

PART 3

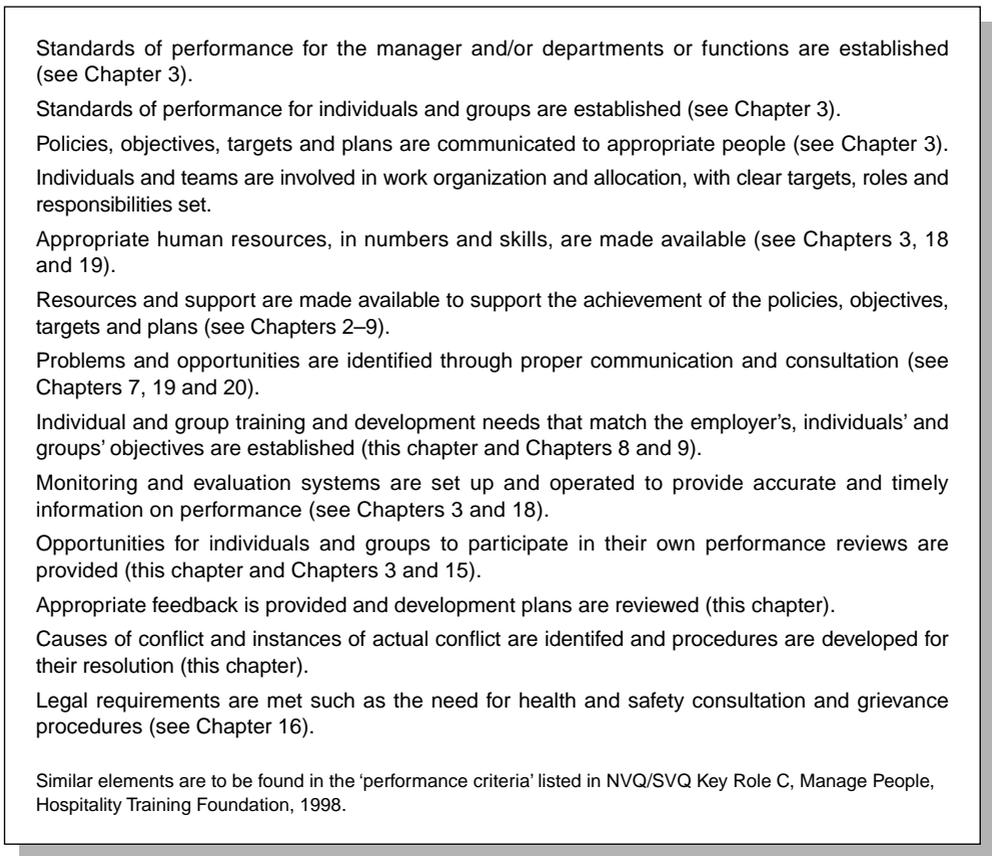
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# Developing the Human Resource

# Performance management

The great majority of organizations today, in order to prosper or even to survive, are obliged constantly to seek ways of improving their performance. In some cases this may be merely through fine tuning existing performance. In other cases it may involve fundamental changes to policy, market positioning, objectives, structures, sourcing materials, human resources and even organizational culture. Many different approaches to achieving these ends are used by organizations, with greater or lesser effect. These include performance-related pay (PRP) systems, performance management systems (PMS), empowerment and various forms of management by objectives (MbO). Figure 7.1 summarizes what many would consider to be the essentials of effective performance management. How each of these is dealt with will vary from one employer to another. In some cases staff will be fully involved in decisions. In other cases senior management take all the decisions and communicate them to supervisors and staff.

It can readily be seen that there are consistent linkages between the factors highlighted in Figure 7.1 and



**Figure 7.1** Managing performance – some key elements

the defining characteristics of HRM as discussed in Chapter 2 earlier. Indeed, one aspect considered to be an essential element of HRM in contrast to earlier versions of the so-called personnel or people management is its concentration on individual and organizational performance. Holbeche is unequivocal in supporting the notion, arguing that HR helps to implement high-performance work practices, 'by creating a culture which is supportive of high performance . . . conducive to productivity and quality improvement' (2001: 123). She stresses the importance of issues such as communication between management and staff, the trust factor, and productivity measurement. Beardwell, Holden and Claydon (2004) also point to performance management being a crucial aspect of the 'HRM Mantra', which consists of cohesive cultures, flatter structures, a customer focus, productivity through people and a strong leadership. With a planned and direct correlation to contingent pay and rewards systems, performance management can be seen as a bridge between HRM and the achievement of strategic goals of organizations.

