individual factors affecting performance 11–12
 - input-process-output-outcome model 12
 - measurement 8, 153–60
 - as a multidimensional construct 8
 - as outcomes 9
 - systems factors 12–13
 - and teams 163–64
 - underpinning theory 17–19
- performance agreement, *see* performance and development agreement
- performance analysis
 - conducting 80
 - defined 79
 - emphasis on
- performance appraisal 2–3, 79
- performance assessment
 - analytical performance narratives 100–01
 - behavioural observation scales 84–85
 - behaviourally anchored rating scales 83–84
 - competency-based scales 86
 - conclusions 104–06
 - critical-incident technique 82–83
 - defined 81
 - forced ranking 87–89
 - graphic rating scales 82
 - narrative assessment 89–100
 - ranking 86–87
 - rating 81–91
 - results-based scales 85–86
 - visual methods of assessment 101–04
- performance and development agreements
 - defined 30–31, 55
 - defining roles 56–59
 - development planning 63–65
 - setting objectives 59–63
 - the traditional approach 55–56
- performance and development planning 30–31
- performance improvement plan 68
- performance management
 - aims of 19–22
 - approaches to 24–25
 - arguments for 25–26
 - complexity of 203
 - conceptual framework of 8–19
 - defined xi, 7–8
 - ethical principles of 23–24
 - evaluation of 209–10
 - evidence-based performance management 26, 118
 - forms 203–04
 - and form-filling 200
 - how well is performance management working? 198–202
 - and HR 200, 203,
 - ideal concept of 1
 - impact of 43–50
 - implementation of 209
 - international 185–93
 - as a model 34
 - models 33, 35–41
 - monitoring performance 31–32
 - and neuroscience 210–11
 - objectives 205–06
 - and pay 183–84
 - performance and development
 - planning 30–31
 - and performance-related pay 207–08
 - principles of 22–23
 - putting performance management right 211–18
 - reality of 34–35
 - reinventing performance management 221–30
 - requirements for success 26–29
 - reviewing performance management 33
 - revolution 1
 - what's wrong with performance management? 197–98
 - why does performance management fail? 202–10
- performance management systems
 - arguments for 25–26
 - broken nature of 1
 - defined 30
 - monitoring performance 31–32
 - performance and development
 - planning 30–31
 - performance management cycle 31
 - performance management sequence 32
 - reality of 34–35
 - reviewing performance 33
- performance measures, *see* measuring performance
- performance objectives, *see* objectives
- performance pay, *see* performance-related pay

- performance planning 30–31
- performance prism 146–47
- performance rating, *see* rating
- performance-related pay 179, 180–83, 207–08
- performance reviews
 - abolition of 205
 - complexity of 204
 - conducting 71–75
 - defined 33, 70
 - method 71
 - problems with 75–77
 - purposes 33, 70–71
 - strength-based reviews 77
 - what can be done about them? 77–78
- performance standards 60
- performance targets 60
- personal development plans 56
- Pfizer Inc 38
- poor performance, *see* underperformance
- procedural justice 184
- process 12
- psychological contract 19
- rank and yank 97
- ranking 96–97
- rating
 - abolition of 2, 206
 - achieving accuracy 86–87
 - achieving consistency 87
 - arguments for and against 89–91
 - attacks on 3
 - conclusions on 91
 - defined 81
 - forced distribution 87–88
 - forced ranking 2, 87–89, 97–98, 206
 - levels 84–86
 - and performance pay 182–83
 - scales 82–84
 - theory of 81–82
- Raytheon 38
- reinforcement theory 19
- reinventing performance management
 - analysis of possible new arrangements 222, 224–26
 - approach to 223
 - areas for 222
 - assessment of current arrangements 222
 - developing the skills required 226
 - practical advice 226–29
 - programme 222
 - radical way ahead 229–30
- results-based performance appraisal 95–96
- reviewing performance 33
- reward and performance management 179–84
- role defined 56
- role profile 56
- Royal College of Nursing 39
- scorecards 157–58
- self-efficacy theory 19
- setting objectives, *see* objective setting
- Sibson 200
- SMART objectives 56, 61–62
- social learning theory 19
- Society for Human Resource Management 201
- stack ranking 97–99
- Standard Chartered Bank 40, 190
- strength-based performance reviews 77
- talent management 208
- targets 60
- team performance management, *see* managing team performance
- 360-degree feedback
 - advantages and disadvantages 131
 - and appraisal 128–29
 - defined 124
 - effectiveness of 129–31
 - incidence of 131
 - methodology 126–28
 - purpose 124
 - rationale for 125
 - use of 126
- top management 208
- Towers Watson 201
- underperformance, management of
 - approaches to 110–11
 - basic steps 110–12
 - capability procedure 114–16
 - challenging conversations, handling of 113–14
 - the problem 109–10
- upward feedback 124
- visual methods of performance assessment 101–04
- WorldatWork 200

- performance planning 30–31
- performance prism 146–47
- performance rating, *see* rating
- performance-related pay 179, 180–83, 207–08
- performance reviews
 - abolition of 205
 - complexity of 204
 - conducting 71–75
 - defined 33, 70
 - method 71
 - problems with 75–77
 - purposes 33, 70–71
 - strength-based reviews 77
 - what can be done about them? 77–78
- performance standards 60
- performance targets 60
- personal development plans 56
- Pfizer Inc 38
- poor performance, *see* underperformance
- procedural justice 184
- process 12
- psychological contract 19
- rank and yank 97
- ranking 96–97
- rating
 - abolition of 2, 206
 - achieving accuracy 86–87
 - achieving consistency 87
 - arguments for and against 89–91
 - attacks on 3
 - conclusions on 91
 - defined 81
 - forced distribution 87–88
 - forced ranking 2, 87–89, 97–98, 206
 - levels 84–86
 - and performance pay 182–83
 - scales 82–84
 - theory of 81–82
- Raytheon 38
- reinforcement theory 19
- reinventing performance management
 - analysis of possible new arrangements 222, 224–26
 - approach to 223
 - areas for 222
 - assessment of current arrangements 222
 - developing the skills required 226
 - practical advice 226–29
 - programme 222
 - radical way ahead 229–30
- results-based performance appraisal 95–96
- reviewing performance 33
- reward and performance management 179–84
- role defined 56
- role profile 56
- Royal College of Nursing 39
- scorecards 157–58
- self-efficacy theory 19
- setting objectives, *see* objective setting
- Sibson 200
- SMART objectives 56, 61–62
- social learning theory 19
- Society for Human Resource Management 201
- stack ranking 97–99
- Standard Chartered Bank 40, 190
- strength-based performance reviews 77
- talent management 208
- targets 60
- team performance management, *see* managing team performance
- 360-degree feedback
 - advantages and disadvantages 131
 - and appraisal 128–29
 - defined 124
 - effectiveness of 129–31
 - incidence of 131
 - methodology 126–28
 - purpose 124
 - rationale for 125
 - use of 126
- top management 208
- Towers Watson 201
- underperformance, management of
 - approaches to 110–11
 - basic steps 110–12
 - capability procedure 114–16
 - challenging conversations, handling of 113–14
 - the problem 109–10
- upward feedback 124
- visual methods of performance assessment 101–04
- WorldatWork 200