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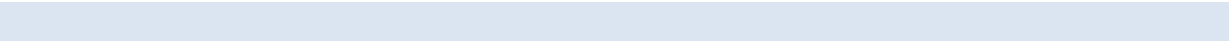
**Good
Practice
Guide:**

Performance Management

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Summary

1.1

- Successful performance management is fundamental to organisational effectiveness.
- Effective training is central to the success of performance management.
- The day-to-day supervision of the performance of individuals and teams should run alongside a formal framework under which their performance is assessed and improved.
- It is important that employers identify measures of performance that are relevant, objective and easily assessed.
- Individuals and their managers will need motivating to take part in performance management, and their compliance should be monitored.
- Formal performance reviews are often linked to training and development provision.
- Performance assessment can be broadened from just the views of the individual and his or her manager to include the perceptions of others who experience the individual's performance.
- Despite its widespread use, performance-related pay is controversial.
- Formal performance appraisal systems usually require review and renewal every few years.

Overview

1.2 This good practice guide discusses performance management, including day-to-day and formal performance management systems, how employees and managers can be encouraged to treat performance management seriously, the ways in which performance management can be assessed and the use of performance-related pay.

The importance of managing performance

1.3 Performance management is fundamental to the effectiveness of today's organisations, dependent as they are on their people for the goods and services that they provide. Each person can make a difference.

What is performance management?

- 1.4** Performance management consists of two parallel processes:
- the informal, day-to-day management of individuals and teams by their immediate line manager and
 - the formal framework within which the performance of individuals and teams is assessed and improved

The two processes are mutually supportive and depend on the same factors for success. They involve:

- monitoring individual or team performance against accepted benchmarks or standards;
- feedback on performance - both praise (positive reinforcement) and feedback highlighting unsatisfactory performance;
- ensuring that negative feedback is delivered in an objective manner and is accompanied by an explanation of why the performance is unsatisfactory, affording an opportunity for the employee to provide an explanation as well as the means to improve in the future;
- coaching, training or other support to address poor performance;

- follow-up monitoring to check that the performance has improved, with the improvements reinforced with positive feedback; and
- recourse to formal procedures such as the disciplinary procedure where the poor performance continues and represents serious cause for concern.

Performance management success factors

1.5 Effective performance management depends on the quality of the supervisory and people management skills of those responsible for managing the organisation's workforce.

The skills of the organisation's people managers (its team leaders, supervisors and line managers) depend, in turn, on the effectiveness of the organisation's broader practices and policies. For example, where an employer's recruitment practices are inefficient, it may not select the most capable individuals as people managers. Where its training and development processes are poor or non-existent, it will not develop its managers' skills to their full extent, and where its procedures are poor, its people managers will not be provided with the policies, guidelines and support that they need to manage performance effectively.

Effective performance management requires:

- capable, motivated managers to put the parallel informal and formal performance management processes into effect;
- simple but effective formal performance management procedures;
- effective recruitment processes that result in suitable individuals being recruited to people management roles;
- induction, and training and development systems that give individuals the skills, knowledge and experience to manage performance effectively;
- incentives - psychological rewards, tangible rewards or both - to encourage the workforce to take performance management seriously; and
- formal structures enabling the organisation to ensure that both managers and their reports are observing the performance management policy.

Those with responsibility for managing people can make or break their organisation's performance management systems. Their active cooperation in engaging in both informal and formal performance management is vital. A combination of persuasion (making the case for the importance of performance management as part of their duties, and providing some form of reward for doing so), and discipline or supervision is likely to be necessary to ensure conformance.

The active cooperation, or "buy in", of managers requires constant effort on the part of the organisation. Even performance management processes that are well established can decay over time as individuals and managers take them for granted.

Combating human nature

1.6 Perhaps the most important skill required for effective performance management is assertiveness - the assessor being able to state the truth as it appears to him or her without threatening overtones or any underlying malicious intention.

