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# Performance Management

HR Thoroughbred or Beast of Burden?

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## 1. Performance Management in Context

Performance Management (PM) has, for several decades, been a feature of the way many UK large organisations have sought to improve their effectiveness. At its core, PM is a way of aligning the goals of the organisation with the annual objectives of individual employees so that everyone knows what is expected of them and so that managers can support and even reward good performance. While the approaches which these organisations have taken to PM often share common features, one of its more elusive characteristics has been that it is never implemented the same way twice. This has made generalisation about the true nature and effectiveness of PM something of a thankless preoccupation among HR academics and practitioners.

In some ways the heterogeneity of PM in practice is a hopeful sign. Each organisation has differing business goals, structures, cultures and processes, suggesting that a prescriptive, 'best practice' model of PM would be more than likely to fail. The debate over PM typifies the alternative thrust towards the notion of 'best-fit': that over-arching HR-led processes need to be driven by business needs, and shaped by the need for internal integration with existing systems and processes. To work well, PM needs to become a natural part of the way the organisation and its managers operate, rather than a paper-based, bureaucratic system which is widely resented because it is seen as interrupting 'real' work.

There is a consensus that PM needs to be 'owned' by line managers as a mainstream tool which forms part of the fabric of the way they manage, motivate and monitor their teams. Yet, too often, PM is seen as an HR-led process which consumes time and energy for little discernible benefit. Additionally, if PM is used to deliver individual performance pay, it can become the focus of tension and anxiety, or even feelings of inequity or resentment wildly out of proportion compared to the amount of cash on offer – especially during a time of low inflation and austerity. Handled badly, PM can become a binary, HR-administered, annual verdict on each employees contribution. Handled well, PM can be a way of co-producing excellent performance in a supportive and developmental climate where collaboration and a drive for continuous improvement are shared between managers and their direct reports.

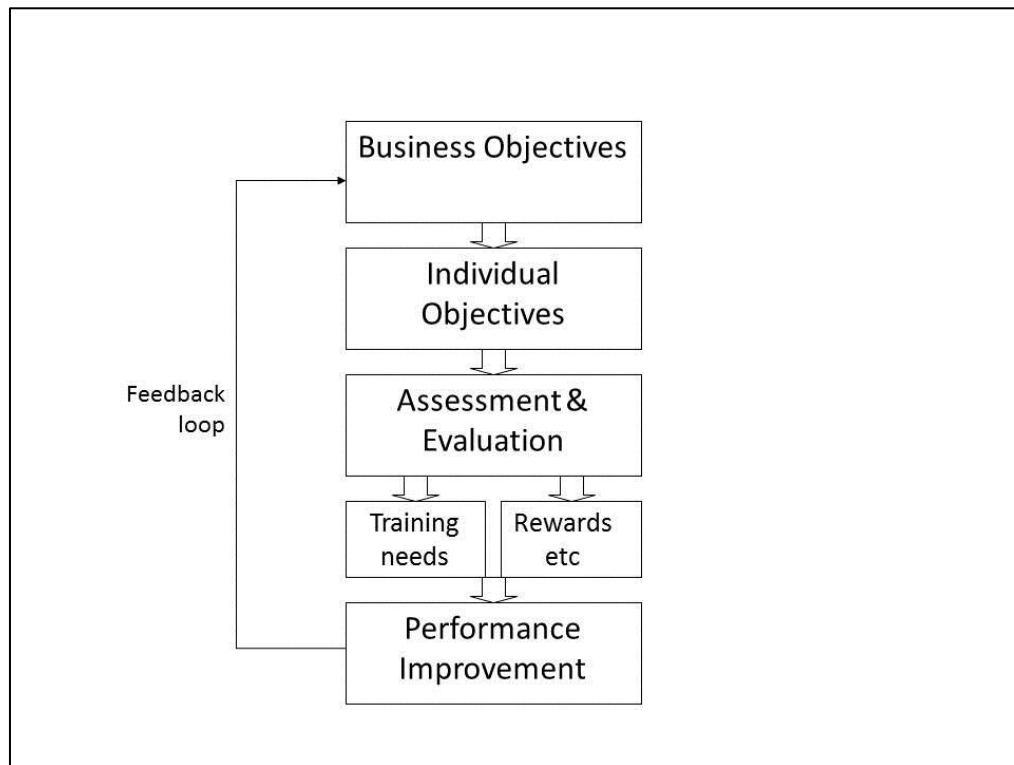
In practice, the effectiveness and utility of PM tends to be as much about its implementation as its design. And therein lies the real challenge.

Private and public sector organisations where PM is part of the managerial landscape are today faced with using PM to drive ever higher levels of performance from employees who, on average, are disengaged from their work, are experiencing higher than normal anxiety about the security of their jobs and who have been subject to lower than trend real wages. Despite the rhetoric from some CEOs about the importance of an engaged workforce, or a workforce which is 'mindful' and psychologically healthy, PM processes are where the often relentless for increased productivity and output meet (or conflict with?) the need among many employees for varied, challenging and rewarding work where they have a voice and feel valued. Sometimes the results are not pretty, which a growing concern that PM is being increasingly used as blunt instrument.

The purpose of this paper is to examine how we can ensure that PM delivers sustainable results for all the stakeholders who participate in this annual ritual dance. It will look at the circumstances where PM has been shown to be successful, and why it so often underperforms. And it will look at the role of HR professionals in the design, administration and evaluation of PM and ask what lessons we can draw about the contemporary role of HR in the post-recession organisation.

