

# **Armstrong's Handbook of Performance Management**

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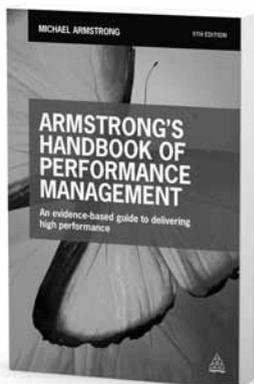
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**FIFTH EDITION**



# **Armstrong's Handbook of Performance Management**

An evidence-based  
guide to delivering  
high performance

Michael Armstrong



LONDON PHILADELPHIA NEW DELHI

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USA

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Daryaganj  
New Delhi 110002  
India

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The following supplementary materials are available to download at [www.koganpage.com/armstrongperformancemanagement](http://www.koganpage.com/armstrongperformancemanagement):

- Bibliography;
- Glossary;
- Literature review;
- PowerPoint slides, with attached notes, for each chapter.

*To David Turner, 1945–2009:  
a good friend and colleague  
with whom I worked happily  
and productively for many years.*

# Introduction

**P**erformance management is a systematic and continuous process for improving organizational performance by developing the performance of individuals and teams. This book deals with performance management as a system consisting of interlocking elements designed to achieve a purpose, that of improving individual, team and organizational performance. These elements consist of the processes of planning for performance improvement and personal development, goal setting, monitoring performance, providing feedback, analysing and assessing performance and reviewing performance. Performance management makes a vital contribution not only to improving individual and team performance but also to support the key human resource management activities of human capital management, enhancing levels of engagement, talent management, learning and development and reward.

## The impact of performance management

The Work Foundation research into performance management conducted by Armstrong and Ward (2005) reached the following conclusion about the impact of performance management:

Performance management has the potential to improve the performance of organizations and act as a lever to achieve cultural change. A focus on performance can bring real rewards for organizations. Performance management can be the key space or mechanism for dialogue in an organization. An organization's choice of where to focus its attention in relation to performance management may in part determine its future and can certainly guide its culture.

## Features of performance management

A survey of performance management practices in 156 organizations conducted by e-reward in 2014 revealed the following percentages of respondents

using different performance management features (the chapter in this book in which these features are described is shown in brackets):

- Performance review – 91 per cent (8)
- Goal setting – 90 per cent (5)
- Personal development plans – 79 per cent (16)
- Overall rating linked to contribution or performance pay – 59 per cent (9)
- Performance improvement plans – 51 per cent (1)
- Overall rating *not* linked to contribution or performance pay – 20 per cent (9)
- 360-degree feedback – 19 per cent (6)
- Use of balanced scorecard – 17 per cent (5)

## Performance management systems

The various features of performance management are combined together into a performance management system – a set of inter-related activities and processes which are treated as an integrated and key component of an organization's approach to managing performance through people and developing the skills and capabilities of its human capital. Performance management systems are described in Chapter 1.

## The problem with performance management

There can be no doubt that the management of performance is the most important thing an organization has to do and an effective performance management system is the best way to do it. But it is not easy. Performance management can promise much more than it achieves.

Pulakos (2009) quoted a Watson Wyatt survey which established that only 30 per cent of workers felt their company's performance management system helped them improve their performance. He asked the question 'What makes performance management so hard?' His answer was as follows:

Managers avoid performance management activities, especially providing developmental feedback to employees because they don't want to risk damaging relationships with the very individuals they count on to get work done.

Employees avoid performance management activities, especially discussing their development needs with managers because they don't want to jeopardize their pay or advancement.

The issues affecting the performance of performance management are discussed in Chapter 4.

## Themes

This book describes how performance management works. But it also addresses the issues which determine and influence its effectiveness. In so doing, a number of recurrent themes have emerged, namely:

- Performance management is strategic in the sense that it enables the goals of individuals and teams to be aligned to the strategic goals of the organization.
- It is a continuous process not an annual ritual.
- Keep it simple! The performance management system should not be over-elaborate or bureaucratic.
- It should be owned and driven by line management. It is not the property of the HR department.
- Performance management won't work without enthusiastic support from top management.
- Neither will it work without the willing and effective contribution of line managers. And this will not be forthcoming if the procedures are too complicated or if, when introducing the scheme, comprehensive consultation, communication and training has not taken place.
- Performance management is about developing people in order to improve their performance. It is not just about generating ratings to inform performance pay decisions and it is certainly not about weeding out undesirables.
- Performance management involves a continuing dialogue between managers and the people they manage. The dialogue is based on goal achievement, performance analysis and constructive feedback, and leads to performance improvement and personal development plans. It is not a mechanism for coercion or control.

## Plan of the book

*Part One* of the book deals with the fundamental aspects of performance management. Chapter 1 describes the elements of a performance management system but also notes the limitations of this model and examines the reality of performance management – the problems of making it work and the requirements for success. This is followed by a history of performance management in Chapter 2 – much current practice is based on past experience in such areas as management by objectives and performance appraisal. To understand performance management it is necessary to take account of its strong conceptual base consisting of various aspects of organizational behaviour and motivation theory and these are covered in Chapter 2.

