



Part VII

Performance management

Performance management processes have become prominent in recent years as means of providing a more integrated and continuous approach to the management of performance than was provided by previous isolated and often inadequate merit rating or performance appraisal schemes. Performance management is based on the principle of management by agreement or contract rather than management by command. It emphasizes development and the initiation of self-managed learning plans as well as the integration of individual and corporate objectives. It can, in fact, play a major role in providing for an integrated and coherent range of human resource management processes which are mutually supportive and contribute as a whole to improving organizational effectiveness.

In this part, Chapter 32 covers the fundamental concepts of performance management. The practice of performance management is described in Chapter 33 and the part is completed in Chapter 34 by a review of the process of 360-degree feedback as a multi-source method of assessing performance.

The basis of performance management

In this chapter the nature, aims, characteristics, concerns and guiding principles of performance management are described. In addition, the differences between performance appraisal and performance management are examined and reference is made to the views of a selection of practitioners on performance management.

PERFORMANCE MANAGEMENT DEFINED

Performance management can be defined as a systematic process for improving organizational performance by developing the performance of individuals and teams. It is a means of getting better results by understanding and managing performance within an agreed framework of planned goals, standards and competency requirements. Processes exist for establishing shared understanding about what is to be achieved, and for managing and developing people in a way that increases the probability that it *will* be achieved in the short and longer term. It focuses people on doing the right things by clarifying their goals. It is owned and driven by line management.

AIMS OF PERFORMANCE MANAGEMENT

The overall aim of performance management is to establish a high performance culture in which individuals and teams take responsibility for the continuous improvement of business processes and for their own skills and contributions within a framework provided by effective leadership.

Specifically, performance management is about aligning individual objectives to organizational objectives and ensuring that individuals uphold corporate core values. It provides for expectations to be defined and agreed in terms of role responsibilities and accountabilities (expected to do), skills (expected to have) and behaviours (expected to be). The aim is 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. Importantly, performance management is concerned with ensuring that the support and guidance people need to develop and improve are readily available.

The following are the aims of performance management as expressed by a variety of organizations (source IRS, 2003):

- Empowering, motivating and rewarding employees to do their best. *Armstrong World Industries*
- Focusing employee's tasks on the right things and doing them right. Aligning everyone's individual goals to the goals of the organization. *Eli Lilly & Co*
- Proactively managing and resourcing performance against agreed accountabilities and objectives. *ICI Paints*
- The process and behaviours by which managers manage the performance of their people to deliver a high-achieving organization. *Standard Chartered Bank*
- Maximizing the potential of individuals and teams to benefit themselves and the organization, focusing on achievement of their objectives. *West Bromwich Building Society*

CHARACTERISTICS OF PERFORMANCE MANAGEMENT

Performance management is a planned process of which the primary elements are agreement, measurement, feedback, positive reinforcement and dialogue. It is concerned with measuring outputs in the shape of delivered performance compared with expectations expressed as objectives. In this respect, it focuses on targets, standards and performance measures or indicators. It is based on the agreement of role requirements, objectives and performance improvement and personal development plans. It provides the setting for ongoing dialogues about performance that involves

the joint and continuing review of achievements against objectives, requirements and plans.

But it is also concerned with inputs and values. The inputs are the knowledge, skills and behaviours required to produce the expected results. Developmental needs are identified by defining these requirements and assessing the extent to which the expected levels of performance have been achieved through the effective use of knowledge and skills and through appropriate behaviour that upholds core values.

Performance management is a continuous and flexible process, which involves managers and those whom they manage acting as partners within a framework that sets out how they can best work together to achieve the required results. It is based on the principle of management by contract and agreement rather than management by command. It relies on consensus and co-operation rather than control or coercion.

Performance management focuses on future performance planning and improvement rather than on retrospective performance appraisal. It functions as a continuous and evolutionary process, in which performance improves over time. It provides the basis for regular and frequent dialogues between managers and individuals about performance and development needs. It is mainly concerned with individual performance but it can also be applied to teams. The emphasis is on development, although performance management is an important part of the reward system through the provision of feedback and recognition and the identification of opportunities for growth. It may be associated with performance or contribution-related pay, but its developmental aspects are much more important.

UNDERSTANDING PERFORMANCE MANAGEMENT

There are five issues that need to be considered to obtain a full understanding of performance management:

1. the meaning of performance;
2. the significance of values;
3. the meaning of alignment;
4. managing expectations;
5. the significance of discretionary behaviour.

The meaning of performance

Performance is often defined simply in output terms – the achievement of quantified

objectives. But performance is a matter not only of what people achieve but how they achieve it. *The Oxford English Dictionary* confirms this by including the phrase 'carrying out' in its definition of performance: 'The accomplishment, execution, carrying out, working out of anything ordered or undertaken.' High performance results from appropriate behaviour, especially discretionary behaviour, and the effective use of the required knowledge, skills and competencies. Performance management must examine how results are attained because this provides the information necessary to consider what needs to be done to improve those results.

The concept of performance has been expressed by Brumbrach (1988) as follows:

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.