We should, perhaps, start with setting out the purpose and characteristics of performance management as it is articulated in the management literature. This is, frankly, easier said than done because there are so many variations in definition. Figure 1 sets out a simple representation of what we might call the 'Performance Management Cycle'.

**Figure 1 Basic Performance Management 'Cycle'**



Source: The Work Foundation, 2014

An important point to make here is that almost every definition reflects the important idea that PM is intended to go significantly **beyond the annual appraisal** interview which managers have with their direct reports. As Aguinis *et al* (2011) suggest in their paper entitled '**Why we hate performance management—And why we should love it**':

*'Despite its importance, performance management is not living up to its promise in most organizations. A major reason for this is that most performance management systems focus almost exclusively on performance appraisal.'*(p507)

The distinguishing difference is that PM attempts to locate the setting of individual objects – and the assessment of progress against these objectives – in the wider context of the organisations goals. This is intended to provide a clear 'line of sight' for the employee which helps them understand where their job fits into the grand scheme of things and how the efforts they make contribute to the greater good. Another important element is that there should be some evaluation (through a feedback loop) of the extent to which performance at individual level has improved and whether this translates into tangible improvements in overall business performance. In general, there is nothing inherent in the concept of PM which prescribes that financial rewards should play a part in either incentivising high performance or acknowledging it once it has happened. Indeed, there is often a rather polarised debate among academics and some practitioners about whether performance-related pay (PRP) has to be a central

component of PM or whether its use has a toxic and distorting effect and that PM should just focus on setting goals, giving feedback and meeting development needs. A recent Work Foundation review of the evidence looking at the effectiveness of PRP in the public sector (Ray, Foley, Tsang et al, 2014) suggests that there are many practical factors which undermine the impact which PRP can have on performance.

In many ways the model set out in Figure1 is an 'ideal' description of the main elements of PM. As with any management process, there can be big differences between design and implementation. Some of the common issues which arise are summarised below.

**Line managers:** as a rule, organisations should avoid designing an approach to PM which is beyond the capability of its line managers to manage effectively. In each of the organisations where The Work Foundation has seen PM working well, the common factor has been high quality line management. This is supported by good training, clear role definition and accountabilities, minimal paperwork, and a deceptively simple 'line of sight', for all staff, between business goals and individual objectives. However, in some organisations managers see their primary role as being about *managing upwards*. On occasions, this emphasis can leave the *managing downwards* part of their role somewhat of a poor relation and managers can see PM as a bureaucratic system with which HR makes them comply.

A 'good' PM system by itself should comprise a robust set of processes which good managers will use well to motivate, involve and direct the efforts of staff. It should also provide a good vehicle for feedback and discussion of training and development needs. PM, however, cannot drive performance improvement by itself. Clarity of purpose, leadership and involvement have to come first — PM is then a useful tool. A key challenge for any organisation is to encourage line managers to see PM as part of their natural, or 'mainstream', approach to directing and motivating performance improvements among staff. In the final analysis, line managers should be **advocates** of PM, not **apologists** for it.

**Integration:** PM rarely works if it is just seen as a 'system'. It is not a mechanical set of procedures which can be managed in a linear and sequential manner. PM has to be a set of processes which the organisation, its managers and its staff embrace and integrate into the way they do business. PM must not, therefore, be episodic in nature. It must be continuous. It must not allow managers to hide behind paperwork. PM must have clear and organic links with a range of other management processes such as development, learning, progression and advancement, competencies, teamworking and communication. If the only conversation an employee ever has about their goals and performance is in an annual appraisal meeting, PM is not working.

**Outcomes of performance review:** if PM ever becomes dominated by pay, many of its wider benefits to the organisation can become twice as difficult to achieve. In these circumstances, PM becomes indistinguishable from performance-related pay (PRP) in the eyes of staff, and PM becomes a 'lightning rod' for a swathe of other staff concerns. Clarity and balance in the outcomes of performance review on the 'reward or develop' axis is essential, therefore.

**Simplicity:** it is common for organisations to give their approaches to PM multiple objectives. This can result in the risk that none are fully satisfied in the attempt to satisfy them all. A serious consequence of 'overloading' can be that staff faith in either the procedural or distributive justice of PM can be severely (or terminally) undermined. This can result in the worst of both worlds: a time-consuming, costly and cumbersome PM process which actually **reduces** employee motivation to perform. Some attempts to implement or redesign PM have tried hard to de-bureaucratise it, opting for minimum paperwork &

maximum flexibility. It is important to be able to demonstrate fairness & consistency (especially if there is a pay link) while emphasising the importance of the process and less the rules of the system.

**Inputs and outputs:** defining the 'what' of objective-setting is easier than defining the 'how'. Some managers will respond positively to being asked to set 'how' objectives, others will avoid doing so unless forced to. When we talk about inputs, it is important to be clear about whether are we talking about how the job is done or about more general behaviours

**The Contracting Principle:** many organisations have a very top-down driven model of objective-setting. This is good for business alignment but can leave little scope for individual adjustment or for the employee to feel they have 'co-produced' their objectives. This makes it hard to get ownership, can make a mockery of any notion of a performance 'contract', and leaves limited scope for addressing personal issues (including 'how' objectives).