*Part Two* expands the description of the performance management system in Chapter 1 by describing the processes and skills used in setting goals, providing feedback, conducting performance reviews, assessing performance, coaching and dealing with under-performers.

*Part Three* is concerned with the applications of performance management. It examines how it can be applied to manage organizational and team performance and how it supports a number of key HR activities, namely: employee engagement, talent management, reward management and learning and development. It also covers how performance management functions in international firms.

*Part Four* describes performance management in action. Consideration is given to the extent to which it impacts on performance, the current state of performance management is revealed by research and how a number of organizations have modelled their performance management systems.

*Part Five* deals with how performance management should be developed and managed and examines the role of line managers upon whom the effectiveness of performance management largely depends. It also covers performance management training and, importantly, the evaluation of performance management.

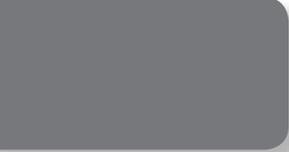
*Appendix A* contains a comprehensive toolkit which provides practical guidance on analysing current performance arrangements and developing, implementing, operating and evaluating performance management systems.

*Appendix B* contains a number of case studies specially commissioned from e-reward.

## References

- Armstrong, K and Ward, A (2005) *What Makes for Effective Performance Management?* London, The Work Foundation
- e-reward (2014) *Survey of Performance Management*, Stockport, e-reward
- Pulakos, E D (2009) *Performance Management: A new approach for driving business results*, Malden MA, Wiley-Blackwell

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PART ONE  
**Performance  
management  
fundamentals**

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# The essence of performance management

01

**T**he purpose of this chapter is to define performance management and provide an overall description of the aims, principles and operation of a performance management system taking into account the reality of performance management and the factors that contribute to its effectiveness. To understand fully the essence of performance management Chapter 2 explains how the features of today's version evolved from its origins in merit rating, performance appraisal and management by objectives.

This chapter and the succeeding chapters in Parts One and Two of this book concentrate on performance management for individuals. But most if not all of the approaches described can and should be applied to performance management for teams as covered in Chapter 13.

## Performance management defined

Performance management is the continuous process of improving performance by setting individual and team goals which are aligned to the strategic goals of the organization, planning performance to achieve the goals, reviewing and assessing progress, and developing the knowledge, skills and abilities of people.

Here are some other definitions:

- '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.’ (Aguinis, 2005)

- ‘Performance management is the system through which organizations set work goals, determine performance standards, assign and evaluate work, provide performance feedback, determine training and development needs and distribute rewards.’ (Briscoe and Claus, 2008)
- ‘Performance management is a broad set of activities aimed at improving employee performance.’ (DeNisi, and Pritchard, 2006)
- ‘Performance management is the key process through which work gets done. It’s how organizations communicate expectations and drive behaviour to achieve important goals; it’s also about how organizations identify ineffective performers for development programmes or other personnel actions.’ (Pulakos, 2009)
- ‘Performance management is regarded as a continuous, future-orientated and participative system; as an ongoing cycle of criteria setting, monitoring, informal feedback from supervisors and peers, formal multi-source assessment, diagnosis and review, action-planning and developmental resourcing.’ (Shields, 2007)

Performance management is managing the business. Line managers are there to manage performance and performance management helps them to do this – it is a natural process of management. It is not an HR-directed annual ritual. And it is not simply a process of appraising people once a year. Performance management is a continuous process whilst traditional performance appraisal tended to be just an annual event.

Performance management is a powerful means of ensuring that the organization’s strategic goals are achieved. It contributes to the achievement of culture change and it is integrated with other key HR activities, especially human capital management, talent management, learning and development and reward management. Thus performance management helps to achieve horizontal integration and the ‘bundling’ of HR practices so that they are inter-related and therefore complement and reinforce each other. Performance management can also play an important part in increasing levels of employee engagement.

## Aims of performance management

The overall objective of performance management is to develop and improve the performance of individuals and teams and therefore organizations. As the Lloyds Banking Group states: ‘When done well, it ensures that we are all clear about what success looks like and the part we each play in delivering this success’. A strategic approach (strategic performance management) means that performance management processes such as setting goals are explicitly designed to align individual objectives with the organization’s strategic objectives.

As noted by Verweire and Van Den Berghe (2004) performance management involves creating motivation and commitment to achieve objectives. Shields (2007) pointed out that ‘it provides performance direction and recognition without which employees will be at a loss as to the nature and level of work effort required’. Performance management aims 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. It is about ensuring that the support and guidance people need to develop and improve is readily available.

A definition of what performance management systems are there to do was provided by Lee (2005):

The real goals of any performance management system are threefold – to correct poor performance, to sustain good performance and to improve performance... All performance management systems should be designed to generate information and data exchange so that the individuals involved can properly dissect performance, discuss it, understand it, and agree on its character and quality.