Assertiveness in this sense is not a skill that comes naturally to many people, particularly where it is not encouraged by the individual's ethnic culture - this is the case with, for example, the British and Japanese cultures.

In his book "The psychology of managerial incompetence", occupational psychologist Professor Adrian Furnham explains that there are several reasons why most people are reluctant to give, or receive, feedback on performance at work.

There may be unpleasant consequences: "Fearful of the tears, anger and sulking that may follow a negative performance review, most managers simply evade the task. Indeed, it's pleasant giving positive feedback, but it's rare that all feedback is exclusively good."

Managers may not have been trained in the skills required to manage performance effectively. Their organisation may not have provided the training or they may have found ways of avoiding attendance, "partly through fear of being shown up".

In some cases, the natural reluctance of managers and staff to engage in performance management is implicitly endorsed by the organisation. A "collective cowardice" often exists, whereby organisations are happy to talk about rewarding positive performance but fail to address the negative aspects. As a result, there are no consequences for managers who fail to manage performance effectively or for those whose performance is assessed as unsatisfactory.

Many managers face a constant struggle between achieving their short-term objectives and allocating sufficient time to what they may view as less pressing people issues. Faced with an urgent task to complete, they may be tempted to put off addressing an issue of poor performance, knowing that it may require more time and effort than they can spare, particularly if, as Professor Furnham points out, the relevant employee's performance might deteriorate further in the short term in response to the perceived criticism.

Those responsible for implementing and overseeing the organisation's performance management processes - often the HR department or senior line managers - must find ways of:

- encouraging line managers and employees to overcome their natural reluctance to give and receive feedback;
- helping them to be more assertive; and
- fostering an organisational culture that rejects "collective cowardice".

Training in performance management

1.7 Without effective training, those responsible for managing staff may be reluctant to become involved in performance management. Where they do become involved, they are unlikely to possess the necessary skills and knowledge to undertake it to their full potential.

The provision of training sends out a message to managers, and the staff whose performance they manage, that the organisation considers that performance management is important. It should therefore be compulsory. Senior managers should facilitate the attendance of the managers they supervise, ensuring that their immediate responsibilities and objectives are adjusted or that extra resources are provided so that they are free to attend. If support and resources are not forthcoming, the participants in the training will perceive that their own managers are not committed to effective performance management, and their attendance will be grudging.

The aims of the training should include:

- persuading managers of the importance of performance management;
- ensuring that managers have a good working knowledge of the organisation's performance management processes;
- imparting an understanding of the relationship between performance management and the organisation's procedures, including its disciplinary and capability procedures;

- helping managers to develop the skills required for effective performance management, including active listening, assertiveness, note-taking and leadership; and
- equipping managers with the skills and knowledge to conduct performance management in an objective way, compliant with the organisation's equal opportunities principles and commitment to diversity.

Effective training requires active participation through discussions and practice sessions (often role plays). This engages attendees' enthusiasm and gives them the opportunity to practise the skills and knowledge that they are learning.

Day-to-day performance management

1.8 The day-to-day supervision of individuals and teams by their immediate superior represents the essence of performance management. The formal process, whereby performance reviews are typically conducted every six or 12 months, merely builds on what should be an everyday practice.

Managers should attempt to resolve performance shortcomings through day-to-day management practices. It is important that they do not "save up" issues until the next meeting under the formal procedure.

The aims of day-to-day informal performance management are to:

- demonstrate an active interest in the performance of individuals and teams, for motivational reasons and to maintain workplace discipline;
- provide feedback on exemplary performance at the time that it occurs, thereby reinforcing it;
- provide feedback on instances of unsatisfactory performance by explaining the problem, listening to the individual's side of the story, and explaining what improved performance should look like and how it can be achieved; and
- ensure that remedial action to improve specific instances of unsatisfactory performance is arranged - where, for example, formal training is involved, the issue may need to be discussed again as part of the formal performance review process.