To be more specific, the list below represents the list of objectives being used to define and measure the effectiveness of performance management in a large public sector organisation where the Work Foundation was providing advice:

- *'Links personal objectives to business objectives which maintain a focus on outcomes such as service delivery and the needs of the customer'*
- *'Encourages people to seek and accept responsibility'*
- *'Rewards excellence and motivates the best'*
- *'Encourages continuous improvement'*
- *'Helps to confront poor performance and differentiate between staff on the basis of performance'.*

In Table 1, below, we set out the success factors for each of these objectives and the implementation barriers which we found across the organisation to be inhibiting PM from yielding the kinds of results which the HR team originally envisaged.

So, if the design and implementation of performance management is so vulnerable to imperfect execution, is there any hope that it can ever work effectively enough to justify the costs involved in using it? In the next section we look at some of the evidence about how PM can work.

**Table 1 – Performance Management: Characteristics, Success Criteria & Barriers**

Core Characteristic	Success looks like...	Barriers
<p><i>'Links personal objectives to business objectives which maintain a focus on outcomes such as service delivery and the needs of the customer'.</i></p>	<p><i>An approach to PM which does this would support existing and well-established processes of business or operational planning. Through effective communication to all staff of the organisation's mission and values, managers and staff would seek to agree &amp; review, on at least an annual basis, how individual objectives were to be achieved which demonstrably contribute to the operating plan. It is likely that such an approach to PM would use some form of annual performance review or appraisal, though over-reliance on this mechanism should be avoided. Employees and their managers would have a clear 'line of sight' between individual objectives and the broader business goals to which they would be contributing.</i></p>	<ul style="list-style-type: none"> <li>• <i>Absence of a clear operating plan, or poor communication if its content, through line managers, to all staff</i></li> <li>• <i>Objective-setting process which is not based on the 'contracting principle' of joint agreement to performance goals</i></li> <li>• <i>Objective-setting which fails to conform to SMART principles</i></li> <li>• <i>Objectives not reviewed at least once during the year</i></li> <li>• <i>Over bureaucratic and mechanical appraisal systems which line managers fail to embrace as a tool in the process of managing and motivating their staff (over-emphasis on form filling at the cost of dialogue and joint performance planning)</i></li> <li>• <i>Objectives which emphasise activity rather than outcomes</i></li> <li>• <i>Objectives which reinforce internally focused behaviour rather than customer-oriented performance goals</i></li> </ul>
<p><i>'Encourages people to seek and accept responsibility'.</i></p>	<p><i>A clear 'line of sight' will encourage staff to feel that they can, both individually and collectively, genuinely affect business outcomes through their own efforts. These</i></p>	<ul style="list-style-type: none"> <li>• <i>Too wide a perceived gap between an individuals' contribution and eventual business outcomes</i></li> </ul>

	<p><i>efforts will be most efficiently directed with the support of empowering line managers, access to skill development and training opportunities, regular information and constructive feedback on performance, and a culture which is both trusting of individuals and tolerant of innovation and of appropriate risk-taking behaviour.</i></p>	<ul style="list-style-type: none"> <li>• <i>Workload prevents training opportunities being taken up</i></li> <li>• <i>Line managers excessively cautious about allowing staff to take on responsibility (possibly Job Evaluation-related protection of differentials?)</i></li> <li>• <i>Culture intolerant of mistakes and risk-taking</i></li> </ul>
<p><i>'Rewards excellence and motivates the best'.</i></p>	<p><i>An approach to PM which achieves this goal will be based on the clear communication of, and involvement in, work goals and standards by line managers. It will demonstrate through its actions that those staff who achieve high standards are highly valued and will receive a range of both financial and non-financial rewards. These rewards will be of value to eligible staff, and will be distributed on a demonstrably transparent basis.</i></p>	<ul style="list-style-type: none"> <li>• <i>Unclear or ambiguous definition of 'excellence'</i></li> <li>• <i>Excellence interpreted as elitism by staff and as box-marking 'quotas' by line managers</i></li> <li>• <i>Motivation of the few at the expense of demotivation among the many</i></li> <li>• <i>Wasted effort to motivate the self-motivated rather than other staff</i></li> <li>• <i>Financial rewards seen as too small (as % of base pay) to incentivise performance improvement</i></li> <li>• <i>Non-financial rewards under-used and inconsistently applied</i></li> </ul>
<p><i>'Encourages continuous improvement'.</i></p>	<p><i>Here, PM will provide the capacity for year-on-year improvements in effectiveness both at individual and organisation level. This will involve individual objective-setting which builds on previous performance by aiming for performance goals which, while challenging, focus on attainable and sustainable improvements.</i></p>	<ul style="list-style-type: none"> <li>• <i>Staff demotivation at having their performance thresholds relentlessly raised</i></li> <li>• <i>Failure of line managers to energise (rather than coerce) staff to further performance improvement</i></li> </ul>