As explained by Shields (2007) effective performance management has two other important purposes. First, it can communicate to employees the strategic goals of the enterprise and specify what the organization expects from them in terms of behaviour and results in order to achieve those goals. This means defining what doing a good job entails. Second, it can help with relationship building between employees and their managers. Involving both managers and their staff in performance planning and review can widen the dialogue between them and enhance inter-personal trust.

A summary of what management and individuals can gain from performance management is given in Table 1.1.

**TABLE 1.1** What management and individuals can gain from performance management

What management can gain	What individuals can gain
<p>The opportunity to:</p> <ul style="list-style-type: none"> <li>● integrate individual, team and corporate objectives;</li> <li>● guide individual and team effort to meeting overall business needs;</li> <li>● motivate and engage employees;</li> <li>● recognize individual contribution;</li> <li>● plan individual careers (talent management);</li> <li>● introduce relevant and effective learning and development programmes to meet identified needs.</li> </ul>	<p>They will:</p> <ul style="list-style-type: none"> <li>● know what is expected of them;</li> <li>● know how they stand;</li> <li>● know what they need to do to reach their goals;</li> <li>● be able to discuss with their manager their present job, their development and training needs and their future.</li> </ul>

Respondents to the e-reward 2014 survey of performance management reported that their most important performance management objective was:

- to improve organizational performance – 33 per cent;
- to align individual and organizational objectives – 22 per cent;
- to develop a performance culture – 17 per cent;
- to improve individual performance – 14 per cent;
- to align individual behaviour to organizational values – 6 per cent;
- to provide the basis for personal development – 3 per cent;
- to inform performance pay decisions – 3 per cent.

Note the low priority given to informing performance pay decisions.

Here is a typical statement of objectives from one respondent to the e-reward 2005 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.

A financial sector organization produced the following definition of the purpose of its performance management system.

The aim is to improve performance. Rather than just saying that somebody's been very effective and ticking a box, the process is actually to sit down and have a discussion around the requirements of the role, dealing with what aspects are being done well and what aspects are not so good. Overall the purpose is to make it clear to people how their performance links in with the performance of the business.

Managing performance is about coaching, guiding, appraising, motivating and rewarding colleagues to help unleash potential and improve organizational performance. Where it works well it is built on excellent leadership and high quality coaching relationships between managers and teams. Through all this our colleagues should be able to answer three straightforward questions:

- 1 What is expected of me? How will I be clear about what is expected of me in terms of both results and behaviour?
- 2 How am I doing? What ongoing coaching and feedback will I receive to tell me how I am doing and how I can improve?
- 3 What does it mean for me? How will my individual contribution, potential and aspirations be recognized and rewarded?

The following description of the purpose of performance management was produced by Hitachi Europe:

The process is as much about building relationships with employees in order to agree what is reasonably attainable in the year as it is about setting objectives. It is effective because it focuses people's intentions and produces new thinking on the way they work rather than simply continuing to perform at the same level day-in-day-out.

A definition of the aims of performance management produced by CEMEX UK is given in Appendix B.

## Overall principles of performance management

The overarching principles governing effective performance management were defined by Egan (1995):

Most employees want direction, freedom to get their work done, and encouragement not control. The performance management system should be a control system only by exception. The solution is to make it a collaborative development system, in two ways. First, the entire performance management process – coaching, counselling, feedback, tracking, recognition, and so forth – should encourage development. Ideally, team members grow and develop through these interactions. Second, when managers and team members ask what they need to be able to do to do bigger and better things, they move to strategic development.

Strebler *et al* (2001) suggested that the following principles were required for performance management to work effectively:

- Have clear aims and measurable success criteria.
- Be designed and implemented with appropriate employee involvement.
- Be simple to understand and operate.
- Make its use fundamental to achieving all management goals.
- Allow employees a clear ‘line of sight’ between their performance goals and those of the organization.
- Focus on role clarity and performance improvement.
- Be closely allied to a clear and adequately resourced training and development infrastructure.
- Make crystal clear the purpose of any direct link to reward and build in proper equity and transparency safeguards.
- Be regularly and openly reviewed against its success criteria.

The views of practitioners on the principles of performance management as identified in the research conducted by Armstrong and Baron (1998, 2004) were as follows:

- ‘Performance management is what managers do: a natural process of management.’
- ‘A management tool which helps managers to manage.’
- ‘It’s about how we manage people – it’s not a system.’
- ‘Driven by corporate purpose and values.’
- ‘To obtain solutions that work.’
- ‘Only interested in things you can do something about and get a visible improvement.’
- ‘Focus on changing behaviour rather than paperwork.’
- ‘Based on accepted principles but operates flexibly.’
- ‘Focus on development not pay.’
- ‘Success depends on what the organization is and needs to be in its performance culture’.