Formal performance management

1.9 Formal performance management - also known as appraisal or personal reviews - tends to overshadow the day-to-day process of supervising and developing employees' performance on the job. However, formal systems cannot operate in isolation from the essential daily activity.

Every organisation needs to create a formal performance management process or system that reflects its own culture and corporate objectives, as well good practice. At the heart of any such system lies the meeting between each employee and his or her immediate manager at which the employee's performance is reviewed and plans are made for the coming performance cycle.

In setting up its formal performance management system, an organisation should give consideration to the following:

- **Time frames:** how often the formal meetings will take place, the length of each performance cycle (typically six or 12 months) and the suggested duration of each meeting.
- **Participants:** the individuals involved in the system and their responsibilities and status. This should include the extent to which employees are expected to take the lead in assessing their own performance, drawing up their action plan and taking steps to implement it.
- **Objective measures:** the measures against which the employee's performance will be measured. Typically these include personal objectives and targets; the application of specific skills, knowledge and understanding ("technical competencies") to employees' work; and

demonstrating underlying behaviours and attitudes, such as customer care or concern for quality ("behavioural competencies").

- **Procedures:** documentation that explains how the system will operate and the forms that employees and managers will use to assess performance, record outcomes and detail action plans.
- **Outcomes:** what the organisation expects the employee and manager to produce as a result of a performance review. Usually, this involves one or more assessment scores of the employee's performance, a series of goals or targets for the next performance cycle, and any training, development or other action during the next cycle to help improve the employee's performance (and/or enable him or her to move to a different or more senior role).
- **Supervision:** the nature of the system that the organisation has created to monitor compliance with its performance management system and to check performance assessments to minimise subjectivity and any unlawful discrimination.
- **Reward:** where applicable, the nature of the relationship between the formal performance management system and employee reward, for example individual performance-related pay rises and bonuses.

Measures of performance for formal reviews

1.10 One of the main weaknesses in performance management systems can be the difficulty in identifying the factors that will be assessed about each person's performance. At one extreme, some employers rely on an assumption that the relevant factors are obvious and require no definition - with the consequence that the system becomes subjective and inconsistent, and loses credibility. At the other extreme, some organisations have tried to spell out the factors precisely - with the danger that the system takes up too many resources, becomes too bureaucratic and loses the flexibility to cope with changing circumstances.

It is advisable for employers to concentrate on a reasonable number of factors as the basis for their formal performance review system, and to identify them according to their importance to the job that the employee performs and/or the part that the factors play in the employee's overall contribution to the business.

The outcome of formal performance management systems tends to follow the principle that "what you measure is what you get". The aspects of an individual's performance that are discussed and assessed tend to be given more importance than those that are not - not only in terms of the review system, but also in terms of what the manager and employee consider important in their day-to-day work. It is, therefore, important that an organisation's performance management system is carefully tailored to its own particular business needs.

Most employers use objectives, performance standards and/or behaviours as the aspects of performance that their formal reviews assess.

Identifying the performance measures

1.11 One approach to the task of agreeing the factors against which performance will be measured involves a review of inputs, processes, outputs and outcomes, where:

- inputs represent the skills and knowledge that the employee brings to his or her job;
- processes concern the ways in which the employee performs a task or his or her overall job, and include behaviours and attitudes;
- outputs relate to the tangible results of the employee's inputs and processes; and
- outcomes concern the impact of the individual's contribution on the activities and results of the organisation.

Factors derived from inputs and processes will usually be qualitative, rather than numerical. Factors based on outputs are quantifiable, including sales or production achieved quality targets, accuracy and timeliness. Factors derived from outcomes are also quantifiable, and include customer satisfaction.

Personal objectives

1.12 Objectives represent the most common focus of performance reviews because they relate individual effort to tangible results, are usually readily measurable and - although true more in theory than in practice - can be a means of relating corporate goals to individual activities.

On the downside, objectives tend to be short term, and can take attention away from longer-term factors, such as developing transferable skills or the routine achievement of essential ongoing tasks and duties. They can also act as a barrier to flexibility if there is no provision to revise them when changes take place within the organisation.