At the heart of performance management in practice lies the need to evaluate or appraise the performance of the people concerned. Each time a supervisor praises, counsels or disciplines a subordinate, some form of performance appraisal has almost certainly taken place. From time to time, however, it may become necessary

for a supervisor to get away from the hurlyburly of the workplace and to examine objectively the performance of his or her subordinates. The supervisor needs to do this because the employer should know the strengths and weaknesses of the employees and because employees need to know how they stand. The supervisor should examine each employee's performance against expectations and at the same time consider the person's potential as well. He or she should then decide what steps should be taken in both the employer's and the individual's best interests. This process has several titles but is commonly called 'performance appraisal'. This important procedure, often formalizing the ongoing feedback to the employee, is normally carried out annually, though some companies have felt the need for a more regular occurrence.

The Chartered Institute of Personnel and Development reported that performance appraisals 'are a definite motivating factor . . . with over 60% of workers feeling positive and only 11% feeling demotivated' (*Employment News*, March 1996). In an earlier publication the Institute identified a number of different reasons why employers review the performance of their employees (Institute of Personnel Management, Fact Sheet No. 3, 1988). These are shown in Figure 7.2. From this it is apparent that performance appraisal is aimed at improving performance both of the individual and of the employing organization. This is achieved by

- 1 identifying both individuals' and group's weaknesses and strengths so that weaknesses can be corrected and strengths developed and built upon
- 2 identifying each individual's hopes and aspirations so that, where these do not conflict with the organization's objectives, they can be satisfied.

From a properly conducted appraisal programme an employer should obtain the following:

- 1 Commitment to a 'performance contract'.
- 2 An analysis of development needs which enables individual competencies to be extended and group or employment category training needs to be identified.
- 3 A succession plan and management development programme that earmark individuals for promotion and identify their particular development needs.

To assess training and development needs	97
To help improve current performance	97
To review past performance	98
To assess future potential/promotability	71
To assist career planning decisions	75
To set performance objectives	81
To assess increases or new levels in salary	40
Others – e.g. updating personnel records	4

**Figure 7.2** Reasons for reviewing performance (% of respondents)  
 Source: IPM Fact Sheet No. 3 (1988).

- 4 A reasonably objective basis for allocating rewards.
- 5 Improved communications.

The individual also benefits by knowing

- 1 how he or she stands and what help is to be given to improve performance and competencies
- 2 what his or her career prospects are.

There are three main steps in conducting appraisals correctly:

- 1 Having an up-to-date and objective job description, and performance targets or performance contracts.
- 2 Comparing the person's performance with the job description and targets or performance contracts.
- 3 Communicating and discussing the supervisor's and the person's views regarding his or her performance, and recording both the supervisor's and the subordinate's views (but see 360-degree approaches below).

Job descriptions have been discussed in Chapter 3; it now becomes apparent why they should contain as many objective, measurable items as possible; for example, if the word 'satisfactory' is used, superior and subordinate may interpret the word differently. On the other hand, if an objective term such as '60% gross profit' is used, neither person can dispute the interpretation of this figure so long as each is clear about what is included in the calculation. In comparing a person's performance with his or her targets, therefore, it is necessary to bring together as much relevant information as possible, such as budgets, forecasts and other records.

## The approach to appraisal

There are many different approaches to appraisal but it is possible to divide schemes into those concerned mainly with

- outputs, i.e. results orientated
- inputs, i.e. job behaviour or personality traits-orientated
- a combination of the two.

The IPM (CIPD) Fact Sheet No. 3 survey referred to above identified a number of different approaches:

Results-orientated	63%
Job behaviour-orientated	52%
Personality trait rating	29%
Alphabetical/numerical rating	28%
Narrative – free essay	2%
Controlled writing	44%
Forced distribution global rating	10%

From the above it is obvious that there are many different approaches to assessment; as organizational types become more diverse, so do approaches to assessment. Ian Roberts (in Beardwell and Holden, 1997) reports a number of different approaches, which include the following.

### Absolute methods

In such methods individuals are assessed relative to an absolute standard.

### Comparative methods

- Ranking whereby individuals are assessed and placed in a hierarchy using certain criteria as a benchmark.
- Paired comparisons whereby each individual is compared with each other individual until everyone has been compared with everyone else, from which a ranking scale may be produced.
- Forced distribution whereby individuals' performances are ranked and then allocated to some predetermined distribution point.

### Critical incident techniques

Assessment is based upon positive and negative behaviour in the employee's performance.

### Results-orientated methods

Assessment is based upon results and not upon behaviour.