Two further important principles were suggested by Sparrow and Hiltrop (1994): first, that top management must support and be committed to the system, and second, that line managers should own and drive it. The latter will only take performance management seriously if it is clear to them that top managers believe in it and act accordingly. And performance management will only work if line managers want it to work and are capable of doing so. Both these principles emphasize that the bad old days of performance appraisal as the property of the personnel or HR department are over. The role of line managers is explored in Chapter 24.

### ***Ethical principles***

Performance management should also operate in accordance with agreed and understood ethical principles. These have been defined by Winstanley and Stuart-Smith (1996) as follows:

- 1 *Respect for the individual* – people should be treated as ‘ends in themselves’ and not merely as ‘means to other ends’.

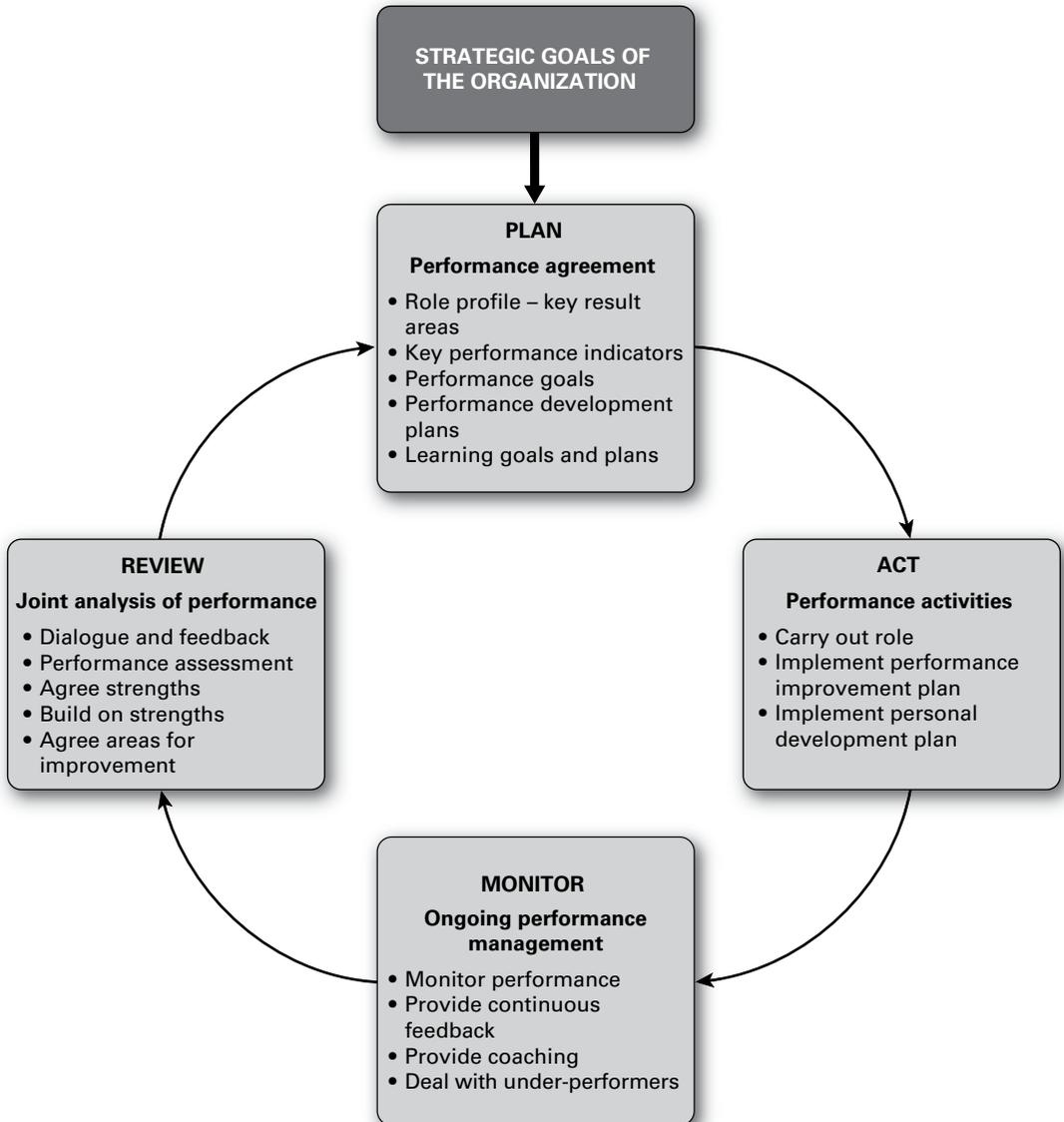
- 2 *Mutual respect* – the parties involved in performance management should respect each other's needs and preoccupations.
- 3 *Procedural fairness* – the procedures incorporated in performance management should be operated fairly in accordance with the principles of procedural justice.
- 4 *Transparency* – people affected by decisions emerging from performance management processes should be given the opportunity to scrutinize the basis upon which decisions were made.