Some employers identify two types of objective: short-term objectives (those falling within the confines of a single review cycle) and long-term objectives (often referred to as "performance standards"). Like objectives, performance standards are linked to quantified targets and are similarly assessed. However, they tend to alter far less frequently. They should be carefully defined to focus on the activities that represent the most important aspects of long-term, ongoing performance.

Effective practice in relation to objective-setting concentrates on the objectives being SMART – **S**pecific, **M**easurable, **A**ttainable (or Achievable), **R**ealistic and **T**ime-limited (or Time-bound).

There is less potential for performance management to lose credibility and fall into disuse where both the line manager and the employee participate in the process of setting the individual's objectives, with the employee preferably playing the lead role.

Unless a job has an obvious primary objective that can be expressed in quantitative terms, such as sales or output, some form of job analysis will have to be undertaken to establish the performance targets to be assessed.

Job descriptions and person specifications provide a starting point, although the pace of change in most organisations will demand revisits to the prime tasks, results areas and accountabilities on a regular basis as part of the performance review system.

The theory that personal objectives can be cascaded down from corporate and departmental level to individuals works best at the levels nearest the top of the organisation: middle managers and senior managers. To minimise the need to revise personal targets, cascading systems require the performance review cycle to be timed so that it follows shortly after the most influential date in the business planning year.

Towards rounded assessment measures

1.13 There are often practical difficulties in identifying meaningful objectives or targets for individuals. In many jobs, it may not be possible to create objectives for the most important aspects of performance; with the result that assessment gives too much weight to relatively minor factors and downgrades those that are actually important. The increasingly team-oriented approach of organisations adds a further difficulty, in that the objectives may not be fully under the control of any one person. Success or failure to attain them may become more a matter of chance than personal

performance. Managers and employees can become de-motivated by the unrealistic nature of the performance review.

However, few organisations have abandoned the use of objectives. Instead, many supplement them with other factors that are also considered during performance reviews: primarily further aspects of the job that contribute to performance in a significant way, including the assessment of transferable behaviours and attitudes ("behavioural competencies") in terms of the way in which the person undertakes his or her work.

For example, using objectives as the sole criterion to assess a retail salesperson's performance would focus on sales volume, but would not directly address other crucial aspects of the role, such as the way in which customers are served. To round off performance assessments, consideration of "concern for customers", "customer care" or a similar description of this type of behaviour would need to be included alongside the quantified targets.

Employers can either create a single set of these behaviours to cover their entire workforce ("core competencies") or tailor their lists for individuals performing similar tasks.

The activities of most importance to a job that are not capable of being expressed as objectives/standards can be identified jointly by the line manager and individual. They should then agree how these factors can be demonstrated, and what would differentiate highly effective, effective and unacceptable performance. The aim is to minimise subjectivity, and produce a measurement aid that both the employee and the manager accept.

Personal development plans

1.14 Employers are shifting the balance of their performance management systems away from a simple backwards measurement of results against objectives, towards training and development.

With employers now requiring employees and managers to participate willingly in change initiatives, to be flexible and to acquire different skills readily, many are increasing the degree of involvement of individuals in their own training and development as a means of winning this cooperation. This encourages participation in learning and fosters a view that skills development benefits the individual as well as the employer. Greater control in this area should translate into the broader benefits of increased personal responsibility and improved self-confidence.

Some employers use personal development plans, prepared during or soon after the formal performance review, to set out the personal learning agenda for the individual, linked to the results of his or her performance assessment.

The use of personal development plans can indicate to employees that they are valued and that there is a willingness to invest in them through training and development provision. The individual nature of the plan can help ensure the employee's motivation to participate willingly in the learning.

Personal development plans can be used as part of a shift towards greater employee involvement in managing their own performance and development. The plan may be drawn up with the assistance of the person concerned, and he or she may be given responsibility for implementing it. This can involve identification of suitable learning opportunities and keeping a log to record progress.

