38 The Process of Performance Management

Key concepts and terms

- Control theory
- Objectives
- Performance management
- Social cognitive theory
- Goal theory
- Performance appraisal
- Personal development planning
- SMART objectives

Learning outcomes

On completing this chapter you will know about:

- Objectives of performance management
- The performance management cycle
- Types of objectives
- Managing performance throughout the year
- Rating performance
- Introducing performance management
- Characteristics of performance management
- Performance and development agreements
- Performance planning
- Reviewing performance
- Dealing with under-performers
- Line managers and performance management

Introduction

Performance management is an important HRM process that provides the basis for improving and developing performance and is part of the reward system in its most general sense. This chapter starts by defining performance management and discussing its objectives, characteristics and underpinning theories. It continues with a description of the performance management cycle and its three constituents: performance agreement, managing performance continuously, and reviewing and assessing performance. Finally, the chapter deals with managing under-performers, introducing performance management and the role of line managers.

Performance management defined

Performance management is 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. As Weiss and Hartle (1997) commented, performance management is: 'A process for establishing a shared understanding about what is to be achieved and how it is to be achieved, and an approach to managing people that increases the probability of achieving success.'

The main concerns of performance management

Performance management is concerned with:

- aligning individual objectives to organizational objectives and encouraging individuals to uphold corporate core values;
- enabling 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);
- providing opportunities for individuals to identify their own goals and develop their skills and competencies.

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 or after a review meeting. It 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. As Armstrong and Murlis (1998) asserted, performance appraisal too often degenerated into 'a dishonest annual ritual'.

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.

Objectives of performance management

The overall objective of performance management 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. Performance management provides the basis for self-development but importantly, it is also about ensuring that the support and guidance people need to develop and improve is readily available.

SOURCE REVIEW

Performance management objectives – respondents to the 2005 e-reward survey

- Align individual and organizational objectives – 64 per cent.
- Improve organizational performance – 63 per cent.
- Improve individual performance – 46 per cent.
- Provide the basis for personal development – 37 per cent.
- Develop a performance culture – 32 per cent.
- Inform contribution/performance pay decisions – 21 per cent.

The following is a typical statement of objectives from one respondent to the e-reward 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.'

Characteristics of performance management

Performance management is a planned process of which the five primary elements are agreement, measurement, feedback, positive reinforcement and dialogue. It is concerned with measuring outcomes in the shape of delivered performance compared with expectations expressed as objectives (management by 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, which involves the joint and continuing review of achievements against objectives, requirements and plans.

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 not just a top-down process in which managers tell their subordinates what they think about them, set objectives and institute performance improvement plans. It is not something that is done *to* people. As Buchner (2007) emphasizes, performance management should be something that is done *for* people and in partnership with them.

Performance management is a continuous and flexible process that 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 cooperation rather than control or coercion.

Performance management focuses on future performance planning and improvement and personal development rather than on retrospective performance appraisal (Armstrong, 2006). 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 based on feedback and self-assessment. 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.

Underpinning theories

The following three theories underpinning performance management have been identified by Buchner (2007).

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 objectives against which performance can be measured and managed.

Control theory

Control theory focuses attention on feedback as a means of shaping behaviour. As people receive feedback on their behaviour 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.

Social cognitive theory

Social cognitive theory was developed by Bandura (1986). It is based on his central concept of self-efficacy. This suggests that what people believe they can or cannot do powerfully impacts on their performance. Developing and strengthening positive self-belief in employees is therefore an important performance management objective.

The performance management cycle

Performance management takes the form of a continuous self-renewing cycle, as illustrated in Figure 38.1 and described below.

