What is performance management?

01

In January 2009, the UK slipped into a recession for the first time since 1991. For organizations in a wide range of sectors, the last few years have proved to be extremely challenging times. More than ever the effective management of performance at an organization, team and individual level has been vital not only for organization success, but for survival. The 'State of HR Survey 2013' conducted by King's College London and the law firm Speechly Bircham cited performance management as the top priority for HR in 2013. Driving performance, and getting the best out of what is quite likely to be a reduced number of employees, is a key challenge for many organizations today.

This book will explore the key aspects of managing performance and identify how performance management can best be used to support organizations in achievement of their goals. It is not intended to provide an academic research focus for performance management. Instead it is intended to equip the reader with a sound, practical grasp of the practice of managing performance in organizations today. The chapters contain a range of examples and activities such as diagnostic questionnaires, reflection and action planning, to enable the reader to take the learning and apply it to his/her work experiences. As an HR director who moved into the academic word of lecturing, I absolutely recognize the importance and value of research, but I also understand the importance of using that research appropriately and effectively to enable us to better manage people in organizations and encourage the performance that organizations require in order to reach their goals and fulfil their missions.

This first chapter aims to explore the concept of performance management in general terms. To begin our journey we need to first identify what is meant by the term. This is not necessarily a straightforward task, as performance management covers a wide range of activities and its exact nature will often vary between organizations.

Defining performance management

Performance management is made up of many activities that when managed holistically can lead to effective people management. The particular challenge of providing a clear, comprehensive definition of performance management is that it covers such a breadth of activities. It is also difficult to define precisely as the nature of performance management will and should vary according to the organization context. The sector, structure, size, culture, strategy and leadership of the organization will all influence the nature of performance management. One of the most often used definitions is that of Armstrong (2009): 'Performance Management is a systematic process for improving organizational performance by developing the performance of individuals and teams.' One of the reasons this definition has proved so popular is because at its heart is the crucial issue of the link between the performance of an organization's human resources and the achievement of organization goals. 'Alignment' is a key ingredient in successful performance management systems: the alignment of an individual's performance to the goals of the organization.

A senior director I worked with in the advertising industry once told me that he regarded effective performance management as having an invisible thread linking the organization's mission statement to the performance objectives of the individual – and that image has stayed with me both in my practice as an HR professional and when teaching human resource management (HRM) to others. I firmly believe that the core principle of everyone working for an organization having a clear understanding of how they contribute to the mission, vision and goals of the organization is an important one. There is a real benefit to the organization of having all the people who work for it focused on the right things to add value. There are also clear benefits for the employees of that invisible thread being in place. For example, the intrinsic satisfaction of feeling significant, understanding their contribution and ultimately feeling valued by the organization – that invisible thread helps to deliver that understanding and those feelings. Unfortunately, in many organizations that connection between the organization's goals and individual contribution is either weak or missing altogether; this has the potential to impact detrimentally on both the performance of the individual and that of the organization.

A good starting point for a definition of performance management might be to consider what is meant by the term 'performance'. Historically the emphasis has been very much on output or results. Management by objectives was very popular in the 1970s, but fell out of favour during the 1990s as it drifted into over-bureaucratization and focused on the quantifiable whilst neglecting the more qualitative elements of performance. Whilst achievement of objectives and outputs remains a key deliverable for performance management, organizations today are also increasingly concerned with the 'inputs', the behaviours, 'how people carry out their jobs'. This is reflected in Brumbach's (1998: 265) definition of performance: 'performance means both behaviours and results... Not just the instruments for results, behaviours are also outcomes in their own right.' In an economy where knowledge and service are key, competitive advantage comes not only through results, but through the behaviours people demonstrate when carrying out their roles. If we are to encourage effective performance in our workplaces we need to focus not only on what people do, but how they do it (the role of competencies will be explored in more detail in Chapter 6).