<p><i>'Helps to confront poor performance and differentiate between staff on the basis of performance'.</i></p>	<p><i>PM in this context will ensure that poor performance is identified early and dealt with (by line managers) through training, role change and other forms of support. It will comprise a remedial stage, during which performance improvement processes will be adopted or, in exceptional circumstances, will invoke existing capability procedures. In order to differentiate between staff on the basis of performance, PM will involve a process of review against a set of objective job criteria, together with a transparent rating or ranking process.</i></p>	<ul style="list-style-type: none"> <li>• <i>Line managers misinterpret PM as a (blunt) instrument of control</i></li> <li>• <i>Line managers seek to use PRP within PM as an approach to manage poor performance</i></li> <li>• <i>Staff perceive line managers using PM to reward favourites and hold back the progress of others</i></li> <li>• <i>Differentiation based on subjective performance criteria, inconsistently applied</i></li> </ul>
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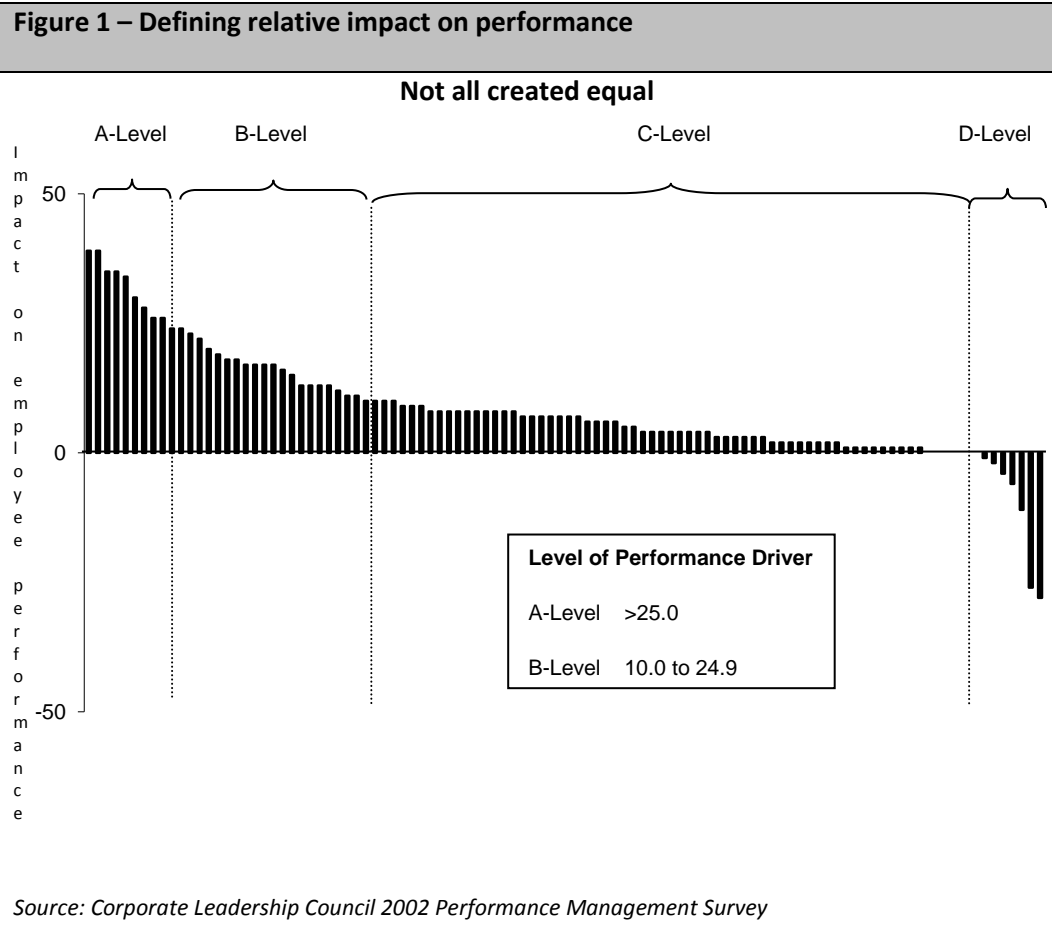
## 2. Performance Management: What Works?

Although there is considerable survey data going back many years (Bevan & Thompson 1991; Armstrong & Baron 2004) which paints a picture of both the type of PM approaches being used across the UK and the attitudes of, primarily, line and HR managers towards them, the PM debate is characterised by a general lack of rigorous evaluation regarding what makes PM work and how it contributes to bottom line performance and that which there is receives insufficient attention. The work of Locke and Latham (1990) is a prime example of this. They showed that, among employees who have clear and unambiguous job performance goals which, despite being stretching, have been jointly agreed and are monitored regularly, the impact on performance readily out-strips that of a rewards-based incentive system. Although studies of the impact of goal setting upon motivation and performance show consistently stronger results than other 'levers' such as pay and leadership behaviour, the organisational 'air time' or 'bandwidth' devoted to creating more motivational goal setting processes is minimal. For the purposes of this paper we will look at four other studies of 'what works'.

### ***The Corporate Leadership Council's 2002 Performance Management Survey***

The data presented in this survey was gathered by a web based survey during May and June of 2002. The sample size, 19,000, was very large by traditional standards and was gathered from employees and managers from 34 organisations across 7 industries and 29 countries. The survey asked employees and managers about nearly all facets of their organisational performance management systems, including manager quality, organisational context, on the job development and training and day-to-day work. Survey data was combined with company supplied data on employees and managers, including most importantly, data on individual performance. The Council analysed this data using structural equation models which estimate the impact of one variable (e.g. frequency of informal feedback) on another variable (e.g. discretionary effort) and how changes in this second variable impact a third (e.g. employee performance). This allowed the Council to isolate the unique impact of each of the 106 performance strategies examined and therefore generate a list of performance drivers in rank order of their impact on individual performance.

The findings make interesting reading. As shown in Fig. 1 below, the first observation that can be made is that not all PM activities carry equal weight in terms of their impact on improving performance. Of the 106 drivers examined, only 9 were found to have more than a 25% impact on performance (making them "A-level" drivers) whilst the vast majority had a benign, passive or even destructive impact.



