

6. Performance Management

6.1 Performance management

Performance management is an ongoing process of identifying, evaluating and developing the work performance of employees so that organisational goals and objectives are more effectively achieved, while at the same time benefiting employees in terms of recognition, receiving feedback, catering for work needs and offering career guidance.

6.2 Value of performance management

In Australia, performance management has struggled with the issues of relevancy and usefulness in assisting organisations to achieve bottom-line results. Like the human resources function overall, performance management systems (PMSs) have not been in a position to demonstrate value through quantifiable measures. In a world where most other business procedures are measurable, the human resource manager is therefore faced with a difficult challenge which is to convince senior management that investing time and resources in an effective PMS will help the organisation get the best out of its people, which will translate into an improved bottom line.

Studies into the value of the human resource function have started to reveal that there is tangible evidence that programs such as performance management will improve the overall productivity and performance of organisations. One such example is a research study into performance management and business outcomes completed by Hewitt Associates in conjunction with the University of Chicago which has provided substantial evidence that performance management programs are essential to business performance. McDonald and Smith (1995) in their article, 'A Proven Connection: Performance Management and Business Results', detail the analysis which revealed that of the 437 organisations which participated in the study, 205 had developed performance management systems and also demonstrated:

- > higher profits, better cash flows, stronger stock market performance and higher stock value
- > significant gains in financial performance and productivity
- > higher sales growth per employee
- > lower real growth in numbers of employees.

According to the authors, "the research proves that managing human resources provides a payoff in bottom-line financial performance." Organisations that are benefiting from effective PMSs have embraced the concept that achieving greater alignment between employees and the business's objectives is the key to any change strategy and subsequent improvement in performance. This alignment is achieved through a combination of effective employee selection, assessment and reward.

Therefore, there can be little doubt that designing and implementing an effective PMS is a key human resource function and one for which all key managers in an organisation bear responsibility.

Aligning employee performance with business objectives

Performance management can play the key role in the process of aligning employee performance with the business objectives. Performance management can be an excellent tool for alignment because, if implemented effectively, it will:

1. Communicate the goals and business objectives to all employees, from senior management to front-line employees.
2. Articulate how each employee role fits with, and contributes to, the corporate level goals.
3. Assist employees to contribute to their future with the organisation and how they believe they may improve their performance to achieve the business goals.
4. Maintain the focus on the 'bigger picture' by drawing reference to the business plans through periodic reviews.

6.3 Competency-based PMS

Competency-based PMS are plentiful within Australia. They are the preferred method because they focus on the competencies required for effective performance on the job, with specific measurable results. According to the Hay Group (1996), competencies 'add value and help predict success'. This focus is based on the realisation that businesses need more than good products or services - they need to be able to deliver the best quality, with speed and reliability. There is ever-increasing emphasis, therefore, on the type of people required, how they should be managed effectively and how they should do their jobs to ensure the product/service delivery is competitive across all measures.

For example, there is not just a need for highly-qualified and specialised skills in competitive business, employees may also need to be independent thinkers, but capable of working as part of a team. In general, they need to take on more responsibility than ever before. It is for this reason that performance management must articulate and monitor those competencies accurately to ensure the 'right type' of people are being selected and developed for the business.

Identifying the relevant competencies, and measuring and assessing them, is not simple. Large organisations spend significant resources undertaking these tasks. A key to developing a range of competencies for your business is researching the behaviours that differentiate average and superior performance. Once the characteristics of superior performance are defined (the set of competencies), they provide a standard against which all the jobholders can be assessed and developed.

6.4 Characteristics of an effective PMS

- > Links to the organisation mission and business objectives.
- > Operates separately to the disciplinary procedure.
- > Builds people's strengths.
- > Links to the training and development functions.
- > Incorporates individual performance and development plans, including career objectives.
- > A priority with senior management, and this is communicated throughout the organisation.
- > Uses a performance review as part of the system, but this is not the main focus.
- > Uses self-appraisal in conjunction with appraisal by a manager/reviewer.
- > Establishes agreed objectives for individual achievement.
- > Uses simple, easy-to-use documentation.
- > Establishes feedback and follow-up meetings between formal reviews.
- > Viewed by the organisation as an important mechanism for change management and communication between management and employees.

