MICHAEL ARMSTRONG

7TH EDITION

ARMSTRONG'S HANDBOOK OF PERFORMANCE MANAGEMENT

An Evidence-Based Guide to Performance Leadership

PRAISE FOR *ARMSTRONG'S HANDBOOK OF PERFORMANCE MANAGEMENT*

I am an avid fan of Michael Armstrong's handbooks and have used them successfully with my CIPD classes for several years. This book includes current debates on whether traditional performance management systems add value to an organization and discusses in depth the movement towards 'performance leadership'. Armstrong has included distinct sections on hot topics such as managing the performance of home and international workers that my students at all levels will find useful, particularly for the latest CIPD suite of courses. I will be recommending this text to my students and predict that I will see many references to it in their future assessments.
Dianne Johnson, CIPD Course Adviser, Watson Martin Ltd

The 7th edition confirms Michael Armstrong's standing as the pre-eminent author in the performance management field for both HR practitioners and business students. He relates evidence-based analysis of performance management principles and processes to their utilization by managers who wish to become 'performance leaders' in today's organizations. Armstrong identifies significant challenges to traditional approaches to performance management, together with ways of addressing these and evaluating performance management's enhanced contribution. The new chapter on managing the performance of homeworkers is particularly welcome given the increased emphasis on homeworking following the COVID-19 pandemic.
Dr John Simmons, Lecturer, Management School, University of Liverpool

Armstrong's Handbook of Performance Management is both a professional practitioner and academic toolkit, resourced with a complete suite of comprehensive tools and techniques that managers and leaders need in today's business landscape. I am confident that any student pursuing to acquire the competencies of a 'performance leader' will certainly experience the promises that the book seeks to achieve. It is definitely a valuable book that will have a long tenure in the collection of the successful leader.
Dr Stephen Tan, College of Arts, Business, Law and Social Sciences, Murdoch Business School

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Armstrong's Handbook of Performance Management

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Michael Armstrong

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Introduction

Performance management provides people with the support and encouragement they need to enable them to carry out their work effectively and to develop their skills and their career. Its primary purpose is developmental. This means ensuring that employees have the ability, motivation and opportunity to do well in the present and even better in the future. Performance management is forward-looking and is very much about fostering the skills required to succeed. It is about managers acting as performance leaders, not just as the operators of an imposed system.

Focus on performance leadership

Throughout this handbook the emphasis is on performance leadership – the role of the line manager as a *performance leader* rather than someone who is expected to manage performance in accordance with the requirements of a highly formalized performance management system (a bureaucratic approach to fixing 'SMART' objectives, conducting retrospective performance reviews and rating performance using a laid-down set of dimensions imposed on managers and employees by the organization). This sort of performance management is characterized by Griffin and Ebert's (2004: 216) definition of it as: 'The formal evaluation of an employee's job performance in order to determine the degree to which the employee is performing effectively.'

Kevin Murphy in his seminal *Human Resource Management Journal* article 'Performance management will not die but it should' (2020: 26) ended it with the exhortation: 'Stop evaluating and start leading!'

Plan of the book

Part One: Performance management fundamentals

The first part of the book deals with the fundamental characteristics of performance management: what it is, what it aims to do and how it is sup-

posed to work. Performance management, whether formalized or not, operates within a conceptual framework and this is covered in Chapter 2. The features of a traditional performance management system in the shape of a cycle of activities starting with a performance agreement and concluding with a performance review is described in Chapter 3. Performance management as applied through performance appraisal or performance management has been heavily criticized by commentators ever since Douglas McGregor's celebrated 1957 article in the *Harvard Business Review,* 'An uneasy look at performance appraisal'. In 2019 performance management was called by Ledford and Benson 'the human resources process most hated by employees and managers alike'. The issues causing these comments are analysed in Chapter 4 and recent developments in response to them are discussed in Chapter 5.

Part Two: Performance management processes

The conclusion reached at the end of Part One is that the future lies with the concept of performance leadership rather than tinkering with the traditional features of a performance management system. The initial chapter in Part Two therefore describes this concept, which, as argued in a number of later chapters, is the way ahead for performance management. The next three chapters in this part cover the basic performance management processes of planning, assessing and reviewing performance. These all feature in traditional performance management systems, but they also characterize the approach adopted by performance leaders. The final chapter in this part deals with multi-source feedback, often known as 360-degree feedback as an adjunct to the usual one-to-one arrangement, although not a particularly popular one.

Part Three: Performance management skills

This part deals with the skills used by managers when acting as performance leaders or when administering a traditional performance management system, namely defining objectives, providing feedback, coaching, and managing underperformers.

Part Four: Applications of performance management

This part covers the many ways in which performance leadership and performance management are applied – at organizational and team level, managing homeworkers (a particular requirement since the Covid-19 pandemic), at international level and in various aspects of people management, namely learning and development, talent management, managing engagement and reward management.

Part Five: Managing performance management

The key chapter in the handbook is the first one in this part. It describes how all the ideas expressed earlier – especially new ones such as performance leadership – can be put into practice. The second and third chapters deal respectively with how people can learn about performance leadership, and how the whole process can be evaluated.

Part Six: Conclusions

The conclusion reached in the final chapter is that the future of performance management lies in the cultivation of performance leadership as advocated and justified throughout the book.