The highlights of the research findings can be described as follows:

1. Employee understanding of performance standards (an A level driver at 36.1%) was far more influential on performance than the specific features or content of the system itself (e.g. the number of reviews, use of rank ordering, etc.).
2. Risk taking, where employees believe that their organisation has a strong desire for high risk, high return investments and that initial failures don't reflect on their competence, was another 'A' level driver at 38.9%.
3. A culture of internal communication as characterised by good communication between peers, and willingness to share all relevant information and opportunities for junior staff to interact informally with senior management was similarly influential on performance (34.4%).
4. The amount of emphasis employees believe their manager placed on performance strengths in the last formal review was highly influential (+36.4%) and at stark contrast with the impact when the emphasis was perceived to be on performance weakness (-26.8%!).
5. Three of the 'A level' drivers related to the issue of feedback. Fairness and accuracy (at 39.1%, the single most important driver across all 106 factors), managers who are

knowledgeable about employee performance and feedback that helps employees to do their job better (rather than just general praise) were all shown to be highly influential in raising performance.

6. Financial incentives were shown to have a significant impact upon intent to stay (19.1%) and commitment (13.1%) but an almost negligible impact on improving individual performance (2.0%).

### ***Understanding the People and Performance Link, Purcell et al 2003***

Led by Professor John Purcell and a team of researchers at Bath, the aim of this study was to further our understanding of how and why HR practices impact on performance, commonly referred to as the “black box” problem. The study was conducted within a framework which posits that performance is a function of ability, motivation and opportunity (AMO). The study centred on 12 organisations from a wide range of sectors. Extensive interviewing with front line employees took place twice over a two and a half year period in order that changes in attitude could be tracked and a limited amount of performance data gathered.

In common with the findings of the CLC research, Purcell et al (2003) found that the content of HR policies (of which appraisal was one) mattered less than the manner of their implementation. From early on in the research, it was evident that front line management had a critical role to play in terms of implementing and ‘enacting’ HR policies, practices and values. In other words, these managers “bring policies to life” and exercise discretion in the way that they practise good people management in the sense of, say, communicating, solving problems, listening to suggestions, coaching and showing respect. Employees in turn were more likely to go the ‘extra mile’ for the organisation if managers behaved in ways that stimulated and encouraged positive attitudes. Some of the organisations in the study made significant attempts to improve line management behaviour during the course of the research and this was clearly reflected in improved employee attitudes and performance.

### ***Bringing Clarity to Performance Management – Lambert et al (Careers Research Forum) 2003***

This report, written by Andrew Lambert, Adrian Furnham and David Lincoln, was based on the collective experience of the writing team, interviews with independent experts/experienced practitioners and six contrasting case studies of PM in action in large organisations.

The report uses the metaphor of a transport system to illustrate three separate ingredients to maximising the effectiveness of PM:

- The ‘**vehicle**’ that we get into is the core set of PM processes (objective setting, appraisal, reward, etc).
- To get to its destination, the vehicle needs an ‘**infrastructure**’ of roads and support systems (measurement, standards, communication, etc.).
- To power the vehicle towards its destination, it needs ‘**fuel**’ (understanding, capability, fairness, trust, etc.).

Based on their research, the report offers a list of PM priorities that have universal application and provide a definitive list of what to do and not to do. These include:

- understanding how to create and sustain a performance culture is more important than the detailed design of a PM system;
- alignment behind priorities and communicated objectives is always critical to collective success;
- people will not commit in the absence of adult relationships based on respect and trust;
- when it comes to pay and bonuses, it's not really the money that counts, it's what the message is – fairness and recognition in particular;
- honest and fair feedback should be a primary aim for every manager;
- organisational leaders, line managers and employees need to feel that they own responsibility for performance – not HR;
- high performance is achieved through inspiration and enablement, not control;
- a high performance organisation knows how to learn from experience.

The role and function of HR in performance management is a theme we will return to later in this paper.

***Performance Appraisal, Performance Management, and Firm-Level Performance: DeNisi & Smith 2014***

In a recent review of the evidence on the link between performance appraisal, performance management and firm-level performance, DeNisi and Smith (2014) conclude that performance management systems are strongest when they are:

1. Visible to all employees and salient to everyone (i.e. practices and policies are posted and reinforced frequently)
2. Associated with legitimate authority (i.e. practices and policies come down from the highest levels in the organization and persons at those levels are seen as legitimate)
3. Relevant (i.e. employees see how they can achieve personal goals that are aligned with strategic goals)
4. Stated and administered consistently (i.e. policy statements and related decisions made do not vary by the person involved)
5. Instrumental for goal attainment (i.e. employees can see how these policies can help them achieve personal and strategic goals)
6. Valid (i.e. the policies and practices reflect best practices)

7. Fair (i.e. the policies and practices are applied equally to all employees and do not have any type of adverse impact against any group of employees)
8. Agreed upon by HR decision-makers (i.e. all HR decision-makers endorse and support all policies and decisions)

Between them, these studies confirm that performance management – if implemented well – comprises a helpful framework for improving both individual and organisational performance. To do so, it must be set in the context of the priorities and goals of the organisation and managed effectively by line managers in a manner which is compatible with the prevailing culture of the business. It cannot, however, be a mechanistic, formulaic or highly regimented series of inflexible procedures because it relies heavily on dialogue, development and employee consent. Despite the evidence of ‘what works’, however, too many organisations persist in corrupting PM to deliver short-term objectives – often with damaging and self-defeating consequences – as the next section illustrates.