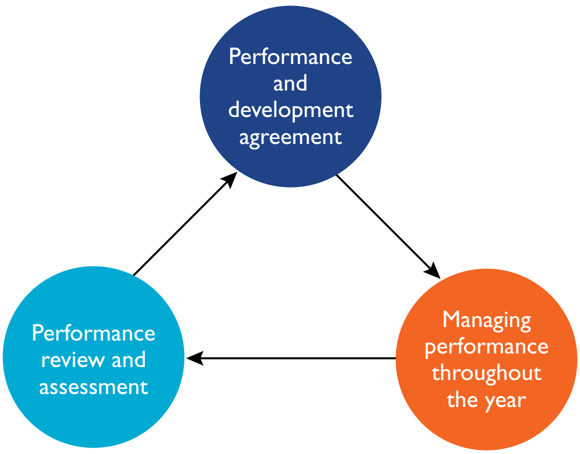

Figure 38.1 The performance management cycle

Performance and development agreements

Performance and development agreements form the basis for development, assessment and feedback in the performance management process. They define expectations in the form of a role profile, which sets out role requirements in terms of key result areas and the competencies required for effective performance. The role profile provides the basis for agreeing objectives and methods of measuring performance and assessing the level of competency reached. The performance agreement incorporates any performance improvement plans that may be necessary and a personal development plan. It describes what individuals are expected to do but also indicates what support they will receive from their manager.

Performance agreements emerge from the analysis of role requirements and the performance review. An assessment of past performance leads to an analysis of future requirements. The two processes can take place at the same meeting.

Defining role requirements

The foundation for performance management is a role profile, which defines the role in terms of the key results expected, what role holders need to know and be able to do (technical competencies), and how they are expected to behave in terms of behavioural competencies and upholding the organization's core values. Role profiles need to be updated every time a formal performance agreement is developed. Guidelines on preparing role profiles and an example are given in Chapter 26.

Objectives

Objectives or goals describe something that has to be accomplished. Objectives setting that results in an agreement on what the role holder has to achieve is an important part of the performance management processes of defining and managing expectations and forms the point of reference for performance reviews.

Types of objectives

- Ongoing role or work objectives – all roles have built-in objectives that may be expressed as key result areas in a role profile.
- Targets – these define the quantifiable results to be attained as measured in such terms as output, throughput, income, sales, levels of service delivery and cost reduction.
- Tasks/projects – objectives can be set for the completion of tasks or projects by a specified date or to achieve an interim result.

- Behavioural – behavioural expectations are often set out generally in competency frameworks but they may also be defined individually under the framework headings. Competency frameworks may deal with areas of behaviour associated with core values, for example teamwork, but they often convert the aspirations contained in value statements into more specific examples of desirable and undesirable behaviour, which can help in planning and reviewing performance.

Criteria for objectives

Many organizations use the following SMART mnemonic to summarize the criteria for objectives:

S = Specific/stretching – clear, unambiguous, straightforward, understandable and challenging.
M = Measurable – quantity, quality, time, money.
A = Achievable – challenging but within the reach of a competent and committed person.
R = Relevant – relevant to the objectives of the organization so that the goal of the individual is aligned to corporate goals.
T = Time framed – to be completed within an agreed timescale.

Measuring performance in achieving objectives

Measurement is an important concept in performance management. It is the basis for providing and generating feedback, it identifies where things are going well to provide the foundations for building further success, and it indicates where things are not going so well, so that corrective action can be taken.

Measuring performance is relatively easy for those who are responsible for achieving quantified targets, for example sales. It is more difficult in the case of knowledge workers, for example scientists. But this difficulty is alleviated if a distinction is made between the two forms of results – outputs and outcomes. An output is a result that can be measured quantifiably, while an outcome is a visible effect that is the result of effort but cannot necessarily be measured in quantified terms.

There are components in all jobs that are difficult to measure quantifiably as outputs, but all jobs produce outcomes even if they are not quantified. It is therefore often necessary to measure performance by reference to what outcomes have been attained in comparison with what outcomes were expected, and the outcomes may be expressed in qualitative terms as a standard or level of competency to be attained. That is why it is important when agreeing objectives to answer the question, 'How will we know that this objective has been achieved?' The answer needs to be expressed in the form, 'Because such and such will have happened.' The 'such and such' will be defined either as outputs in such forms as meeting or exceeding a quantified target, completing a project or task satisfactorily (what is 'satisfactory' having been defined), or as outcomes in such forms as reaching an agreed standard of performance, or delivering an agreed level of service.