It is not an easy task to draw up a development plan that takes account of an employee's current training needs, those likely to arise in his or her current role in the future, those linked to a possible move to a different job, and those associated with broader skills of general application. Organisations will need to provide assistance to line managers and their staff.

They will need to be trained in preparing and implementing the plans, and given access to advice on learning opportunities. A simple pro forma can be helpful. This should include basic guidance on drawing up and implementing a personal development plan and contain a checklist of issues to consider. This could include considering the areas highlighted in the performance review that require attention, and the types of training and development that could help the individual to remedy the problems. Having a form that is too prescriptive or complex could, however, be self-defeating in that a personal development plan should be tailored to the needs of the individual.

Motivating employees and managers

1.15 For a performance management system to live and breathe, the participants must be sufficiently motivated to take it seriously. Those who do not "buy into" the system are capable of colluding to undermine it. The formal performance management process could become a sham, with both parties agreeing on a course of action that involves the least amount of effort and inconvenience.

Where the relevant forms have been completed, it might require a degree of detective work for senior managers or HR to uncover such an arrangement. Agreements about assessment scores will be more visible, as the employees involved are unlikely to agree on a rating that is worse than neutral. If a line manager tends to agree ratings that follow a pattern of average to high scores, warning bells should ring. Some organisations use even-numbered rating scales, meaning that there is no safe middle score, to discourage the tendency for people to avoid conflict and choose a happy medium.

The challenge of motivating managers to take performance management seriously, and the parallel task of encouraging their employees to approach the process in an open, honest way should not be underestimated. A mutually supportive network of motivational practices, training, easily understood systems and guidance, conformance-checking and rewards is likely to be required to ensure everyone's buy-in. Senior management must take the lead and provide visible support for performance management.

This activity is required not only prior to and during the launch of the organisation's formal performance management system, but also on an ongoing basis. The effort, resources and expense will therefore be considerable. However, given that performance management is fundamental to any organisation's activities, this commitment will be justified.

Psychological and career rewards

1.16 The provision of rewards to encourage employees and their managers to take an active part in performance management does not necessarily mean providing bonuses or the introduction of performance-related pay.

The rewards could be indirectly linked to financial benefits, such as the prospect of career advancement through the organisation's formal performance management system.

Individuals' training and development needs are routinely discussed as part of most formal systems. Their needs may be linked to any areas of underperformance in the last performance cycle, or to any skills or knowledge that they may need to fulfil their goals for the next performance cycle.

It is a simple step to broaden the discussion about an employee's training and development needs to include the skills and knowledge required if he or she is to gain a promotion or move sideways to another role. By taking an active part in the performance discussion, the employee stands to gain in the long term through career development.

Psychological rewards include recognition: an acknowledgement that the individual has done a good job. This may be no more than thanks and praise from the line manager, either as part of the informal day-to-day management of performance or during the less frequent formal performance discussions.

Another option is to use public recognition schemes to publicise outstanding contributions within the organisation. This can be done via the intranet, emails or notice board displays. A display may be set up in a public area so that customers, visitors and passers-by can see which members of staff have achieved something special.

In service-based cultures, including hospitality and retail, recognition schemes may include a financial reward, such as a day's holiday or a cash bonus.

Performance-related pay

1.17 The logic behind performance-related pay is that it encourages a culture of performance, of achieving personal objectives and of striving to be the best. It is seen as adding meaning and official endorsement to an organisation's performance management systems. If performance is managed on a day-to-day basis and formally assessed each year, but employees' pay is unaffected by the results, they may take little notice of this feedback about their effectiveness.

Most performance-related pay schemes link the outcome of a formal performance assessment to the individual's annual increase in pay. Where an individual has reached the top of his or her pay grade or band, the pay rise is often replaced by a one-off bonus.