The historical context

To understand performance management today it is helpful to consider the historical backdrop of approaches to management and organization behaviour. Arguably, the first real sense we get of a formalization of the management of performance comes with F W Taylor (1856–1917) and the scientific school of management. Taylor believed that effective performance would come from a very structured approach to the design of work, with workers having very specific tasks to complete, with specific targets to reach and clearly identified financial reward. Motivation was driven by a simple economic transaction with workers carrying out their roles in the most effective way possible to reach the highest possible wages. Whilst we recognize that managing performance is an activity of much greater complexity today, it is important not to lose sight of the fact that there are many working relationships that are reliant on the delivery of a basic transaction for effective performance.

The Human Relations School led to a much greater focus on social factors at work and on the behaviour of employees within an organization. Rather than just focusing on the rational, the complexity of humans – their psychological and social needs – were recognized as important factors in organization performance. The famous Hawthorne Experiments conducted in the late 1920s at the Western Electric Company, near Chicago, highlighted the importance of human relationships in the workplace. In one experiment, referred to as the bank-wiring observation room, a group of men were offered a financial incentive to earn more money based on greater productivity. In the world of Taylor we would have expected to see a rise in performance levels as a result of this incentive; however, this did not happen. Group pressure was exerted to ensure performance levels were not increased. The power of so-called 'group norms' was exerted. These experiments generated new ideas relating to managing performance, particularly the importance of informal work groups, but also the vital role of managers in motivation and performance management.

Despite the impact of the Human Relations School, most early formal performance monitoring systems evolved from Taylorism. In the 1800s there were stick systems in some factories, where at the end of the day the supervisor would place a coloured stick by the work bench of the worker to indicate how they had performed during that session; for example, blue for good, yellow for satisfactory and black for poor, indicating that your services might not be called for the next shift! I am hoping things have moved on a little since then! Merit rating was popular in the United States and the UK in the 1950s and 1960s and involved an assessment of performance based on a tick-box rating scheme against particular qualities or traits. There is a strong sense here of a 'school report' approach, the individual being judged by a superior. Whilst the trend has been away from such an approach in recent times, Armstrong (2009) argues that some of the competency rating schemes used today 'look suspiciously like some of the traits identified 70 years or more ago'.

Management by objectives (MBO) is an important stage in the development of performance management. It is a system or style of management that attempts to relate the goals of an organization to the performance of an individual. The following elements form a key part of the MBO process:

- setting of clear objectives and targets;
- the active participation of both individual and managers in the formation and agreement of these targets;
- the regular monitoring and review of performance against targets set;
- a backdrop of meaningful reward to support the process.

Much of today's performance management process can be seen here in MBO. The requirement for clear objectives, agreement and regular review are still a vital part of performance management today. However, after being incredibly popular in the 1960s and 1970s, MBO gradually fell out of favour. The significant factors in the demise of MBO appear to have been the pure focus on the measurable and quantifiable at the expense of the more qualitative aspects of performance, an emphasis on output without consideration of input. Many systems drowned in bureaucracy, with form-filling becoming an end in itself, and a resultant lack of valuable output from the process. MBO in many cases became a top-down form or assessment with little contribution from the individual or consideration of his or her individual needs and aspirations. MBO was targeted mostly at line managers, so other roles within the organization were often not included in a structured performance management system. This was not a performance management process for all employees.

It wasn't until the latter half of the 1980s that performance management as we understand it today became a recognized process. In 1992 the Institute of Personnel Management (IPM) produced the following definition of Performance Management: 'A strategy which relates to every activity of the organization set in the context of its human resources policies, culture, style and communication systems. The nature of the strategy depends on the organizational context and can vary from organization to organization.'

The research conducted by the IPM in 1992 identified that typical performance management processes would include individual objective setting linked to the wider goals of the organization, performance reviews and integration with training development and reward outcomes. Performance management was becoming a much more holistic activity, incorporated a range of HRM activity and was targeted at all employees rather than just managers. Over the last 20 years there has also been a gradual shift away from a judgemental approach to a problem-solving approach with both manager and the individual being active participants in reviewing performance and setting objectives. Direction and feedback remain important processes, however, it is now largely recognized that the individual should be an active participant providing input into the performance management process. Consensus and co-operation have increasingly replaced the concept of control in performance management.