### 3. Forced Distribution: The 'Why' and the 'How'

One facet of some contemporary reward-oriented performance management systems which is the subject of fierce debate and discussion is the 'forced distribution' (Bevan, 2014). Many organisations are grappling with a number of problems when it comes to translating performance 'scores' to individual performance-related pay. Here is a common scenario:

*An organisation has a performance management process where individual's performance against their objectives is assessed in a joint, annual meeting with their immediate boss. This often involves a mix of self-assessment and boss-subordinate assessment. In this case, the employee receives a 'box marking' or overall rating on a 1-5 scale, where 1 is 'exceptional performance', 3 is 'performance at the required standard' and 5 is 'below the expected standard'. The ratings are translated to performance pay awards which, in this case, represent consolidated pay progression up a salary range.*

*Recently the organisation has become concerned that some managers are artificially 'inflating' the ratings they are giving their staff to the point where they judge that far too many staff are receiving Box 1 or 2 ratings than is merited. They believe that this is for a combination of reasons:*

- *Many managers find it hard to confront poor performers or to disappoint those staff who are 'only' box 3 performers.*
- *Managers are using the performance pay process to compensate those staff who they view as being poorly paid.*
- *Managers are distorting their ratings to reward those who are most at risk of leaving.*

*To combat this problem, the organisation issues guidance to managers which provides a set of 'indicative' ranges which are intended to support them as they engage in the performance review process. The guidance suggests that, across the organisation as a whole, the distribution of ratings might look as follows:*

<i>Box 1</i>	<i>10%</i>
<i>Box 2</i>	<i>25%</i>
<i>Box 3</i>	<i>40%</i>
<i>Box 4</i>	<i>15%</i>
<i>Box 5</i>	<i>10%</i>

*The organisation is careful to stress that these indicative ranges are not quotas, nor do they represent any form of 'forced distribution'.*

There are several interesting points about this scenario:

- There are a number of aspects of managerial behaviour which can severely distort the way such rating schemes are used. It is questionable whether tinkering with the mechanics of the scheme, without addressing the more deep-seated behavioural issues among managers will make much real difference.
- Rating people against a set of performance objectives employs an 'absolute' assessment of their contribution. However, using indicative ranges, quotas or forced distribution systems pushes managers to make 'relative' assessments of their staff – often as part of a 'moderation' process with other managers which can often resemble crude 'horse-trading'. Thus, they are really beginning to make ranking decisions (ie placing staff in rank order) to ensure that the profile of scores in their team or department broadly fits the indicative ranges'.
- The consequence of this can be that an individual may score a Box 2 when assessed against their objectives but be given a Box 3 rating because there are already 'too many' Box 2 performers in the team. This can be confusing for everyone and demotivating for those staff

who get 'moderated' down to a lower rating. Essentially they can work earnestly towards their objectives all year in the expectation that, if they meet or exceed them, they will be assessed and rewarded appropriately. However, imposing a ranking mechanism means that two people who are equally effective in meeting their objectives can receive different ratings and performance pay.

- Of course, the impulse to curb rating inflation is understandable. Rating inflation, for example, tends to disadvantage the best performers. Paradoxically, if there is a fixed amount of performance pay to distribute, more Box 1 scores which are allocated reduces the value of a Box 1 pay award.
- However, imposing (despite the weasel words) a *de facto* quota system is a messy way of dealing with the problem. If an organisation wishes to influence the distribution of performance pay awards then the purest (and most honest) way of doing this is through a transparent ranking process. Over the years several private sector firms and, in the Public Sector, the Senior Civil service, have adopted this approach.
- None of these solutions score well on equality of opportunity criteria as relative assessment will often rely on different (and more subjective) performance criteria than those used to arrive at the absolute scores. Thus, an individual may be judged a Box 2 performer against their objectives, but lose out to another Box 2 performer because their internal reputation or behaviour may be felt to be inferior.
- The real danger of becoming embroiled in the technical debates about rating, ranking and quotas is that it can drain the capacity of performance management to be a powerful vehicle for feedback, motivation and, yes, performance improvement.

For many managers and employees, these characteristics are all too often the most visible manifestation of the performance management process. If performance management is used as no more than a narrow vehicle for the delivery of variable pay, organisations should be prepared for performance management to struggle in the delivery of its wider developmental objectives. The clumsy implementation of 'forced distribution' systems is, perhaps, one of the most obvious examples of how the many wider benefits of a well-designed and executed PM system can be eroded. As Ed Lawler – one of the great writers on reward strategy – explains in an article entitled '**The Folly of Forced Distribution**', (Lawler, 2002), it can be a way of snatching defeat from the jaws of victory:

*'Because employee performance patterns in organizations often do not follow a normal distribution, identifying poor performers using a forced ranking system is fraught with difficulties. First, a very real danger exists that some satisfactory employees will be misidentified as poor performers. For example, some divisions, departments, or teams are always better staffed than others. In those areas, individuals who are satisfactory or even outstanding performers on a company-wide basis may be judged to be underperformers just because they happen to be among a group of very good employees. The right thing to do is to strengthen weak areas where there are a large number of poor performers by replacing them, rather than removing "the worst of the best" from areas dominated by high performers. Most forced distribution systems do not produce this result because every area, regardless of the quality of its employees and its performance, is required to make the same percentage of cuts.'*



While some of the examples of forced distribution and the way it has been implemented are extreme and, in some cases, shocking the wider point which needs to be considered is whether performance management should have pay consequences at all. If PM can be configured as a continuous process of dialogue and review between line manager and direct report – rather than a high-stakes, set-piece annual assessment process – then it can become a strongly developmental and supportive process which may stand more chance of improving performance. This does not mean that the dialogue will not, on occasion, need to be difficult and uncomfortable if performance is not up to scratch or if challenging feedback needs to be given. However, reducing the potential richness of a high-touch PM process to a simple rating and a ‘pass-fail’ pay award seems a waste of precious managerial time and effort if all it achieves is an increase in fear and insecurity.