However, when assessing performance it is also necessary to consider inputs in the shape of the degree of knowledge and skill attained and behaviour that is demonstrably in line with the standards set out in competency frameworks and statements of core values. Behaviour cannot be measured quantitatively but it can be assessed against definitions of what constitutes good and not so good behaviour, and the evidence that can be used to make that assessment can be identified.

Performance planning

The performance planning part of the performance management sequence involves agreement between the manager and the individual on what the latter needs to do to achieve objectives, raise standards, improve performance and develop the required competencies. It also establishes priorities – the key aspects of the job to which attention has to be given. The aim is to ensure that the meaning of the objectives, performance standards and competencies as they apply to everyday work is understood. They are the basis for converting aims into action.

Agreement is also reached at this stage on how performance will be measured and the evidence that will be used to establish levels of competence. It is important that these measures and evidence requirements should be identified and fully agreed now because they will be used by individuals as well as managers to monitor and demonstrate achievements.

Personal development planning

A personal development plan provides a learning action plan for which individuals are responsible with the support of their managers and the organization. It may include formal training but, more importantly, it will incorporate a wider set of learning and development activities such as self-managed learning, coaching, mentoring, project work, job enlargement and job enrichment. If multi-source assessment (360-degree feedback) is practised in the organization this will be used to discuss development needs.

The development plan records the actions agreed to improve performance and to develop knowledge, skills and capabilities. It is likely to focus on development in the current job – to improve the ability to perform it well and also, importantly, to enable individuals to take on wider responsibilities, extending their capacity to undertake a broader role. This plan therefore contributes to the achievement of a policy of continuous development that is predicated on the belief that everyone is capable of learning more and doing better in their jobs. The plan will also contribute to enhancing the potential of individuals to carry out higher-level jobs.

Managing performance throughout the year

Perhaps one of the most important concepts of performance management is that it is a continuous process that reflects normal good management practices of setting direction, monitoring and measuring performance and taking action accordingly. Performance management should not be imposed on managers as something 'special' they have to do. It should instead be treated as a natural function that all good managers carry out.

This approach contrasts with that used in conventional performance appraisal systems, which were usually built around an annual event, the formal review, which tended to dwell on the past. This was carried out at the behest of the personnel department, often perfunctorily, and then forgotten. Managers proceeded to manage without any further reference to the outcome of the review and the appraisal form was buried in the personnel record system.

To ensure that a performance management culture is built and maintained, performance management has to have the active support and encouragement of top management who must make it clear that it is regarded as a vital means of achieving sustained organizational success. They must emphasize that performance management is what managers are expected to do and that their performance as managers will be measured by reference to the extent to which they do it conscientiously and well. Importantly, the rhetoric supporting performance management must be converted into reality by the deeds as well as the words of the people who have the ultimate responsibility for running the business.

The sequence of performance management activities as described in this chapter does no more than provide a framework within which managers, individuals and teams work together in whatever ways best suit them to gain better understanding of what is to be done, how it is to be done and what has been achieved. This framework and the philosophy that supports it can form the basis for training newly appointed or would-be managers in this key area of their responsibilities. It can also help in improving the performance of managers who are not up to standard in this respect.

A formal, often annual, review is still an important part of a performance management framework but it is not the most important part. Equal, if not more, prominence is given to the performance agreement and the continuous process of performance management.

Reviewing performance

Although performance management is a continuous process it is still necessary to have a formal review once or twice a year. This provides a focal point for the consideration of key performance and development issues. The performance review meeting is the means through which the five primary performance management elements of agreement, measurement, feedback, positive reinforcement and dialogue can be put to good use. It leads to the completion of the performance management cycle by informing performance and development agreements. It involves some form of assessment, as considered in the next section of this chapter.