Pratt and Bennett (1990) describe three commonly used techniques for rating performance. The first is the 'linear rule', which requires the appraiser to place a tick along a numerical scale or in a box to represent ratings for the characteristics. They point out the distinction that needs to be made between measuring results, such as quantity of work, and traits, such as reliability. The second technique is known as BARS (behaviourally anchored rating scale). In this technique people familiar with a job select appropriate aspects of it and describe examples of behaviour ranging from ineffective to effective along a scale for each aspect. An appraiser can then identify individual performance on the scale. Third, Pratt and Bennett describe MbO, which is discussed in Chapter 3 of this book.

Some schemes require the manager making the assessment to place ticks in graded boxes, or to award letters, grades or points, as judged appropriate. They are relatively easy to operate, but just how reliable or fair they are is very debatable. They are particularly difficult to use for the assessment of unquantifiable factors such as personality traits. The British Psychological Society was reported to have found that such schemes were less popular because of the difficulties associated with them.

In written assessment schemes much greater importance is attached to a freely written report. These types of schemes have the advantage of encouraging the manager making the assessment to think broadly rather than having to use preselected labels.

There are systems that compromise between these two extreme types and which ask the manager to fill in boxes and to write a broad statement as well. One such scheme is shown in simplified form as Figure 7.3.

Performance review: Part 1		Confidential			
Name of employee _____	Job _____	Branch _____			
Completed by _____	Name _____	Position _____			
Overall assessment <i>Put tick in appropriate boxes</i>		Whichever grade you award please elaborate here on this person's performance:			
Excellent <input type="checkbox"/>	Satisfactory <input type="checkbox"/>				
Good <input type="checkbox"/>	Poor <input type="checkbox"/>				
Detailed assessment					
	Excellent	Good	Satisfactory	Poor	Remarks
<i>For all staff</i>					
Technical competence	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Application	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Initiative	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Relations with:					
Supervisor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Colleagues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Customers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<i>For supervisory staff</i>					
Ability to direct others	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Planning and organizing ability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Expression:					
Written	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Oral	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Performance review: Part 2		Confidential			
Is this person promotable, and if so, what type of job would most suit his/her abilities and aspirations?					
List what training can be given, of other action taken, to assist in improving performance or preparing for promotion					

**Figure 7.3** Example of an appraisal form

What salary increase would you recommend? Give reasons

High  Low   
 Standard  None

Have you discussed this appraisal with your subordinate? Yes/No  
 If no, why not?

If yes, what were his/her comments?

Figure 7.3 *continued*

## Who should be appraised?

These days where appraisal schemes are operated, most managers and supervisors are included. The IPM (CIPD) survey showed the following participation by percentage of those employed by responding companies:

Directors (board level)	52%
Senior management	90%
Middle management	96%
Junior management	92%
First-line supervisor	78%
Clerical/secretarial	66%
Skilled/semi-skilled	24%
Knowledge workers, e.g. those who provide professional, scientific and advisory services	55%
Others, e.g. graduate trainees	7%

## Who appraises?

As organizations reduce the number of layers of management, as more organizations adopt more flexible hierarchies and practices such as matrix management, the question of who appraises becomes more difficult in some cases. Traditionally a person's superior was responsible for assessing a person's performance, usually moderated by the assessor's own superior and sometimes a personnel officer. This has been modified by the adoption by many organizations of self-assessment methods in which a subordinate has a role in assessing his or her own performance. Nowadays it is increasingly common for an employee's peers and even subordinates (upward appraisal) or clients (like students reporting on a teacher's performance) to be involved. In some cases, outside agencies are also being used.

Most organizations in recent times have been through fundamental changes: they have become less hierarchical, more flexible and structurally flatter. Methods of evaluating performance have, as a consequence, had to change.

## The 360-degree feedback method

According to a Towers Perrin survey, the use of 360-degree feedback is on the increase (reported in *Management Consultancy*, September 1998). The system sets out to assess employees' performance based on feedback from a wide circle of work contacts including superiors, subordinates, peers, customers and, in some cases, suppliers. The survey found that 94% of firms use it for training and management development, 31% use it to assess potential, 27% use it for succession planning and 13% for promotion. One of the reported advantages is that 'it crosses the cultural divide – the tool will work in any country' (*Management Consultancy*, September 1998).