Procedural justice requires that performance management decisions are made in accordance with principles which safeguard fairness, accuracy, consistency, transparency and freedom from bias, and properly consider the views and needs of employees. Folger *et al* (1992) set out the benefits of procedurally just performance management based on the components of due process. They labelled such systems 'due process performance management' and argued that they do not bring about gross reallocations of power between managers and employees, but rather require only that managers be open to employees' input and responsive to justifiable questions and concerns about performance standards and judgements.

Organizational researchers such as Taylor *et al* (1995) have gathered a strong body of evidence showing that employees care a great deal about the justice of performance management practices and staffing. This work generally has found that the more just or fair employees consider such systems to be, the more satisfied and accepting they are of the resultant outcomes, even when those outcomes are less than desirable. They found that procedurally just performance systems may also increase managers' own positive outcomes. The strength of these findings has led some researchers such as Folger and Cropanzano (1998) to propose that the provision of fair procedures is a more powerful foundation for the management of employees than is the provision of financial rewards.

## Performance management systems

A performance management system as described in this section and modelled in Figure 1.1 is a set of inter-related activities and processes. These are treated

**FIGURE 1.1** The performance management cycle

as integrated and key components of an organization's approach to managing performance through people and developing the skills and capabilities of its human capital. The system flows from the organization's goals and then operates as a continuous and self-renewing cycle. There are other ways of modelling the system which are illustrated in Chapter 21. Some represent it as a cycle and others as a flow chart but they all contain the basic elements of the model used here and all illustrate the ways in which these elements form a continuous process.

The cycle shown in Figure 1.1 resembles the cycle for continuous improvement defined by William Deming (1986). This is not a coincidence. This is what performance management is about.

Figure 1.2 shows how performance management activities take place over the year and then performance management activities are described in more detail.

**FIGURE 1.2** Summary of performance management activities over the year

<p>Start of year</p>  <p><i>Continuing dialogue</i></p>  <p>End of year</p>	<p>Performance agreement</p>	<ul style="list-style-type: none"> <li>• Define role profiles, updating as necessary.</li> <li>• Ensure that role profiles set out updated key result areas and competency requirements.</li> <li>• Define goals and standards of performance.</li> <li>• Identify and define key performance indicators.</li> <li>• Draw up development plans.</li> </ul>
	<p>Ongoing performance management</p>	<ul style="list-style-type: none"> <li>• Monitor progress and review evidence of achievement.</li> <li>• Provide informal feedback as required.</li> <li>• Provide coaching as required.</li> <li>• Update role profiles and objectives as necessary.</li> </ul>
	<p>Performance review</p>	<ul style="list-style-type: none"> <li>• Prepare for performance review by analysing achievements (work and learning) against objectives.</li> <li>• Identify specific strengths and weaknesses on the basis of evidence.</li> <li>• Assess overall performance.</li> <li>• Provide feedback.</li> <li>• Use conclusions of performance review as the basis for next year's performance and development agreement.</li> </ul>

## **Performance agreement**

A performance agreement is the outcome of the decisions made jointly by the manager and the individual during the planning part of the performance management sequence. It provides a foundation for managing performance throughout the year and for guiding improvement and development activities. It is used as a reference point when planning and reviewing performance and is therefore a key component of a performance management system. It contains agreements on expectations in the form of the results, competencies and actions required, defined as performance and learning goals, and on action plans to develop performance and abilities. The basis for these agreements is a role profile which is jointly developed by the two parties.

### Role profiles

An important part of performance planning is the agreement or updating of a role profile for the role holder. A full role profile defines:

- *Overall purpose* – what the role exists to achieve.
- *Key result areas* – elements of a role for which clear outputs and standards exist, each of which makes a significant contribution to achieving its overall purpose. It is best to restrict KRAs to no more than five or six.
- *Knowledge and skill requirements* – what the role holder should know and be able to do.
- *Behavioural competency requirements* – the types of behaviour required for the successful performance of a role.

However, the process may be made less complex for line managers by grouping together knowledge and skill and behavioural competency requirements under the heading of ‘critical success factors’ or ‘role requirements’ meaning those aspects of a role that must go well to ensure success. This not only simplifies the profile but also provides a more positive and forward-looking basis for development planning. An example of a role profile is given in Figure 1.3.

The prior information needed to prepare or update a role profile is a list of the corporate key result areas and strategic goals and the organization’s competency framework. If there is no framework it is highly desirable that

**FIGURE 1.3** Example of a role profile

**Role title:** Database administrator

**Overall purpose of role:** Responsible for the development and support of databases and their underlying environment.

**Key result areas**

- Identify database requirements for all projects that require data management in order to meet the needs of internal customers.
- Develop project plans collaboratively with colleagues to deliver against their database needs.
- Implement project plans in accordance with defined criteria, within the predefined budget and within the agreed time scale.
- Support underlying database infrastructure to ensure that the level of service delivery required is achieved.
- Ensure security of the database infrastructure through adherence to established protocols and develop additional security protocols where needed.

**Role requirements**

*Need to know:*

- Oracle database administration.
- Operation of oracle forms SQL/PLSQL, Unix administration, shell programming.