The review should be rooted in the reality of the individual's performance. It is concrete, not abstract and it allows managers and individuals to take a positive look together at how performance can become better in the future and how any problems in meeting performance standards and achieving objectives can be resolved. Individuals should be encouraged to assess their own performance and become active agents for change in improving their results. Managers should be encouraged to adopt their proper enabling role; coaching and providing support and guidance.

There should be no surprises in a formal review if performance issues have been dealt with as they should have been – as they arise during the year. Traditional appraisals are often no more than an analysis of where those involved are now, and where they have come from. This static and historical approach is not what performance management is about. The true role of performance management is to look forward to what needs to be done by people to achieve the purpose of the job, to meet new challenges, to make even better use of their knowledge, skills and abilities, to develop their capabilities by establishing a self-managed learning agenda and to reach agreement on any areas where performance needs to be improved and how that improvement should take place. This process also helps managers to improve their ability to lead, guide and develop the individuals and teams for whom they are responsible.

The most common practice has traditionally been to have one annual review, which was the practice of 44 per cent of the respondents to the 2008 IRS survey (Wolff, 2008). But twice-yearly reviews are becoming more common (39 per cent of the IRS respondents). These reviews lead directly into the conclusion of a performance agreement (at the same meeting or later). It can be argued that formal reviews are unnecessary and that it is better to conduct informal reviews as part of normal good management practice to be carried out as and when required. Such informal reviews are valuable as part of the continuing process of performance management (managing performance throughout the year, as discussed in the previous chapter). But there is everything to be said for an annual or half-yearly review that sums up the conclusions reached at earlier reviews and provides a firm foundation for a new performance agreement and a framework for reviewing performance informally, whenever appropriate.

Criteria for reviewing performance

The criteria for reviewing performance should be balanced between:

- achievements in relation to objectives;
- the level of knowledge and skills possessed and applied (competences or technical competencies);

- behaviour in the job as it affects performance (competencies);
- the degree to which behaviour upholds the core values of the organization;
- day-to-day effectiveness.

The criteria should not be limited to a few quantified objectives as has often been the case in traditional appraisal schemes. In many cases the most important consideration will be the job holders' day-to-day effectiveness in meeting the continuing performance standards associated with their key tasks. It may not be possible to agree meaningful new quantified targets for some jobs every year. Equal attention needs to be given to the behaviour that has produced the results as to the results themselves.

Conducting a performance review meeting

There are 12 golden rules for conducting performance review meetings.

1. *Be prepared.* Managers should prepare by referring to a list of agreed objectives 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.

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 before getting into any detail.

4. *Provide good feedback.* Individuals need to know how they are getting on. Feedback should be based on factual evidence. It refers to results, events, critical incidents and significant behaviours that have affected performance in specific ways. The feedback should be presented in a manner that enables individuals to recognize and accept its factual nature – it should be a description of what has happened, not a judgement. Positive feedback should be given on the things that the individual did well in addition to areas for improvement. People are more likely to work at improving their performance and developing their skills if they feel empowered by the process.

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. Ask questions such as those given below.

Self-assessment questions

- How well do you feel you have done?
- What do you feel are your strengths?
- What do you like most/least about your job?
- Why do you think that project went well?
- Why do you think you didn't meet that target?

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.
11. *Don't deliver unexpected criticisms.* There should be no surprises. The discussion should only be concerned with events or behaviours that 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 golden rules may sound straightforward and obvious enough but they will only function properly in a culture that supports this type of approach. This emphasizes the importance of getting and keeping top management support and the need to take special care in developing and introducing the system and in training managers and their staff.

Assessing performance

Most performance management schemes include some form of rating, which is usually carried out during or after a performance review meeting. The rating indicates the quality of performance or competence achieved or displayed by an employee by selecting the level on a scale 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 inform performance or contribution pay decisions, or simply to produce an instant summary for the record of how well or not so well someone is doing.