Despite its widespread use, performance-related pay is controversial. Its critics argue that it has several drawbacks and weaknesses, including the following:

- **Weak impact of the pay rise at times of low inflation:** the amount involved may so small, and vary so little between different levels of performance, that it has little positive effect and may actually have an adverse psychological impact.
- **Focus on past performance:** any reward will be based on what has been achieved to date, skewing performance management away from being positive and forward-looking to being backward-looking and potentially negative.
- **Impact on willingness to engage in performance management in an open and honest way:** the parties may be cautious when the outcome is linked to their pay award. In particular, employees are unlikely to be honest about their shortcomings and training needs if their honesty might result in a smaller pay award.

Systems that ensure conformance

1.18 In addition to ensuring that their performance management system delivers some benefit or reward to participants, organisations need to incorporate checking or conformance procedures into their system.

It is advisable for organisations to use more than one conformance procedure. The options include the following:

- **Managers' personal objectives:** requiring that all managers with supervisory responsibilities include a personal objective relating to the effective management of their subordinates' performance in their own set of targets under the formal performance management system.
- **Asking employees:** gathering feedback from employees about their experience of performance management. This could be collected as part of an employee attitude survey or through a confidential online survey.

- **Spot checks:** requiring nominated managers to review a sample of the documentation and/or performance ratings produced as part of the formal performance review system. This should help ensure that employees and managers are complying with the requirements of the system, with regard both to taking part and to doing so in an objective manner.
- **Systematic checks:** requiring nominated managers systematically to check all performance review forms and/or ratings to ensure compliance and objectivity.
- **Equality monitoring:** checking the performance ratings on a statistical basis to ensure that there are no significant differences between the scores on the basis of, for example, gender, ethnicity or age.

360° assessment

1.19 The typical formal performance management system relies on two people's assessments of an individual's performance: that of the individual and that of his or her manager. However, assessment can be broadened to include the perceptions of others who experience the individual's performance. This wider approach, usually known as 360° assessment, includes feedback from colleagues, subordinates and possibly external contacts such as clients and customers. A rounded view of the individual's performance, suitably anonymised, can provide a more powerful and convincing assessment than that of the line manager and the individual's own subjective views alone.

The typical 360° process involves guidelines about the operation of the scheme, software to operate and analyse the assessments, and forms asking participants for assessments of various aspects of performance using a predetermined scale. Most or all of these performance dimensions are usually based on behavioural competencies rather than on the technical areas of the person's work or his or her quantitative achievements.

Each 360° assessment typically involves around 10 people. A considerable amount of time and effort is therefore involved, even when software is used to automate as much of the process as possible. The emphasis on behavioural competencies (personal, transferable skills, such as strategic focus and customer awareness) and the resources required to conduct 360° assessments mean that almost all 360° schemes are confined to individuals in managerial roles.

The feedback from 360° schemes can be used to give individuals a greater insight into their performance and its effect on others, as part of a development process linked to the creation of a personal development plan, or as part of the formal performance management system.

The latter use is controversial, especially if the performance ratings are linked to pay rises or bonuses. The individual who is the subject of the 360° feedback can feel threatened or vulnerable where the results have a direct effect on his or her pay or career. If the individual considers that he or she has been unfairly treated, this may damage the relationship between the individual and colleagues and subordinates. Unscrupulous individuals might take steps to coerce their colleagues and subordinates into producing favourable feedback on them, to ensure that they receive a good performance rating, particularly if the outcome is linked to pay or a bonus.

Renewing formal systems

1.20 Even the best formal performance management system will decay over time. The procedures may require updating, the organisation's own structures and practices may render some of the details obsolete, and any scoring or rating scheme that is used will lose its positive effect over time.

For this reason, organisations tend to re-launch their formal performance management system every few years. This may include reinventing the labels attached to performance ratings in an effort to

retain their positive associations. For example, descriptions such as "needs improvement" or "not satisfactory" may be replaced with more neutral labels such as "striving". However, whatever nomenclature is used, over time certain labels will gain negative associations, meaning that another set will eventually be required.