## 4. The Role of HR in Performance Management

In their new book, Paul Sparrow and colleagues (Sparrow, Hird and Cooper, 2014) ask some fundamental questions about the role of the HR profession in modern organisations. One of the challenges the book raises focuses on the level of integration of HR within the business and whether the function has kept pace with the fluidity of business structure and process. Performance management represents one of the area which exemplifies these challenges very well – especially the challenge of ‘ownership’ and ‘stewardship’ over management processes which are designed and implemented with high levels of expert HR input but which are best executed by line managers who embrace the principles of PM and weave it into the fabric of their management style.

This was an issue which Armstrong and Ward (2005) identified in their Work Foundation research almost a decade ago:

*“The role of HR in performance management is a crucial one. They tend to be the people that are in charge of designing and reviewing systems, convincing boards of a new approach, implementing new processes, running workshops for managers and staff, providing advice and support materials to staff and managers and ensuring there is compliance with the system. However, they cannot be at every appraisal discussion, they can’t be ensuring that managers and employees have ‘quality’ conversations, and they have a limited ability to improve the capability and engagement of managers in managing performance.*

*Often HR takes a more subservient approach, aiming to keep everyone happy by constantly tweaking the system and the process according to the feedback from staff and direction from senior management. It is less common that HR adopts the role of leader rather than follower and can draw upon expert knowledge of what works and what doesn’t according to experience and empirical research, and challenge and educate those around them. HR often has a ‘processy’, rather than strategic focus, they are there to make it all ‘work’, and are further hamstrung by the fact that the organisation often wants a performance management system to perform miracles, to create a new culture for example.” Armstrong & Ward, 2005.*

One of the consequences of performance management being seen as an HR-owned process is that HR professionals run the risk of being corralled into a ‘policing’ or ‘compliance officer’ role. This can reinforce the view among some managers that PM is essentially an annoying part of the prevailing HR bureaucracy and that it gets in the way of delivering performance rather than being a helpful tool. As Wendy Hirsh and colleagues at IES (2008) discovered when they asked line managers what they wanted of the HR function in this context:

*‘Managers recognise the need for frameworks of HR policies and processes, but think HR makes these more complex than necessary and changes them far too often. For example, they do not see yet another revision of the performance review forms as improving performance. They are looking to HR for really deep understanding of how to get the best out of people, and then practical support in achieving this’. (Hirsh et al, 2008).*

In practice this means that HR should:

**Promote 'ownership'** of performance management by line managers. This might mean allowing them to make minor adaptations to the way the processes are implemented (though not in a way which might compromise fairness or equity). Good managers often 'cherry-pick' imaginatively from the tools and processes that the organisation makes available to them to manage their people. HR should not have kittens if they find that some managers (especially those with high levels of morale, engagement and productivity) have bent the rules slightly to make things work for them;

**Encourage integration and coherence.** Often line managers so busy delivering against their own objectives that they can fail to see that PM can be used in conjunction with other HR processes. From a business point of view it is HR's job to make sure that the design of PM, training & development, rewards, career development and promotion processes are all compatible and mutually beneficial. They should certainly not conflict with each other. If HR professionals can support managers to see the 'big picture' here, then PM has a better chance of having a real and sustained impact on performance;

**Evaluate and adapt PM.** Back in Figure 1 – the PM 'Cycle' – an important part of the process was the feedback 'loop'. In practice, it is only through the efforts and analysis of the HR function that the organisation will know which parts of PM are really working well, which need to be 'tweaked' and which need total re-engineering. Unless HR is performing a detached, evaluative role the PM can become a monolithic 'fixture' in the managerial calendar. PM needs to be agile and responsive to changing business needs, of course, but it also needs to be simple enough so that, once managers have got used to it, it does not change too frequently.

In some ways, performance management – for better or worse – has become a metaphor for the challenges which the HR function face in building and maintaining its credibility in modern organisations. There are few things that CEOs and senior operational managers care about more than improving organisational performance. If HR can harness this interest and demonstrate that it can act as an important catalyst in creating a positive performance culture which delivers results, this will go a long way towards cementing the reputation of HR as adding value to the business. However, this has to be done in a way which delivers **sustainable** performance which balances the needs of the employees with those of the business. To quote Wendy Hirsh once more:

*'...managers want an HR function with its finger on the pulse of what employees are feeling and how well they are working. Senior managers particularly look to the HR function to have an independent, and challenging, view of how to balance the interests of employees with the needs of the business. They recognise in themselves the temptation to put short-term management priorities ahead of sustaining positive relationships with the workforce. They need HR to help them strike the right balance. So an HR function that is seen as remote from the workforce loses much of its unique value to business leaders.'* (Hirsh et al, 2008).