In more recent times two key themes have emerged in the development and enactment of performance management in organizations: 1) the importance of aligning performance activity to strategic goals; 2) the vital role of line managers in implementing performance management and the importance of trust in the relationship between employee and line manager. Alignment will be explored in greater depth in Chapter 3 when we look at the 'fit' between performance management and organization strategy; the role of line managers is considered later in this chapter when we look at who is involved with the performance management process.

Activities of performance management

So, moving to the present day, what are the key activities typically forming part of performance management in organizations? When I ask line managers about the typical activities involved in performance management, generally their first response will be to mention the performance appraisal or review. It is true that for some the term performance management has become synonymous with the performance appraisal or performance review, but this is only a subset of the entire performance management process, a single technique used by many organizations to manage performance.

Typical activities coming under the term 'performance management' include: objective setting, feedback, the performance review/appraisal and development. A 2009 survey by the Chartered Institute of Personnel and Development (CIPD) found that the core activities of performance management were: performance appraisal, objective setting, regular feedback, regular reviews and assessment of development needs. These are certainly the key activities that students consistently tell me represent performance management in their organizations.

Such a range of activities can bring with it some tensions within the performance management process and particularly within the performance appraisal. There are activities that are quite clearly linked to making a judgement about an individual's performance, and others that are focused on development through identification of training needs or career plans. Much debate exists about how well these activities sit alongside each other. The issue is aggravated when judgement is closely aligned to financial reward. Some people will argue that any attempt to separate out a review of performance from any discussion about reward is very difficult to achieve. However, there is little doubt that some employees may be quite guarded

- deliver the performance required;
- are rewarded appropriately (fairly) for their contribution.

In the last bullet point the term 'rewarded' should relate to 'total reward', so non-financial rewards such as recognition and development can form part of this area rather than just a focus purely on the financial transaction.

The IRS (2003) identified a variety of aims for performance management expressed by a variety of organizations:

- Empowering, motivating and rewarding employees to do (and for doing) their best. *Armstrong World Industries Inc*
- Focusing employees' tasks on the right things and doing them right. Aligning everyone's individual goals to the goals of the organization. *Eli Lilly & Co Ltd*
- 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* (as cited in Armstrong, 2006)

At a base level, performance management should at least be ensuring that people clearly understand what is required of them, that they are supported in achieving what is needed and that they are given regular feedback to enable them to continuously improve. Blanchard's *The One Minute Manager* (2011) reflected this very succinctly with his one-minute goals, praise and reprimands. I believe that in any job role there are three key questions an employee needs to have answers to:

- What do you/the organization expect of me?
- How am I doing?
- In the current workplace environment where future employability is key – how can I develop/improve?

Activity

Consider the three questions above in relation to your role in your organization. Write down your responses to the following questions:

- How easy do you find it to provide clear responses to these questions?
- Is your response based on your own perceptions or from concrete information discussed and agreed with your manager?
- If you have struggled to provide effective responses what can be done to enable you to be able to answer the questions effectively?

You may find it helpful to ask some of your colleagues whether they feel they are able to provide clear responses to these questions – and then see if there is a consistency in the responses.

Who is involved with performance management?

The simple answer to this is 'everyone' in your organization and increasingly other stakeholders who may not be part of the organization. A key question to ask is: Who has an interest in the performance of this individual or these individuals? In many organizations today, the manager charged with conducting the performance appraisal of an employee may actually have little day-to-day or face-to-face contact with that employee. The employee may, for example, spend most of his or her time out at a client site and any evaluation of performance might be worthless without the involvement of someone from the client team. Let us consider then, the stakeholders in the performance management process.

I would suggest that the key stakeholders are the senior management team of the organization. Their commitment to and active involvement with performance management is widely identified as a critical success factor in any performance management process. For performance management to be effective, desired behaviours need to be 'role-modelled' by the senior management team if they are to stand any chance of being embedded further down the organization. I have had many discussions with line managers in exploring problems with performance management and they have said to me: 'How can I set objectives for my team when I haven't been set any myself?' This is a totally valid response and places any HR manager in a difficult position in terms of justifying their request. It highlights the problem that lack of commitment at the top of the organization will have significant consequences for commitment elsewhere.