There is further evidence in recent commentaries that 360-degree appraisal techniques are being used more widely (see Armstrong, 2002), particularly regarding behavioural aspects such as communication skills and teamwork capabilities. Robbins (2005) reports that following a survey in the USA, 21% of US organizations are utilizing 360-degree formats and that sophistication of technique is growing within consultancies. More generally a linkage has been established between such systems and the increasing usage of a balanced scorecard approach to management, strategy and performance measurement. In this process, organizations set specific objectives or targets (directly related to overall strategy) for the business and evaluate performance against these defined aims (Norton and Kaplan, 1992). These objectives normally fall within a matrix of four key imperatives, such as financial/shareholder value performance, employee-focused elements, customer-perspective issues and, for example, innovations in products or service delivery concepts/systems. Individual performance targets would therefore need to be set and appraised with a direct linkage to these elements of the balanced scorecard. This approach has been found to be an important and successful part of the performance management system of Marriott Hotels, as reported in a study by Millett (2002).

## The appraisal interview

The crucial aspect of appraisal is the conduct of the interview itself. Some managers find that asking their subordinates to examine and complete an appraisal report themselves makes the situation easier. This is sometimes known as 'self-appraisal' and enables a supervisor to study beforehand a person's views concerning his or her own performance. This obviously means that the supervisor is better equipped to get the best results from the interview, as he or she knows where the person is likely to be most sensitive. At the same time, if the person has identified known weaknesses, the supervisor can concentrate on means of improvement and on the future without dwelling on shortcomings and the past.

Some schemes are now going even further and allow the appraisee to actually design the basis of the performance review – selecting what he or she thinks is relevant to a review.

## The appraisal form

The type of form used to record the appraisal should be incidental to the interview itself although a well-designed form can help in preparing for and conducting an interview. In cases where the form itself is of more importance than the interview,

the approach to the management of people is likely to be mechanistic. It enables employers to achieve some of their objectives without fully considering the individual's own needs and aspirations.

The contents of the form therefore should be dependent upon the purpose of the appraisal scheme and the nature of the approach. One concerned with 'inputs' would include the following type of information:

- 1 personal details, e.g. name, length of service, job
- 2 performance report covering
  - knowledge
  - skill
  - application
  - initiative
  - expression – written and spoken
  - ability to plan and to organize
  - ability to work with others
  - ability to direct others
  - specific job targets or objectives and the measure of achievements.
- 3 training needs in present job
- 4 potential
- 5 training or development needs if promotable
- 6 general salary recommendation
- 7 employee's comments.

One concerned with 'outputs', on the other hand, would be more likely to look like Figure 3.7, a typical MbO format.

## Appraisal styles

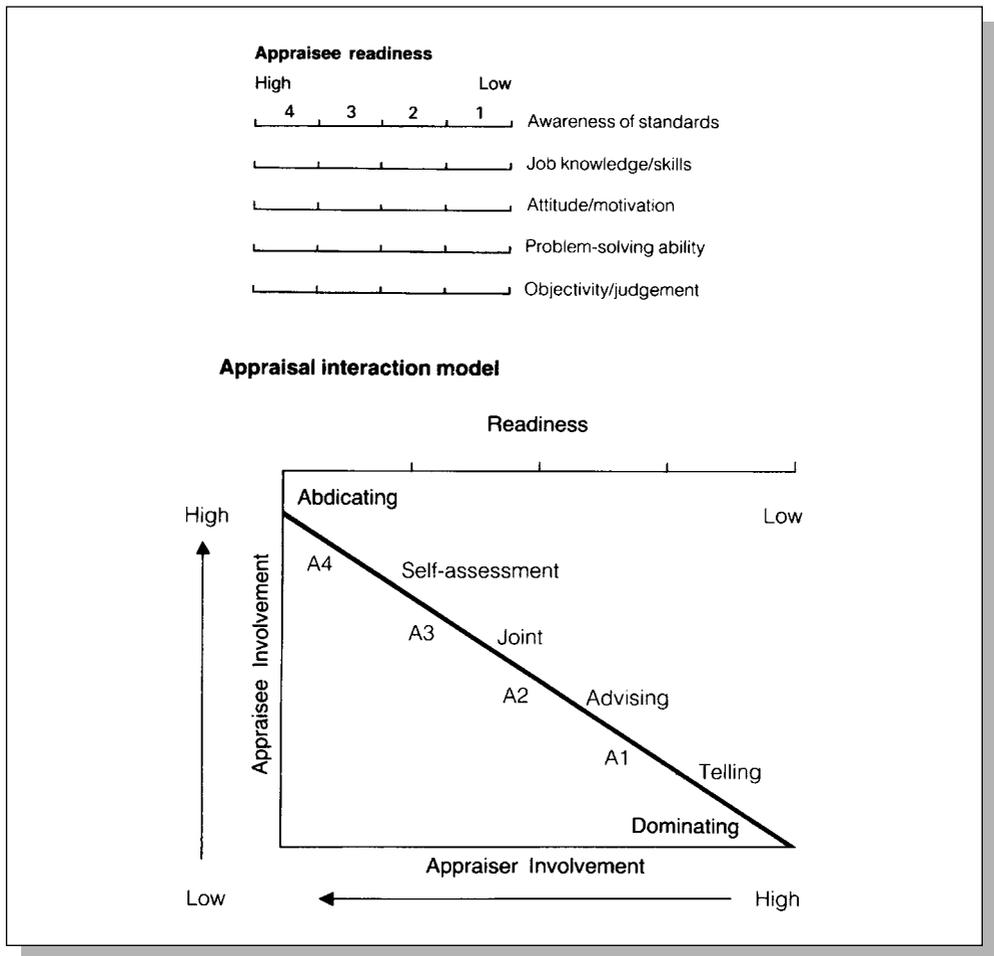
Pryor and Mayo suggest that there are six styles on a continuum consisting of dominating, telling, advising, joint, self-assessment and abdicating. These relate to the interaction between the appraiser and the appraised and can be seen on the appraisal interaction model in Figure 7.4.