*Able to:*

- Analyse and choose between options where the solution is not always obvious.
- Develop project plans and organize own workload on a time scale of 1–2 months.
- Adapt to rapidly changing needs and priorities without losing sight of overall plans and priorities.
- Interpret budgets in order to manage resources effectively within them.
- Negotiate with suppliers.
- Keep abreast of technical developments and trends, bring these into day-to-day work when feasible and build them into new project developments.

*Competencies:*

- Aim to get things done well and set and meet challenging goals, create own measures of excellence and constantly seek ways of improving performance.
- Analyse information from range of sources and develop effective solutions/recommendations.
- Communicate clearly and persuasively, orally or in writing, dealing with technical issues in a manner which can be readily understood by internal clients.
- Work participatively on projects with technical and non-technical colleagues.
- Develop positive relationships with colleagues as the supplier of an internal service.
- Fully aware of business needs in developing and operating the database.
- Use high levels of analytical thinking to deal with complex issues and the use of an effective logical approach to address work-related issues and problems.

one should be created as it will provide the basis for the role profile, the definition of behavioural expectations and the important behavioural aspects of the performance review. Role profiles may include the general competency framework headings or specific competencies may be defined for a particular role as illustrated in Figure 1.3.

An example of a competency framework for managers is given in Appendix A (Table A4). Guidance on preparing competency frameworks (competency modelling) is provided by Armstrong (2014, chapter 51).

To define a role profile it is necessary to refer to this prior information and then obtain answers to the following questions:

- 1 What is the overall purpose of the role?
- 2 How does the role contribute to the achievement of the organization's strategic goals?
- 3 What are the key result areas in the role which define what has to be achieved? (No more than five or six.)
- 4 What will indicate how well the role holder has performed in each key result area (the key performance indicators)?
- 5 How are the key result areas aligned to the key result areas of the organization?
- 6 What is the role holder expected to know to be able to carry out the role?
- 7 What skills are needed to carry out the role?
- 8 By reference to the headings in the organizational competency framework, what behavioural competencies are required for successful role performance?

### Key performance indicators

Key performance indicators (KPIs) are the metrics or other sources of information which indicate how outcomes can be measured or recognized.

### Performance goals

Performance goals define the results individuals are expected to achieve. The expected results will be defined within the framework of the role profile and

by reference to the key performance indicators established for key result areas.

Wherever possible, goals are quantified as targets which indicate what has to be achieved over a period of time in terms of quantified results or the completion of a project. But they can be expressed as qualitative performance standards which state that a key aspect of the job will have been well done if something specific happens.

Further guidance on preparing role profiles, establishing key performance indicators and setting goals is provided in Chapter 5 and in the training manual included with the supplementary material to this book.

The process of setting goals is covered more extensively in Chapter 5.

## Action planning

Action planning involves achieving agreement between the manager and the individual in three areas:

- 1** *Achieving goals* – any actions required by the individual *and* the manager to achieve the overall objectives of the job,
- 2** *Performance development plans* – these will spell out what employees, in conjunction as necessary with their managers, need to do in specified areas of their jobs such as reaching sales or productivity targets, working accurately, providing services to internal customers, cutting costs, reducing waste, meeting deadlines. In any development area, goals are set on what has to be done and by when, and agreement reached on how the expected results will be achieved. If there are any behavioural performance problems such as being uncooperative or lack of effort, plans are agreed on how the problems can be overcome. The plan should be focused; too many goals will only dissipate improvement efforts.
- 3** *Personal development plans* – learning plans to achieve learning goals for which individuals are responsible with the support of their managers and the organization (see Chapter 16). Again the goals should be limited to make them more attainable. Lloyds Banking Group combines 2 and 3 under the general heading of ‘development plan’ and stipulate that it should contain no more than three development areas. If a rating system is used plans can be made on how improvement in the rating can be achieved.

## **Act**

Action by individuals means that they manage their own performance with guidance as required from their manager or team leader. They are there to meet the demands of their roles as defined at the planning stage in the form of key result areas, goals, competency requirements and action plans.

## ***Ongoing performance management***

Perhaps one of the most important features of performance management is that it is a continuous process which can be described as ongoing performance management or ‘managing performance throughout the year’. This means regularly monitoring outcomes against plans and ensuring that corrective action is taken when necessary. It involves individuals monitoring and managing their own performance and managers giving feedback, support and guidance. Feedback and the recognition of good work by the manager (see Chapter 6) is provided as and when appropriate, which means at the time or immediately after an event has occurred rather than being saved up for a later formal performance review session. It also means updating objectives, and continuous learning on the job or through coaching. Another requirement is to deal with underperformers in good time so that improvements can take place.

## **Review**

Although performance management is a continuous process it is still useful to have a formal review once or twice yearly. This provides a focal point for the consideration of key performance and development issues and leads to the completion of the performance management cycle by providing the basis for updating performance agreements. The performance review meeting is an important means of ensuring that the five primary performance management elements of agreement, feedback, assessment, positive reinforcement, and dialogue can be put to good use. The conduct of performance reviews is covered in Chapter 8.