The rationale for rating

There are four arguments for rating:

1. It recognizes the fact that we all form an overall view of the performance of the people who work for us and that it makes sense to express that view explicitly against a framework of reference rather than hiding it. Managers can thus be held to account for the ratings they make and be required to justify them.
2. It is useful to sum up judgements about people – indicating who are the exceptional performers or under-performers and who are the reliable core performers so that action can be taken (developmental or some form of reward).
3. It is impossible to have performance or contribution pay without ratings – there has to be a method that relates the size of an award to the level of individual achievement. However, many organizations with contribution or performance pay do not include ratings as part of the performance management process – 23 per cent of the respondents to the e-reward 2005 survey.
4. It conveys a clear message to people on how they are doing and can motivate them to improve performance if they seek an answer to the question, 'What do I have to do to get a higher rating next time?'

Types of rating scales

Rating scales can be defined alphabetically (a, b, c, etc), or numerically (1, 2, 3, etc). Initials (ex for excellent, etc) are sometimes used in an attempt to disguise the hierarchical nature of the scale. The alphabetical or numerical points 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 that 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.

The e-reward 2005 survey of performance management found that overall ratings were used by 70 per cent of respondents, and the most popular number of levels was five (43 per cent of respondents). However, some organizations are settling for three levels. There is no evidence that any single approach is clearly much superior to another, although the greater the number of levels the more is being asked of managers in the shape of discriminatory judgement. It does, however, seem to be preferable for level definitions to be positive rather than negative and for them to provide as much guidance as possible on the choice of ratings. It is equally important to ensure that level definitions are compatible with the culture of the organization and that close attention is given to ensuring that managers use them as consistently as possible.

Problems with rating

Ratings are largely subjective and it is difficult to achieve consistency between the ratings given by different managers (ways of achieving consistent judgements are discussed below). 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 over-simplification of what may be a complex set of factors influencing that performance – to do this after a detailed discussion of strengths and weaknesses suggests that the rating will be a superficial and arbitrary judgement. To label people as 'average' or 'below average', or whatever equivalent terms are used, is 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, which is all-important. This is particularly the case if the rating governs performance or contribution pay increases.

Achieving consistency in ratings

The problem with rating scales is that it is very difficult, if not impossible without very careful management, to ensure that a consistent approach is adopted by managers responsible for rating, and this means that performance or contribution pay decisions will be suspect. It is almost inevitable that some people will be more generous, while others will be harder on their staff. Some managers may be inconsistent in the distribution of ratings to their staff because they are indulging in favouritism or prejudice.

Ratings can, of course, be monitored and challenged if their distribution is significantly out of line, and computer-based systems have been introduced for this purpose in some organizations. But many managers want to do the best for their staff, either because they genuinely believe that they are better or because they are trying to curry favour. It can be difficult in these circumstances to challenge them. The basic methods for increasing consistency described below are training, calibration and monitoring. More draconian methods of achieving consistency, also described below, are forced distribution and forced ranking.

Training

Training can take place in the form of '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.

Calibration (peer reviews)

Groups of managers meet to review the pattern of each other's ratings and challenge unusual decisions or distributions. This process of calibration or peer reviews 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.

Monitoring

The distribution of ratings is monitored by a central department, usually HR, which challenges any unusual patterns and identifies and questions what appear to be unwarrantable differences between departments' ratings.

Forced distribution

Forced distribution means that managers have to conform to a laid down distribution of ratings between different levels. The pattern of distribution may correspond to the normal curve of distribution that has been observed to apply to IQ scores, although there is no evidence that performance in an organization is distributed normally – there are so many other factors at work such as recruitment and development practices. A typical normal distribution of ratings is: A=5 per cent, B = 15 per cent C = 60 per cent, D = 15 per cent and E = 5 per cent. This is similar to the academic practice of 'rating on the curve', which distributes grades in accordance with the distribution represented by the normal or bell-shaped curve.