In recent times performance management has shifted from a 'controlling' activity to one of partnership, where employer and employee share responsibility for delivering required levels of performance. The employee has a responsibility to play an active part in developing objectives and identifying the required performance to deliver against those objectives and to strive for continuous improvement. No longer is performance management something that is done to employees – they should be active not passive participants. To be active participants, employees (particularly more junior employees) will need organizational support to ensure they have the confidence and ability to do so.

The line manager has a key role supporting, enabling and creating an environment in which the employer is more likely to be motivated to perform. Performance management is fundamental to this. As with other areas of HRM, over recent times there has been a recognition that people management issues have to be driven and owned by line managers rather than the HR function. The research of Hutchinson and Purcell (2003) has shown the vital role that front-line managers have in people management. Performance management is a key delivery mechanism for line managers to drive performance through strong communication, support, and building trust and respect. Satisfaction with performance management processes, and appraisals in particular, rises significantly when line managers own the process and are truly engaged with it, rather than going through the motions with gritted teeth! In my experience, and those of many HR people I have worked with or taught over the years, the key challenge for HR professionals is getting the line manager on board with the performance management process. Armstrong (2006) summarizes this in a lovely term: 'HR proposes but the line disposes'. If the line managers are not committed to carrying out HRM activities then these activities will struggle to be achieved. This is where being able to identify some clear outputs or value from the performance management process is extremely important. If you were a busy line manager asked to do an appraisal in order only to tick a box, would it really be top of your list of priorities?

So what, then, is the role for HR in performance management? There has been a perception historically that appraisal and performance management are the responsibility of the HR function. In the worst cases HR might be perceived to be in some kind of policing role, just ensuring that appraisals are completed and recorded, but with little thought to any added value. It is now largely agreed that whilst HR have a key role in performance management, it is not the sole responsibility of HR to make it happen.

If we take Ulrich and Brockbank's model of HRM roles (2005) – functional expert, strategic partner, employee advocate, human capital developer and HR leader – as a framework we can explore the role of HR in performance management. First, as functional expert HR can provide the knowledge and expertise of performance management. Using IT effectively to support performance management, HR should be able to advise on efficient and effective policies and procedures. They should then provide an effective framework within which performance can be effectively managed on an ongoing basis.

Second, as employee advocate HR can ensure that the voice of the employees is heard through the performance management processes and that employees are not only given a voice, but are given the support and development to enable them to be confident participants in the performance management process. Also as employee advocate, HR has a role to ensure the procedural and distributive fairness of performance management, which is discussed further at various points in this book. In the employee advocate role, HR can also identify any barriers to encouraging diversity that may exist within the performance management process and work with senior and line managers to remove these barriers.

Third, as strategic partner, HR has a role to work with the senior management team to ensure that performance management supports the strategic goals and values of the organization. This area is discussed in more detail in Chapter 3.

The role of human capital developer goes to the heart of performance management. Both through the design of processes and giving support to line managers and employees, HR has an important role in ensuring that there is a focus on development within performance management, to ensure through training and learning, coaching and career development that the workforce of the organization can develop the skill, knowledge and attitudes required to support the future success of the organization.

Finally, in the role of HR leader it is vital again that good practice in performance management is role-modelled. Some time ago I did some research with a large college of further education in south-east England. The HR director was able to contribute much value by providing a role model for performance management in the organization. She effectively managed the performance of her team, but also coached the senior management team to do the same for the programme managers and curriculum area leaders in the college.

When there needs to be involvement in performance management by individuals outside the organization such as clients, careful consideration needs to be given to how this can work most effectively. It may simply mean gathering feedback from clients on an individual, or it could mean a client undertaking the full appraisal of an individual. Strong communication and support from the organization and HR will be a key underlying requirement here. It is important that there is consistency in approach.