Performance reviews may be carried out by a manager with an individual on a one-to-one basis and the results are usually recorded on a performance management form as described in Chapter 23. 360-degree feedback (multi-source assessment) may be used (see Chapter 7).

## The reality of performance management

The performance management cycle described above is a model but like all models it has its limitations. It is normative in that it seems to prescribe a norm or standard pattern as best practice by presenting an ideal picture of what a performance management system should look like and how it should work. But how it works will largely depend on the context in which it operates. Fletcher (1993) noted the evolution in many organizations of a number of separate but linked processes applied in different ways according to the needs of local circumstances and staff levels. Some organizations reject the concept of a bureaucratic, centrally controlled and uniform system of performance management which is implied by the model, and instead accept that, within an overall policy framework, different approaches may be appropriate in different parts of the organization and for different people.

One problem with the model as presented here is that it can encourage an over-elaborate approach. Systems designers may be tempted to cover every aspect of the model in detail and turn what should be a natural and straightforward management process into a bureaucratic nightmare with complex procedures and intricate paper- or computer-based forms. Managers don't like this and won't do it properly, if at all. Employees generally regard it as yet another control mechanism imposed from above.

When developing a performance management system the watchwords are 'keep it simple'. Remember that line managers may be even more reluctant to do it well if they have to follow over-elaborate procedures and understand obscure jargon. The important thing to do is to ensure that the basic processes are explained and illustrated in communications about the system and training programmes.

Another problem with the model is the suggestion that there is a smooth transition from the organization's strategic goals to individual goals. But this is much more difficult than it sounds. Strategic goals at organizational level may not always translate easily into individual goals because organizational goals are not defined well enough or are too remote from the work of individual employees. Many commentators have extolled the virtue of alignment; few have made practical suggestions about how it can be achieved.

It can also be argued that strategic goals will inevitably be determined by top management without consulting employees, and that simply 'cascading' goals downwards contradicts the performance management principle that

people should be involved in agreeing their own goals. The answer to this objection is that, although at individual level account should be taken of overarching goals, individuals can usefully take part in discussions on how they can further the achievement of those goals.

Thereafter, the model indicates a steady progression through the stages of performance management, each of them linked together. This is both logical and desirable but in reality it may be difficult to achieve. The natural tendency of managers is to compartmentalize these activities, if they carry them out at all. They do not always appreciate how they are connected and what they should do to ensure that the cycle does work smoothly.

Performance management is applied in many different ways according to the context in which it is used. These ways will not necessarily conform to those prescribed by the model. The contextual factors include the type of operation and the organization's structure. Importantly they also include the organization's culture as expressed in its philosophy or norms (explicit or implicit) on how people should be managed and the prevailing management style, for example, the degree to which it is controlling or participative. As Stoskopf (2002) put it: 'A [performance management] system with the most academically correct competencies or performance measures may fail if it does not fit with the company's culture or workforce'. Pulakos *et al* (2008) summed this up as follows:

Performance management is often referred to as the 'Achilles heel' of HRM. All modern organizations face the challenge of how best to manage performance. That is, they must determine the best ways to set goals, evaluate work and distribute rewards in such a way that performance can be improved over time. While all firms face similar challenges, the way a firm responds to these challenges will depend on where the firm is located and the context within which it is operating. Differences in culture, technology or simply tradition make it difficult to directly apply techniques that have worked in one setting to a different setting.

The employee relations climate is also important. As Haines and St-Onge (2012) noted this particularly applies to the quality of relationships between managers and their subordinates. The beliefs of management on the extent to which HRM interventions such as performance management can make a difference to business outcomes can be significant. The application of performance management will also be affected by the importance attached to talent management, learning and development, and paying for performance.

Many organizations have a performance management system which, at least in its essentials, resembles the one described in the model but which has been adapted to fit the needs of the business and its people. Others, however, if they do anything at all, still use old-style, tick box, top-down performance appraisal systems which provide an easy way out (managers need do little more than fill up the forms or answer the standardized questions in a web-based system) and act as a means of exercising control. The ‘rank and yank’ procedure is an example of the latter which is a mainly American method of ranking employees according to their performance and then dismissing (yanking) a proportion of those in the lower levels, eg the bottom 10 per cent.

Irrespective of the context, performance management is difficult. Some years ago Keith Grint (1993), referring to performance appraisal, asserted that: ‘Rarely in the history of business can such a system promise so much and deliver so little’. More recently, Duncan Brown (2011) observed on the basis of research conducted by the Institute for Employment Studies that: ‘The main areas of concern [about performance management] were the skills and attitudes of reviewing managers, the consistency and quality of approach across large organizations, the complexity of the paperwork and the value of outputs... Performance management, it appears, isn’t working.

The reality of performance management is that the issues it faces are formidable. They include the design of the system, its implementation, and its operation, especially the role of line managers. These are described in Chapter 3 with suggestions on how they can be dealt with bearing mind the requirements for success set out below.