Forced distribution achieves consistency of a sort, but managers and staff rightly resent being forced into this sort of straightjacket. Only 8 per cent of the respondents to the CIPD 2004 performance management survey (Armstrong and Baron, 2004) used forced distribution.

Forced ranking

Forced ranking is a development of forced distribution. It is sometimes called the 'vitality curve'. It is more common in the United States than in the UK. Managers are required to place their staff in order from best to worst. Rankings can be generated directly from the assignment of employees to categories (eg A, B and C) or indirectly through the transformation of performance ratings into groups of employees. The problem with forced ranking, as with forced distribution and other overall rating 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. If used at all, ranks must be accompanied by meaningful performance data.

Some organizations, mainly in the United States, have gone as far as adopting the practice of terminating annually the employment of 5 to 10 per cent of the consistently lowest performers. It is claimed that this practice 'raises the bar', ie it is said that it improves the overall level of performance in the business. There is no evidence that this is the case.

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 38.2. A 'snapshot' is thus provided of the individual's overall contribution that is presented visually and as such provides a better basis for analysis and discussion than a mechanistic rating. The assessment of contribution refers to outputs and to behaviours, attitudes and overall approach.

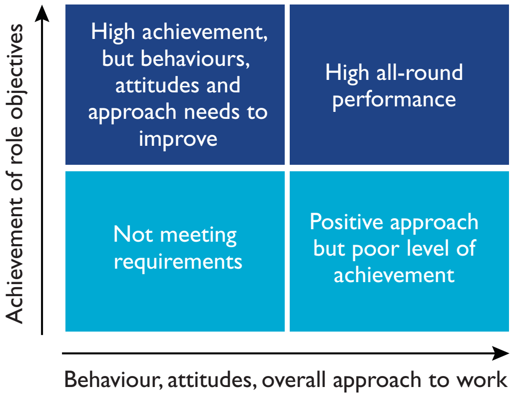

Figure 38.2 Performance matrix

The review guidelines accompanying the matrix are as follows.

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 not be treated as an indication of development needs and not as a reflection on the individual's performance.

Conclusions on ratings

Many organizations retain ratings because they perceive that the advantages outweigh the disadvantages. But organizations that want to emphasize the developmental aspect of performance management and play down, even eliminate, the performance pay element, will be convinced by the objections to rating and will dispense with them altogether, relying instead on overall analysis and assessment.

Dealing with under-performers

The improvement of performance is a fundamental part of the continuous process of performance management. The aim should be the positive one of maximizing high performance, although this involves taking steps to deal with under-performance. When managing under-performers remember the advice given by Handy (1989), which was that this should be about 'applauding success and forgiving failure'. He suggests 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, note should be made of the following comments by Risher (2003): '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.'

Managing under-performers is therefore 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. The five basic steps required to manage under-performers are as follows:

1. *Identify and agree the problem*. Analyse the 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 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 be trying crudely 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 external to the job and outside the control of either the manager or the individual. Any factors that 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 the individual:

- did not receive adequate support or guidance from his or her manager;
- did not fully understand what he or 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:

   - the individual taking steps to improve skills or change behaviour;
   - the individual changing attitudes – the challenge 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;
   - the manager providing more support or guidance;
   - the manager and the individual working jointly to clarify expectations;
   - the manager and the individual working jointly to develop abilities and skills – this is a partnership in the sense that individuals will be expected to take steps to develop themselves but managers can give help as required in the form of coaching, training and providing additional experience.

   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.

Introducing performance management

The programme for introducing performance management should take into account the fact that one of the main reasons why it fails is that either line managers are not interested, or they don't have the skills, or both. It is important to get buy-in from top management so that their leadership can encourage line managers to play their part. To ensure buy-in, the process has to be simple (not too much paper) and managers have to be convinced that the time they spend will pay off in terms of improved performance. The demanding skills of concluding performance agreements, setting objectives, assessing performance, giving feedback and coaching need to be developed by formal training supplemented by coaching and the use of mentors.