- > May include 'upward appraisal', review of management performance by employees.
- > An equal, two-way process between managers and employees.
- > Involves regular, informal follow-up meetings between formal reviews.
- > Viewed by the organisation as an important mechanism for change management and communication between management and employees.
- > Total commitment from senior management.
- > Viewed as a vital management tool, assisting in day-to-day management functions.
- > Incorporates a system of reward (refer Chapter 7 Remuneration and Reward Management).
- > Built on the five principles of effectiveness, constructiveness, respect, self-improvement, and contribution.

6.5 Key elements of a performance management system (PMS)

6.5.1 Link to business plan

A critical element in any PMS is its link to the organisation's business plan. This requires clear understanding of the following:

- > the organisation's mission, vision and/or business plan
- > organisational and departmental goals and objectives
- > current job descriptions for all positions.

It helps to establish a sense of shared common objectives through making the connection between individual performance and the performance of the organisation as a whole. Shared objectives help bind people together in their efforts. When individuals recognise that they need each other to be successful, they are more likely to work cooperatively to achieve this outcome.

The performance objectives of an individual within an organisation must be linked to the overall objectives of the business. Apart from the obvious need there is to ensure that people are not focusing energy on areas that will not help the business succeed, if there is no clear link to business objectives, the objective may not be perceived as adding value or being worthwhile. The majority of people in an organisation need to feel that they are making a valuable contribution to the business – to the shared objective.

6.5.2 Individual performance plan

The planning phase is designed to draw information together, from the sources outlined above, to develop the individual's performance plan. This step involves defining the standards and objectives to be achieved.

For the employee, individual performance plans should establish where they fit in the organisation and how they contribute to the achievement of the business goals. Performance against the individual plan is then used to monitor and assess work performance over the year. More than one meeting between the employee and manager may be needed to agree and finalise the performance plan.

6.5.3 Development plan

The development plan describes the activities the employee needs to undertake: to help them achieve their objectives, to expand their current role or to help them move to another role. This enables the manager and

employee to identify specific training and development needs that are consistent with the organisation's needs, and the employee's career aspirations. Personal development can be as important as skill development in ensuring job satisfaction, contribution and commitment – employee development need not be limited to job requirements.

6.5.4 Monitoring

Continuous monitoring and feedback is imperative to effective performance management. Monitoring provides both the manager and employee with an opportunity to seek feedback about how the individual is performing. Essential to this process is identification of barriers to performance, which may otherwise go unaddressed until the formal review. Along the way, the employee should be provided with an opportunity to gain advice and coaching in order to improve their performance. This is preferable to waiting until the formal review, where a critical appraisal may come as a surprise and leave little opportunity for improvement.

6.5.5 Formal review

Formal reviews occur at pre-determined intervals throughout the performance management cycle. Some organisations undertake three-monthly reviews, others six-monthly, or annually.

Self-assessment

The employee should review their own performance using a self-assessment form. Points to include are:

- > feedback from customers/suppliers/others
- > notable successes
- > opportunities for improvement
- > other issues relating to the performance plan.

This gives employees an opportunity to think about their performance and future plans, and to plan for the interview.

Manager's assessment

The manager completes the assessment using the information collected throughout the year, notes and records of incidents or noteworthy events (both positive and negative).

The performance review discussion

The employee and manager should compare and discuss their respective perceptions of the results. During the review, the manager and employee should discuss the:

- > employee's success in achieving the standards defined against the areas of responsibility outlined in the performance review form
- > employee's success in achieving the agreed improvement targets
- > overall rating of performance for the review period.

6.5.6 360-degree performance appraisals

Traditionally, performance review processes at many organisations have involved an employee receiving feedback from one source, the manager. More and more organisations are using 360-degree appraisals which involve gathering feedback from a variety of sources. These sources might include subordinates, colleagues, customers and the manager. The purpose is to give a view of the employee's performance from a range of perspectives. This information is used to identify strengths, and development needs.