## 5. So What is the Way Forward with Performance Management?

So where does all this leave us in being able to identify how best to maximise the effectiveness of performance management in organisations? One thing is clear - so much has been written and researched on the subject over the last 30 or so years that the answer to this question lies more in the implementation and application of PM than it does in the search for any new 'big idea'. It can sometimes feel that performance management has so many expectations heaped on it by the organisation that a process which has the potential to be a high-energy 'thoroughbred' performer is often relegated to the role of 'beast of burden'. Synthesising the writings and research evidence available permits us to identify four areas where there remains considerable scope for organisational improvement:

### ***The process***

The 'vehicle' in the Lambert et al (2003) analogy seems especially apposite. Performance management appears almost to be permanently back in the garage being either tinkered with or having some form of optional extra fitted and yet much of the available evidence indicates that the content of the system is largely irrelevant when it comes to improving performance. One could almost suggest that the process is a classic exponent of the 80/20 rule, with it dominating perhaps 80 per cent of the air time but adding only 20 per cent of the value. The preoccupation with building the most sophisticated 'vehicle' possible with all the links possible to issues such as development, succession and reward risks positioning the process as the end rather than the means. The move to automate part or all of the process may exacerbate this trend in turning PM into an IT deliverable rather than an enabler of high performance embedded in regular dialogue and feedback.

With one eye on line management capability (see below) this is one issue where less appears more. Based on the evidence and experience of the last 30 years, the question which organisations should be asking regarding the process is '*how can we make this an instrument of motivation rather than of control?*' This is particularly so in the area of goal setting and measurement where the work of Locke and Latham (1990) – which still contains some of the most robust findings in the world of behavioural science research – is either misunderstood or underutilised. The slavish obsession with SMART objective setting drives a focus on task rather than goal and creates an individualistic performance culture at a time when developments in organisational structure and procedural ways of working demand a more collective and collaborative response.

Another important aspect of performance management process which is often ignored is the effect of performance ratings on different employee groups. We still know too little about the effects of performance scoring on women people with disability and employees from different ethnic groups. Previous research in the Civil Service by Penny Tamkin and colleagues (2000) at the Institute for Employment Studies (IES) suggested that, while women may do better than men (depending on their position in the pay scale), black and ethnic minority employees and those living with a disability frequently get lower ratings. In this context, we need to ask whether PM always contributes positively to distributive justice.

### ***The capability of management***

The writings of academics and practitioners together with the evidence of studies by the Corporate Leadership Council and the CIPD consistently place the capability of line managers as a critical enabler of high performance. Yet is it all just too difficult? Can a delayed, downsized, deskilled (and sometimes depressed!) population of line managers really be expected to have the know-how (that is to say, have a subtle understanding of the nature and cause of effective performance), capability (setting goals that drive motivation and giving fair and accurate feedback) and the will (just one more demand that they have neither the time nor aptitude for and in any case never get measured or recognised for) to make PM work?

The confusion over whether PM is trying to influence behaviours and competencies has become more of the problem than the solution with even the HR community seemingly unsure of some of the basic definitions and distinctions between all of the concepts involved. Everything points to a need for a simpler (but not simplistic) approach. *'What are the handful (and no more than one handful either) of core behavioural skills that a line manager needs to bring out the best in those around them and how can we best equip our managers with them?'* need to be the only two questions to ask here.

The importance of feedback remains woefully underestimated. Only 30 per cent of the 19,000 people involved in the CLC research said they were satisfied with the feedback they get yet (at 39.1 per cent) the provision of fair and accurate feedback was the single most important performance driver out of the 106 examined! What is preventing organisations from constructing business case around investing in feedback delivery rather than more expensive and poorly targeted incentive schemes?

### ***The ability to evaluate and learn***

One of the most striking features of the PM debate is the reluctance or inability of organisations to make any attempt to evaluate the effectiveness of performance management systems that are often hugely expensive and time/resource hungry. Whilst this is not an issue limited to performance management alone (the approach to training and development evaluation is often just as crude) it undoubtedly holds organisations back from maximising the return of this activity.

More striking still is the apparent unwillingness to learn from experience beyond the internal organisational boundaries. Read the Bevan and Thompson (1991) findings again – that only a tiny minority of organisations implement each component of performance management in a coherent and integrated way - and it is depressing to reflect on how little seems to have changed. The body of theory and evidence out there goes far beyond the intuitive *'happy staff means happy customers'* leap of faith with which management often stereotype the HR fraternity but still the same issues persist. What is it that is preventing us from harnessing the potential of this research? How can studies by rigorous and respected research institutions be made more accessible? What does HR need to do to create more compelling case for action?

### ***The importance of culture and environment***

It is self-evident that there is little point in spending all available time and resource on the CRF 'vehicle' when there is no 'fuel' to put in the tank to power its performance and yet this is seemingly the case in many organisations. And rather than realising that the car has run out of fuel, the

response is so often to change some other part or component instead. That there is a link between performance management approaches and organisational culture is clear, but the direction of causality seems rather more opaque. The focus on narrow, output focussed objectives to drive individual accountability aligned with personal financial reward will undoubtedly have a cultural impact but whether it is wholly positive remains to be seen. Individualism, control, power and political skulduggery may be greater beneficiaries of such an approach than performance. Adopting a more theory Y approach in which adult relationships thrive on mutual respect and trust to create a culture where the whole is greater than the individual and where innovation and risk taking are encouraged without fear of stigma or failure offers more sustainable performance opportunities but appears to remain an approach that UK plc is unable or unwilling to adopt.

Given all that has been written and researched on the subject of PM, it may be tempting to think that there is nothing left to learn or discover. As these points highlight, however, the opposite is in fact the case. The journey of discovering how best to optimise the application of this most complex process has not yet run its full course, and there is much still to examine and reflect upon, not least why such examination and reflection seems in itself such a challenging activity.

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