## Requirements for success

Many prescriptions have been offered on the requirements for successful performance management.

Research conducted by Lawler *et al* (2012) led to the overall conclusion that:

What organizations need to do is to create performance management systems that are integrated with the other human resource management systems they have and the overall talent management strategy of the organization. Indeed,

they need to go beyond just integrating it with the talent management practices of the organization; they need to make sure it is integrated with the strategy of the organization. There has always been, and our data say there continues to be, a strong correlation between the effectiveness of performance management systems and the degree to which they are driven by the business strategy of the organization.

Haines and St-Onge (2012) established through their research that performance management is most likely to be successful when:

- more performance management training in coaching and giving constructive feedback is provided;
- employee recognition is emphasized;
- the corporate culture values engagement;
- performance management is strategically integrated with human resource management and the business plans of the organization;
- human capital is valued;
- there is a positive employee relations climate.

They also noted that: 'Performance management effectiveness is not only a function of system design or best practices, but also of programme implementation and execution in different organizational contexts'.

Research by Biron *et al* (2011) identified four performance management facilitators: (1) taking a broad view of performance management that includes both strategic and tactical elements; (2) involving senior managers in the process; (3) clearly communicating performance expectations and (4) formally training performance raters.

Mone and London (2010) pointed out that trust provides a necessary foundation for performance management. Managers must endeavour to create a climate of trust by acting as advocates for their employees, showing confidence and interest in them, being open with them, and acting with integrity (doing what they say they will do).

All these approaches will help but what emerged from the research conducted by Armstrong and Baron (1998 and 2004) was that what mattered was not so much the design of the system (which can reproduce the performance management model without too much difficulty) but getting the system implemented and working well on a continuing basis. The three key

factors affecting the quality of implementation and operation they identified were:

- The commitment, encouragement and support of senior management – as Lawler and McDermott (2003) commented: ‘The behaviour of management is also an indication of how important the performance management system is and as a result is likely to have a strong influence on how the system is actually implemented’.
- The involvement of line managers in developing the scheme and the quality of communications, training, guidance and advice provided to them.
- The rigour with which the organization evaluated the effectiveness of performance management and its determination to put things right, often through training.

Support from top management will be forthcoming if they believe or are persuaded to believe that there is a business case for performance management as a means of delivering increased organizational effectiveness.

Involving line managers in the design of the system and thoroughly communicating to them its purpose, significance and methods of operation will help to gain their commitment. Training is an obvious way to overcome the lack of skill often displayed by line managers. But it is not an easy solution. It demands time and effort. Typically, a new or revised system is launched with a half day or at most a whole day briefing and training session which can only touch the surface. There are strong arguments for providing a suite of one day learning events, one serving as a general introduction to performance management and others dealing separately with each of the main skills managers have to use, namely: goal setting, providing feedback, conducting performance reviews and coaching as described in Chapter 25. These should be supplemented by individual coaching. But organizations are often unwilling to allocate much time to training or coaching. Unless they do, performance management will never live up to its expectations.

Another requirement for success is that the system should fit the situation of the organization. For example, a monolithic system may not be appropriate in a divisionalized or multinational organization. In these circumstances it may be sufficient to set out basic operational principles and leave it to the individual units to decide how best to apply them. Even a centralized system needs to avoid being over-bureaucratic.

The evaluation of how well performance management is working in practice can provide valuable evidence on the need for improvement – generally or in the skills of individual managers. As described in Chapter 26, evaluation requires quite a lot of effort but is easy to do. It can lead to specific improvement programmes as detailed in the eight point plan at the end of Chapter 26.

## Examples of approaches to performance management

### ***Performance management stages in AstraZeneca***

- 1 *Business role clarification* – clear statement of agreed role and objectives.
- 2 *Performance planning* – agreement of targets to achieve the ‘plan–do–evaluate’ elements of managing performance.
- 3 *Performance development* – agree skills required and prepare individual development plan.
- 4 *Performance measurement* – provide ongoing feedback and an annual summary of an employee’s performance (no overall ratings).

### ***Civil Service basic design principles***

- Stretching objectives agreed at the beginning of the year.
- Individuals know the competencies and behaviours they are expected to demonstrate.
- Regular discussions during year between individuals and their managers to discuss progress.
- Formal meeting at the end of the year to record whether objectives have been achieved and levels of competence demonstrated.

### ***What makes good performance management – Scottish Parliament***

- New staff know what is expected of them from the outset.
- Everyone is clear about corporate goals and works towards them.

- Objectives are SMART.
- A system exists to accommodate day-to-day performance feedback.
- Evidence is available to support assessments.
- The personal development plan is used to help self-developmental activities or improve performance.
- The line manager provides and the jobholder undertakes the training needed to support the individual and the organization.

### ***Thames Valley Police performance and development review process***

- Key to the performance management strategy.
- Establishes strong employment relationships.
- Provides a route to individual, team and organizational performance planning.
- Secures future training and development.

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