Excellent practical advice on introducing performance management or making substantial changes to an existing scheme was given by the respondents to the e-reward 2005 survey. Comments in the form of dos and don'ts are set out below in the order of frequency with which they were mentioned.

Introducing performance management – dos and don'ts

Do:

- consult/involve;
- communicate (process and benefits);
- align and ensure relevance to organizational/business/stakeholder needs;
- get ownership from line managers;
- monitor and evaluate;
- plan and prepare carefully;
- run a pilot scheme;
- treat as a business process;
- define performance expectations;
- get buy-in from senior management;
- keep it simple;
- ensure clear purpose and processes;
- align to culture;
- align with other HR processes;
- clarify link to reward;
- be realistic about the scale and pace of change;
- make the process mandatory.

Don't:

- just make it a form-filling, paper-intensive exercise;
- make it too complicated;

- rush in a new system;
- keep changing the system;
- link to pay;
- neglect communication, consultation and training;
- provide training;
- underestimate the time it takes to introduce;
- assume managers have the skills required;
- blindly follow others;
- assume that everyone wants it.

Examples of comments

- You can never do enough training/coaching of both staff and line managers. You can never do too much communication on the new changes.
- Ensure the process is seen as a business one not an HR process.
- Keep it simple and concentrate on the quality going into the process rather than the design of the process itself (although the design must be appropriate to the organization).
- Engage all managers in why it is important and ensure that they have the necessary understanding and skills to carry out the process. Get buy-in and tailor it to the specific needs of the organization. Get the support of key stakeholders, such as the union, from the start, and get them to work with you to sell the scheme. Agree the overall objectives and guiding principles with all concerned. Keep employees informed and ensure the message is consistent throughout.
- Understand clearly why you are doing it and the desired objectives. Engage others in design of the scheme. Communicate purpose, etc clearly.
- Don't expect that staff will leap for joy at the prospect of another way they would see of criticizing them in their job. Start your change management process where you think the staff are, not where you've assumed they are.
- Don't assume that what seems obvious and logical to you, as an HR manager, will also seem logical to other managers and staff. Don't get caught up in HR-speak and become precious about the differences between 'performance management' and 'appraisals' or between a 'personal development/learning plan' and a 'training plan'. As HR professionals we may be able to eloquently argue the subtle differences and merits of each – for most people the distinction is absolutely meaningless!
- Don't just make it a form-filling exercise – you need to gain the belief from managers that the system is beneficial otherwise it won't work.

- Don't put in a lengthy complicated process – it will become a chore to do rather than a meaningful exercise.
- Don't make HR own the initiative – it is a business improvement model and one which the business needs to manage.
- Don't assume that managers have the requisite skills to manage performance fairly and equitably, embark upon such an initiative without clear goals and without the support of respected key players in the organization, set the wheels in motion until extensive briefings/training have been completed.
- Don't underestimate the amount of work involved!
- Don't expect it to work quickly. It takes a few years to embed performance management in the organization's ethos.

Line managers and performance management

Line managers are crucial to the success of performance management, but there are problems. The e-reward 2005 survey of performance management established that the top four issues concerning respondents about their performance management processes were:

1. Line managers do not have the skills required – 88 per cent.
2. Line managers do not discriminate sufficiently when assessing performance – 84 per cent.
3. Line managers are not committed to performance management – 75 per cent.
4. Line managers are reluctant to conduct performance management reviews – 74 per cent.

When asked how they coped with these problems, respondents emphasized the importance of doing the following.

Gaining the commitment of line managers and enhancing their skills

- Involve line managers in the development and introduction of performance management.
- Train and coach line managers – existing managers and, importantly, potential and newly appointed managers.
- Getting top management to stress the importance they attach to performance management – by example as well as exhortation.

