Chapter 11[1]

Performance management

11.1 Introduction

As defined by Aguinis (2005: 2): 'Performance management is a continuous process of identifying, measuring and developing the performance of individuals and teams and aligning performance with the strategic goals of the organization.' Its five elements are agreement, measurement, feedback, positive reinforcement and dialogue.

Cappelli (2008: 196) wrote that: 'When employees fail in their jobs, part of the organization also fails.' Performance management aims to eliminate or at least significantly reduce this possibility. Pulakos (2009: 3) emphasized that: 'Performance management is the key process through which work gets done. It's how organizations communicate expectations and drive behavior to achieve important goals; it's also about how organizations identify ineffective performers for development programmes or other personnel actions.'

The earliest mention of performance management in the literature was made by Warren (1972). Another early reference to performance management was made by Beer and Ruh (1976). Their thesis was that 'performance is best developed through practical challenges and experiences on the job with guidance and feedback from superiors'. Performance management developed out of merit rating, which originated in the early 20th century and was influenced by the scientific management movement. This was followed by performance appraisal and management by objectives. But it is said that the first known use of merit rating took place during the Wei dynasty (AD 221–265) when the emperor employed an 'imperial rater' whose task it was to evaluate the performance of officials.

Today, the term performance management as an overall description of a process of performance planning and review conducted by managers and individuals has largely replaced the term performance appraisal. The latter has often been relegated to a description of the performance assessment and rating aspect of performance management. Indeed, there are those, including the writers of this handbook, who prefer to avoid the use of the phrase performance appraisal altogether because of its connotations

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[1] Armstrong, M. (2014). Armstrong's handbook of human resource management practice (11th ed.). London: Kogan Page.

with the worst aspects of traditional merit rating, ie a top-down pronouncement by managers on what they think of their subordinates, which is used as an instrument for command and control. We prefer

'performance review', which signifies that performance management is a joint affair, based on dialogue and agreement.

As considered initially in this chapter, performance management is founded on an understanding of what the word 'performance' means and is under- pinned by a number of behavioral theories. It is also based on a number of principles that have emerged from experience in operating it. The chapter continues with a definition of the aims of performance management and an examination of a conceptual model of performance management consisting of the plan-act-monitor-review cycle. The problems of making this concept work are then explored and the chapter ends with analyses of the impact of performance management on performance and re- ward, a description of a special type of performance management: 360-degree feedback, or multisource assessment, and notes for guidance on introducing performance management.

11.2 The basis of performance management

Performance management should be based on an understanding of what the word 'performance' means. Those concerned with introducing and operating performance management should be aware of the underpinning theories and the principles evolved by practitioners from their experience.

11.2.1 The meaning of performance

Performance is defined as behavior that accomplishes results. As noted by Brumbach (1988: 387): Performance means both behaviours and results. Behaviours emanate from the performer and transform performance from abstraction to action. Not just the instruments for results, behaviours are also outcomes in their own right – the product of mental and physical effort applied to tasks – and can be judged apart from results.

Brumbach observed that because of the significance of behaviour there was more to success or failure than whether results were achieved: 'Success is not always positive nor failure always negative' (ibid: 388). This concept of performance leads to the conclusion that when assessing and rewarding the performance of individuals a number of factors have to be considered including both outputs (results) and inputs (behaviour).

Any attempt to manage performance should also bear in mind that it is a complicated notion. Campbell (1990) suggested that performance is the outcome of three determinants:

1 knowledge about facts and things (termed declarative knowledge);

2 knowledge about how things are done and the skills to do them (termed procedural knowledge and skills);

3 motivations to act, to expend effort and to persist (termed motivation).

11.2.2 Underpinning theories

The following three theories underpin performance management.

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 supports 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 behavior. As people receive feed-back on their behavior 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.

11.2.3 Principles of performance management

The research conducted by Armstrong and Baron (1998, 2004) identified the following 10 principles of performance management as stated by practitioners:

1. It's about how we manage people – it's not a system.

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

3. A management tool that helps managers to manage.

4. Driven by corporate purpose and values.

5. To obtain solutions that work.

6. Only interested in things you can do something about and get a visible improvement.

7. Focus on changing behavior rather than paperwork.

8. Based on accepted principle but operates flexibly.

9. Focus on development not pay.

10. Success depends on what the organization is and needs to be in its performance culture.

11.3 Aims of performance management

Performance management is a means of getting better results by providing the means for individuals to perform well within an agreed framework of planned goals, standards and competency requirements. It involves developing a shared understanding about what is to be achieved and how it is to be achieved. The aim is to develop the capacity of people to meet and exceed expectations and to achieve their full potential to the benefit of themselves and the organization. A further aim is to clarify how individuals are expected to contribute to the achievement of organization goals by aligning individual objectives with the strategic objectives of 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 are readily available. Performance management can play an important role in rewarding employees by providing them with positive feedback and the recognition of their accomplishments.

Performance management is often seen as primarily a developmental process and may therefore be referred to as 'performance and development management'. It can also be used to generate ratings that inform performance pay decisions.

Shields (2007: 24) explained that a performance management system has a fourfold purpose:

1 Strategic communication – convey to people what doing a good job means and entails. 2 Relationship building – create stronger work relationships by bringing managers and those they manage together regularly to review performance achievements.

3 Employee development – provide performance feedback as a basis for the joint analysis of strengths, weaknesses and areas for improvement and an agreement on a personal development plan and learning contract.

4 Employee evaluation – assess the performance of employees (performance appraisal) as a basis for making decisions on job reassignment, promotion or performance–related reward.

Shields noted that: 'the relationship between the developmental and evaluative purposes is frequently a troubled one and maintaining a harmonious rela– tionship between the two is undoubtedly one of the greatest challenges that awaits the unsuspecting human resource manager' (ibid: 25).

Respondents to an e–reward survey in 2005 identified the following performance management objectives:

– 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.

Note the relatively small emphasis on pay.

The following is a 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.'