Importance of 360-degree feedback

Effective leadership is critical to organisations, particularly in the current challenging environment. 360-degree feedback is a useful method of discussing leadership and performance in a management role, identifying strengths, and development needs.

For managers, 360-degree feedback will provide insights into their management and leadership role and enable them to build on the skills and attributes they possess. It will better equip them to manage in today's environment and identify the skills necessary to develop in their careers.

To some extent, managers may already use a 360-degree process to obtain feedback about their employees. However, this has generally been informal. If not already in existence, organisations may wish to consider putting in place processes, which involve employees determining how to get feedback, looking at the results with their manager and using this reflection to improve performance and identify development needs.

The purpose of the feedback is to assist each individual to understand their strengths and weaknesses, and to contribute insights into aspects of their work requiring professional development.

360-degree feedback can also save managers time in that they can spend less time and energy providing feedback as more people participate in the process. Co-worker perception is important and the process helps people understand how other employees view their work.

The process helps team members understand about working together more effectively. (Often, team members know more than the supervisor about how fellow team members are performing.) 360-degree feedback makes team members more accountable to each other through the information that they provide on another team member's performance. A well-planned process can improve communication and team development.

Benefits of 360-degree feedback

To the individual:

- > perception is reality, and this process helps individuals to understand how others perceive them
- > development needs are revealed
- > feedback is essential for learning
- > better manage own performance and career
- > increased self-esteem (e.g. helpfulness towards customers and vendors may not be rewarded or acknowledged by other types of appraisal).

To the team:

- > increases communication between team members
- > supports teamwork by involving team members in the development process.

To the organisation:

- > better career development for employees
- > facilitates promotion from within
- > improves customer service by having customers contribute to evaluation
- > drives training
- > brings out every aspect of an employee's life
- > co-operation with others outside the individual's department
- > enables those who have conflicts with their manager
- > engages employee involvement and credibility.

6.6 Performance rating methods

There are various methods of rating performance and some PMSs use complex and sophisticated rating scales such as a 10-point scale. However, rating can become complicated, and the review can become too focused on the scores. Rating is only one element of the performance review process and should be kept simple and easy to use.

A five-point scale is highly effective:

1. Outstanding – greatly exceeded the standard; greatly exceeded agreed targets.
2. Better than satisfactory - exceeded the standard; exceeded agreed targets.
3. Satisfactory - met the standard; fully met agreed targets.
4. Less than satisfactory - did not meet the standard; partially met agreed targets.
5. Unsatisfactory - significantly below the standard; failed to meet targets.

6.6.1 Common rating errors

Research indicates that managers can discriminate between effective and ineffective employee performance. However, performance reviews often do not accurately reflect their perceptions. Rating errors are those distortions in evaluations commonly found in performance reviews.

It is essential managers consider the following common rating errors when reviewing and implementing a PMS to ensure their judgments are accurate and reflect the individual's performance.

Management attitude

Managers often feel resentment towards the performance management process, particularly when they feel that the system has been imposed on them. They may find it lengthy and complex to complete, or do not perceive any value in the exercise. In all likelihood, their resentment will compromise the accuracy of their performance reviews and the ultimate outcomes (i.e. managers may not help employees to effectively improve their performance or communicate how they fit with the overall business objectives).

Critical to preventing such negative attitudes is to ensure managers understand and are committed to the system. Education and awareness programs, and healthy consultation, are imperative to the design and implementation of a system. Management will support performance management if they perceive value in the process and understand how it will help them to gain more from their employees.

Halo effect

The halo effect occurs when the manager allows a single incident or behaviour to unreasonably influence their judgment, either positively or negatively. The manager gives the same rating on all factors related to an individual's behaviour, based on the rating they have attributed to one specific factor.

Central tendency

This occurs when the manager consistently uses the middle of the scale, always giving their employees an average or acceptable rating regardless of actual performance. Ratings like this can be quite de-motivating because a 'satisfactory' rating is actually perceived as negative, and significantly reduces employee commitment. Central tendency is perhaps a result of a manager wanting to 'play it safe' and not having the information they need to support a high or low rating

Leniency

Leniency is when the manager gives ratings that are higher than the employee deserves because the manager is trying to preserve a 'nice guy' image, or has a 'nobody's perfect' philosophy, or is expressing a favourable bias.