- Keep it simple – do not impose a bureaucratic system.
- Emphasize whenever possible that performance management is a normal process of management and that one of the criteria for assessing the performance of managers is how well they do it.
- Do whatever can be done to persuade line managers that formal performance reviews need not be stressful occasions if they are conducted properly but can in fact provide 'quality time' for the two parties to engage in a dialogue about performance and development opportunities (eliminating formal ratings helps).

The process of performance management – key learning points

Objectives of performance management

The overall objective of performance management 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. Performance management provides the basis for self-development but, importantly, it is also about ensuring that the support and guidance people need to develop and improve is readily available.

Characteristics of performance management

Performance management is a planned process of which the five primary elements are agreement, measurement, feedback, positive reinforcement and dialogue.

The performance management cycle

Performance management takes the form of a continuous self-renewing cycle: performance and development agreement; managing performance throughout the year; and performance review and assessment.

Performance and development agreements

Performance and development agreements form the basis for development, assessment and feedback in the performance management process. They define expectations in the form of a role profile, which sets out role requirements in terms of key result areas and the competencies required for effective performance. The role profile provides the basis for agreeing objectives and methods of measuring performance and assessing the level of competency reached. The performance agreement incorporates any performance improvement plans that may be necessary and a personal development plan.

Types of objectives

- Ongoing role or work.

The process of performance management – key learning points (continued)

- Tasks/projects.
- Behavioural.

Performance planning

The performance planning part of the performance management sequence involves agreement between the manager and the individual on what the latter needs to do to achieve objectives, raise standards, improve performance and develop the required competencies.

Managing performance throughout the year

Performance management is a continuous process that reflects normal good management practices of setting direction, monitoring and measuring performance and taking action accordingly.

Reviewing performance

Although performance management is a continuous process it is still necessary to have a formal review once or twice a year. This provides a focal point for the consideration of key performance and development issues.

Rating performance

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

Dealing with under-performers

Managing under-performers is a positive process 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.

Introducing performance management

The programme for introducing performance management should take into account the fact that one of the main reasons it fails is that either line managers are not interested, or they don't have the skills, or both. It is important to get buy-in from top management so that their leadership can encourage line managers to play their part.

Line managers and performance management

Line managers are crucial to the success of performance management. But there can be problems with their commitment and skills and it is necessary to involve them in developing the process, provide training and guidance, gain top management support, keep the process simple, emphasize that performance reviews provide for quality time with their staff and need not be stressful if conducted properly.

Questions

1. David Guest wrote in 1987 that, 'Performance management has a poor record of success, and the temptation is to engage in a spiral of control in an attempt to extract more effort and ever higher performance from employees through policies and practices that may succeed only in further de-motivating and which are, thereby, ultimately self-defeating.' To what extent is this true today? Justify your answer by reference to experience in your organization and recent research.
2. From your chief executive: 'About your proposal that we should introduce a performance management system. I thought we already had a performance appraisal system, so what's the difference and why is performance management better?' Reply.
3. Comment on the following conclusions about performance management reached by Latham *et al* (2007): 'The answers required to move the field of performance management forward are much less straightforward than the questions. We know a great deal more about ways to manage the performance of an individual than about ways to manage a team. We know what to observe and how to observe an individual objectively. We are at a loss as to how to overcome political considerations that lead people not to do so. Advances in knowledge have been made with regard to technology that managers embrace to assist in the appraisal process, and that in the eyes of employees, their managers misuse. We know that making decisions is inherent in performance management, yet solutions to decision-making errors remain a mystery. Great strides in this domain include recognition that ongoing performance management is more effective than an annual appraisal in bringing about a positive change in an employee's behaviour, and that context must be taken into account in doing so.'
4. From the managing director to the HR director: 'We went to all that time and trouble (and cost) last year to introduce your all-singing and all-dancing performance management system but what I am hearing is that with a few notable exceptions our line managers are either not capable of doing it properly or are not inclined to do it or both. What are you going to do about it?' Draft your reply.

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