## Effective appraisal interviews – some tips

As with selection interviewing, appraisal interviewing is a skilled technique and those responsible for conducting these interviews need training and practice, along with the ability to examine and criticize their own performance. Here are some useful rules to follow:

*Do*

- 1 Plan the interview by obtaining all necessary information and by giving the person to be interviewed prior notice of the interview and its purpose.
- 2 Remember that interviews are a means of two-way communication and that the best interviewers do little talking themselves.
- 3 Suspend phone calls and other interruptions and allow plenty of time for the interview.



**Figure 7.4** Appraisal styles  
 Source: *Personnel Management*, June 1985.

- 4 Put the interviewee at ease and try to make the occasion an informal one. For example, avoid having the desk between yourself and the interviewee.
- 5 Make the interviewee feel that the main purpose of the interview is to benefit him or her.
- 6 Start by praising strong points. Remember a person's ego and that any subsequent criticism will be rejected as unfair or even untrue unless the balance is maintained by acknowledging good points.
- 7 Ask the interviewee their reasons for any shortcomings and ask for suggestions for improvement.
- 8 Finish the interview firmly on a positive note by reiterating what performance has been agreed and what assistance the employee can expect in the form of training or other help.
- 9 Remember always that giving a person a poor appraisal can be a reflection on the manager's own ability.

*Don't*

- 1 rush the interview. It is one of the most important occasions in a person's working year.
- 2 prejudge the outcome of the interview; and therefore don't finalize the form until afterwards.
- 3 read out the printed form. Your appraisal should come over in your own words.
- 4 preach or be pompous. This is an occasion to discuss how a person's performance targets may be achieved.

## Salary reviews and performance appraisal

There is constant debate among HR specialists as to whether salary reviews and proposals should be part of performance appraisal systems. The IPM 1988 survey showed that 40% of employers used performance appraisal for salary purposes. The IPD 1996 survey reported that less than one third of appraisees had their appraisal linked to their pay. This suggests there has been a reduction in the number of companies directly linking pay to appraisals. The debate, however, is bound to continue because, after all, it would be manifestly unfair if poor performers were rewarded to the same level as exemplary performers. More recently, notable management consultancies such as McKinsey and Hay have certainly promoted the line of direct relationship between performance and pay. This approach is in line with the conceptual models of HRM which consider that there is a 'bundle' of HRM practices, including performance management and reward systems for example, which will lead to performance enhancement, the so-called normative perspective (see Guest, 1997).

## Small organizations

In the smallest organizations, with no more than a few employees, a formal approach may be unnecessary and could even disrupt some healthy superior-subordinate relationships. Even so, employees with potential and prospects should be told of this so that they will be less likely to go to another employer for advancement.

Appraisal is one of the most personal and potentially unsettling situations that occurs in a working person's life. It can be, after all, an examination and judgement of their main role in life and consequently it can be very damaging to the ego. It must therefore be positive, constructive and helpful. It should not be an occasion for apportioning blame or responsibility for past shortcomings or failures. If these are discussed, they should be used as examples to illustrate points from which both sides can learn in order to take steps to build for the future. Appraisal must be creative and must result in new objectives and in agreement on the means by which these objectives can be achieved.

## Further Reading and References

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## Questions

- 1 Describe the objectives of a performance appraisal scheme and the various steps or phases that you would normally expect to find.
- 2 Discuss which you consider to be the most important steps in a performance appraisal and why.
- 3 Discuss what changes are likely to be made in the future to improve performance appraisal procedures.
- 4 Discuss the relationship between performance appraisal and approaches to management, such as management by objectives (see Chapter 3).
- 5 Evaluate the approach to performance appraisal used by an employer you know well.