'Recency' effect

When the manager emphasises the most recent behaviour, this results in the 'recency effect' error. This occurs naturally because the most recent performance is uppermost in the manager's mind, and unless a conscientious effort is made to draw on information collected throughout the review period, the assessment will be based on a small window of information which may work in either the employee's favour or to their detriment.

Making comparisons

Some managers may draw comparisons with other employees, particularly others they have just reviewed. This is not only inappropriate but may result in creating animosity between employees, and will lead to flawed assessments. In most instances, comparisons such as this are subjective and not based on factual information. Comparisons are of no benefit to either the employee or manager and should be avoided.

Victimising

This occurs when the manager is unfair to the employee by either viewing their poor performance as being within the employee's control, or viewing their good performance as being due to some external factors such as the manager's management style.

6.7 Effective performance review discussions

The effectiveness of the performance review discussion is critically dependent on the following factors:

1. the manager's knowledge of the employee's job and performance level
2. the manager's support of the employee
3. the manager's involvement.

Each factor is essential to the success of the performance review discussion. It is important to optimise the quality of the discussion because this is one of the most important elements of the performance management process. The above elements provide some hint as to the work required by the manager and employee to ensure the discussion is both rewarding and beneficial – preparation, willingness, and support.

6.7.1 Preparation required for the performance review discussion

As for any other important meeting, the manager must be well prepared:

1. Review the employee's job description to ensure it is still accurate and that all responsibilities have been considered throughout the review period.
2. Read the employee's last performance review document to refresh the memory and to examine the areas identified as needing improvement.
3. Check the employee's actual performance against the agreed standards set.
4. Consult with other managers who may have had contact or responsibility for the employee on the job.
5. Notify the employee of the review discussion well in advance; provide them with the self-assessment documentation; highlight the areas they need to think about and pay special attention to (e.g. particular achievements, career steps).
6. List the key issues to be discussed in the session; ask the employee in advance if there are any specific issues they would like to address – this way, they feel a part of the process and not merely judged.
7. Ensure there are no interruptions, and that there is sufficient time available to complete the review discussion.

6.7.2 Willingness and support

To encourage open communication, the manager must:

- > Take the review discussion seriously, and appreciate the importance of the results of the discussion.
- > Listen – the manager should avoid doing all of the talking, and should not interrupt the employee.
- > Allow the employee to express themselves, in their own words.
- > Ask open-ended questions.
- > Be open to criticism, and when providing criticism, focus on behaviour, rather than personality.
- > Respect confidentiality.
- > Avoid using the discussion as an opportunity to dump issues that the parties may have been storing up since the last formal review. These should have been addressed when they arose.

6.8 Reviewing the PMS

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There will continue to be the need for adjustments to the system beyond the process of refinement. Circumstances which may lead to the need for review and modification are:

- > Events that change the nature of the workforce – changes in technology, skills and knowledge needed.
- > Events that change the role of the organisation – mergers, changes in the nature of products or services delivered.

- > Events that change the size and structure of the organisation – restructuring with increased responsibility on middle management, downsizing with fewer people doing more.

6.9 Difficult employees and situations

It is critical to the on-going effectiveness and satisfaction of employees that line managers are able to deal with employee and their problems effectively and appropriately. Managers need to seek opportunities to discuss pressures and to resolve situations with their employees before there is a breaking point or a significant downturn in morale and performance – the aim being to make it unnecessary to initiate performance management and possibly disciplinary procedures.

It may be difficult for some managers to deal with intangibles that may not be easily defined or quantified, such as emotions, feelings, perceptions and values. It may also be a challenge dealing with difficult people and situations that involve both work and personal problems. Strategies that managers can use are:

- > understand the need for monitoring a difficult person
- > address difficult personality types
- > identify communication barriers
- > take a proactive approach toward managing difficult people
- > recognise when to dismiss a difficult person.

6.10 Documentation

6.10.1 Performance Management Guidelines

6.10.2 Performance Review (Example 1)

6.10.3 Performance Review (Example 2)

6.10.4 Performance Review (Example 3)