It is important to recognize that all these potential stakeholders in the performance management process may have different perspectives on and interests in the process. For example, your senior management team are likely to be focused on how performance management will be supporting the achievement of organization goals. The line managers are likely to be more concerned with day-to-day operational effectiveness and also dealing with any areas of underperformance. The financial director is likely to be more focused on areas such as reward strategy and its link to performance management, and also on maximizing profitability and limiting costs. The HR department will be concerned with the business requirements for performance management, but also is likely to be concerned with the implementation of good practice and ensuring that there is fairness and consistency of approach across the organization. Individual employees are likely to be focused on their own roles, how they are rewarded, and opportunities to grow and develop. These varying perspectives and interests will create challenges in the formation and implementation of any performance management process. It is important to identify the perspectives and interests of the various stakeholders in the performance management process in order to maximize engagement.

Certainly for many of the organizations I have come into contact with, both of these approaches can be found in existence in the same organization and it may be more of an issue of emphasis.

Another interesting and somewhat controversial approach to performance management is that of a strengths-based approach. This involves performance management focusing on people's strengths rather than on their weaknesses when seeking to improve their performance. Instead of trying to develop areas in which an individual may never be very effective, this approach encourages identifying what people do well and then finding them more opportunities to use the skills and knowledge they have in those areas. I haven't come across many examples of where this has been used in organizations, certainly in its purest form, and would question how practical such an approach would be for many organizations. However, some organizations have found suitable applications for this concept, such as BAE systems (Smedley, 2007).

TABLE 1.1 *continued*

What are the goals of performance management in your organization?
What should the outputs be? What are the criteria for success?
Who is involved in performance management in your organization? Who are the key stakeholders in the process?
To what degree do line managers 'own' the performance management process in your organization?
What approach does your organization take to performance management? For example, is it more standards-orientated or excellence-orientated in nature?
Could a strengths-based approach work in your organization? Justify your response.

This chapter has aimed to equip you with a good understanding of what is meant by performance management and should have enabled you to start to explore performance management within your own organization. To start you thinking about some of the significant themes in performance management, given below is an overview of an interview I conducted with Martin Eves, global HR director of Vertu (conducted in January 2014). Vertu has been recently carved out from Nokia under Martin's leadership, building on his significant merger and acquisition experience gained at Nestlé whilst working at their Swiss head office. Prior to this Martin held senior HR roles in PepsiCo, BOC and Shell International Petroleum. Drawing on his extensive experience in the HR field I asked him what he believed were some of the key factors in delivering effective performance in the workplace. He identified four key areas, as shown here.

The HR director's viewpoint

There is a simple truth that I have witnessed in the organizations that I have worked in: when managers set a clear direction with targets and engages with their work group, the energy that is created is infectious. This is performance management.

Many tools exist to help create and sustain this energy and each employee will respond differently to different stimuli. All tools will have an impact, however only the right choice will create the required change. The choice of tool has to take into consideration the local context – and this is where a 'one-size approach' rarely fits. A manager has received the 'right' to lead and change behaviour; in considering how to improve the performance of his or her employee(s), he or she needs to understand the 'context' by asking why they behave as they do. What value do they bring? How, as part of a team, can that value be enhanced further?

The value of the employee

All employees can add value. Senior managers have been given the responsibility to identify and enhance that value. Although individual development is important, how that employee assimilates with the team and the culture is also a senior manager's responsibility, indeed success here often drives greater performance and results.

Managing expectations

Likewise, the management of expectations will also have a strong impact on employee performance. Through an annual appraisal process a large multinational I worked with had a process that reviewed where an employee was reasonably expected to aspire to in the organization's grading structure. Those with high potential were pulled through the organization by their higher potential rating, accelerating them through the organizational structure. The potential was assessed each year, reconfirming or realigning the employees' rating level. This process had a significant impact on the employees' behaviour: those advised of high potential behaved differently to those who were advised of lower potential. This created a self-fulfilling context and 'managed' the expectations of employees across all functions of the organization.

In isolation, any of these elements badly managed can destroy the foundations of good employee performance management. Taking the time to understand your employees, creating synergy through a shared purpose, having an appreciation for the operational context and professionally managing expectations will ensure a high performance culture.

These themes will be explored in greater depth as you work through this book.

The next chapter will look at why performance management is important and what benefits effective performance management has for organizations. Understanding and communicating the value that effective performance management can bring is essential in gaining commitment to the performance management process.