This definition of performance leads to the conclusion that when managing performance both inputs (behaviour) and outputs (results) need to be considered. It is not a question of simply considering the achievement of targets, as used to happen in 'management by objectives' schemes. Competency factors need to be included in the process. This is the so-called 'mixed model' of performance management, which covers the achievement of expected levels of competence as well as objective setting and review.

Performance management and values

Performance is about upholding the values of the organization – 'living the values' (an approach to which much importance is attached at Standard Chartered Bank). This is an aspect of behaviour but it focuses on what people do to realize core values such as concern for quality, concern for people, concern for equal opportunity and operating ethically. It means converting espoused values into values in use: ensuring that the rhetoric becomes reality.

The meaning of alignment

One of the most fundamental purposes of performance management is to align individual and organizational objectives. This means that everything people do at work leads to outcomes that further the achievement of organizational goals. This purpose was well expressed by Fletcher (1993), who wrote:

The real concept of performance management is associated with an approach to creating a shared vision of the purpose and aims of the organization, helping each employee understand and recognize their part in contributing to them, and in so doing, manage and enhance the performance of both individuals and the organization.

Alignment can be attained by a cascading process so that objectives flow down from the top and at each level team or individual objectives are defined in the light of higher-level goals. But it should also be a bottom-up process, individuals and teams being given the opportunity to formulate their own goals within the framework provided by the defined overall purpose, strategy and values of the organization. Objectives should be *agreed* not set, and this agreement should be reached through the open dialogues that take place between managers and individuals throughout the year. In other words, this needs to be seen as a partnership in which responsibility is shared and mutual expectations are defined.

Managing expectations

Performance management is essentially about the management of expectations. It creates a shared understanding of what is required to improve performance and how this will be achieved by clarifying and agreeing what people are expected to do and how they are expected to behave. It uses these agreements as the basis for measurement and review, and the preparation of plans for performance improvement and development.

Performance management and discretionary behaviour

Performance management is concerned with the encouragement of productive discretionary behaviour. As defined by Purcell and his team at Bath University, School of Management (2003): 'Discretionary behaviour refers to the choices that people make about how they carry out their work and the amount of effort, care, innovation and productive behaviour they display.' Purcell and his team, while researching the relationship between HR practice and business performance, noted that 'the experience of success seen in performance outcomes helps reinforce positive attitudes'.

GUIDING PRINCIPLES OF PERFORMANCE MANAGEMENT

Egan (1995) proposes the following guiding principles for performance management:

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.

PERFORMANCE APPRAISAL AND PERFORMANCE MANAGEMENT

It is sometimes assumed that performance appraisal is the same thing as performance management. But there are significant differences. Performance appraisal can be defined as the formal assessment and rating of individuals by their managers at, usually, an annual review meeting. In contrast, performance management is a continuous and much wider, more comprehensive and more natural process of management that clarifies mutual expectations, emphasizes the support role of managers who are expected to act as coaches rather than judges, and focuses on the future.

Performance appraisal has been discredited because too often it has been operated as a top-down and largely bureaucratic system owned by the HR department rather than by line managers. It has been perceived by many commentators such as Townley (1989) as solely a means of exercising managerial control. Performance appraisal tended to be backward looking, concentrating on what had gone wrong, rather than looking forward to future development needs. Performance appraisal schemes existed in isolation. There was little or no link between them and the needs of the business. Line managers have frequently rejected performance appraisal schemes as being time-consuming and irrelevant. Employees have resented the superficial nature with which appraisals have been conducted by managers who lack the skills required, tend to be biased and are simply going through the motions. As Armstrong and Murlis (1998) assert, performance appraisal too often degenerated into 'a dishonest annual ritual'. The differences between them as summed up by Armstrong and Baron (2004) are set out in Table 32.1.

VIEWS ON PERFORMANCE MANAGEMENT

The research conducted by the CIPD in 2003 (Armstrong and Baron, 2004) elicited the following views from practitioners about performance management:

Table 32.1 Performance appraisal compared with performance management

Performance appraisal	Performance management
Top-down assessment	Joint process through dialogue
Annual appraisal meeting	Continuous review with one or more formal reviews
Use of ratings	Ratings less common
Monolithic system	Flexible process
Focus on quantified objectives	Focus on values and behaviours as well as objectives
Often linked to pay	Less likely to be a direct link to pay
Bureaucratic – complex paperwork	Documentation kept to a minimum
Owned by the HR department	Owned by line managers

- We expect line managers to recognize it (performance management) as a useful contribution to the management of their teams rather than a chore. (*Centrica*)
- Managing performance is about coaching, guiding, 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. (*Halifax BOS*)
- Performance management is designed to ensure that what we do is guided by our values and is relevant to the purposes of the organization. (*Scottish Parliament*)

The research conducted by the CIPD in 1997 (Armstrong and Baron, 1998) obtained the following additional views from practitioners about performance management:

- A management tool which helps managers to manage.
- 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.
- It's about how we manage people – it's not a system.

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- Performance management is what managers do: a natural process of management.
- 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.

The processes of performance management are described in the next chapter.