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PART ONE
Performance management fundamentals

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01

The meaning and nature of performance management

Introduction

Performance management has been described as 'a broad set of activities aimed at improving employee performance' (DeNisi and Pritchard, 2006: 255). This definition of the meaning of performance management is expanded in the first section of this chapter, which is followed by an explanation of the difference between performance management and performance appraisal. The next section explores the nature of performance management as an informal process (what managers do by acting as 'performance leaders'), or as a formal process (performance management systems). The chapter continues with sections dealing with the purpose and aims of performance management, its impact and the ethical dimension. The chapter concludes with a brief review of the performance management approaches that can be adopted. The conceptual framework that influences the practice of performance management is examined in the next chapter.

Performance management defined

Performance management is the process of improving performance by setting individual and team goals that 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: 2)

- 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: 17)

- 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: 3)

- 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: 22)

- Performance management is a process consisting of managerial behaviours aimed at defining, measuring, motivating and developing the desired performance of employees. (Kinicki *et al,* 2013: 1)

- Performance management involves the setting of corporate, departmental, team, and individual objectives; the use of performance appraisal systems; appropriate reward strategies and schemes; training and development strategies and plans; feedback, communication and coaching; individual career planning; mechanisms for monitoring the effectiveness of the performance management system and interventions and even culture management. (Roberts, 2001: 506)

Performance management and performance appraisal

Performance management should be distinguished from performance appraisal. The two topics are clearly related, but are not identical. The term 'performance management' arose when scholars and practitioners began talking about transforming performance appraisal from an event to a process.

DeNisi and Pritchard (2006: 254) describe performance appraisal as:

> a discrete, formal, organizationally sanctioned event, usually not occurring more frequently than once or twice a year, which has clearly stated performance dimensions and/or criteria that are used in the evaluation process. Furthermore, it is an evaluation process, in that quantitative scores are often assigned based on the judged level of the employee's job performance on the dimensions or criteria used, and the scores are shared with the employee being evaluated. Measurement issues are important for the performance appraisal process, as are issues of rater motivation, so that effective appraisal systems are those where the raters have the ability to measure employee performance and the motivation to assign the most accurate ratings.

They point out that, in contrast, performance *management* is a broad set of activities aimed at improving employee performance and that the aim of performance appraisal should be to provide information that will enable managers to do that. In short, performance appraisal attempts to measure performance while performance management aims to improve performance. Performance appraisal functions as a subset of performance management.

The nature of performance management

Performance management is about leadership and managing the business. Managing performance is what line managers do in their capacity as leaders. Performance management happens informally as a natural process of leadership. It can also operate formally as a performance management system – a set of practices or activities that fit together and interact to guide managers on how they should manage performance. A fully developed system will include formal arrangements for concluding performance agreements, setting objectives using the 'SMART' formula (S = specific or stretching, M = measurable, A = agreed, R = realistic and T = time-related), annual performance reviews, evaluating performance through a rating system and documenting the outcomes on a performance management form.

Line managers as performance leaders clarify what their team members are expected to do and achieve (set the direction), ensure that their people have the skills and resources required to get results, motivate them, secure their engagement, monitor their progress, keep them informed of how they are doing (feedback), develop their skills through coaching, and see that corrective action is taken when necessary. Performance leadership involves the use

of performance management skills and techniques such as defining objectives, providing feedback and coaching. Managers may exercise these skills when operating a formal performance management system. Many organizations believe that a formal system is essential, but it isn't. A contextualized approach to developing managers as performance leaders is a valid alternative.

The purpose and aims of performance management

As John Shields (2007: 24) put it: 'A well-designed and well-accepted performance management system can be said to have a four-fold purpose: (1) strategic communication, (2) relationship building, (3) employee development and (4) employee evaluation.'

From the viewpoint of the organization, the fundamental purpose of performance management is to further the achievement of the organization's strategic goals. But it also has three specific purposes:

- *managerial* – to provide a framework within which managers can effectively manage performance;
- *developmental* – to provide the basis for identifying and meeting learning and development needs;
- *administrative* – to provide the information required to administer performance pay and talent management systems.

Thus performance management can make a contribution to strategic human resource management by helping to achieve strategic alignment (the vertical integration of HR and business strategies). DeNisi and Smith (2014: 144) emphasized that: 'it is important that every aspect of this broader performance management system be directly aligned with the firm's strategic goals – this is related to defining what performance means to the firm'. This is the process of 'cascading' goals, an important aim of performance management, which involves passing down and interpreting the fundamental strategic goals of the organization through successive layers of management to individual employees, and ensuring that everyone involved understands the contribution they are expected to make to their achievement.

But performance management also functions as part of a process of horizontal integration when it is linked to other HR practices (a process known

as 'bundling'), such as human capital management, talent management, learning and development and reward management, so that they are inter-related and therefore complement and reinforce each other.

A basic aim of performance management is to provide gains for both management and individual employees, as shown in Table 1.1.

Table 1.1 What management and individuals can gain from performance management

What management can gain	What individuals can gain
The opportunity to: ● integrate individual, team and corporate objectives; ● guide individual and team effort to meeting overall business needs; ● motivate and engage employees; ● recognise individual contribution; ● plan individual careers (talent management); ● introduce relevant and effective learning and development programmes to meet identified needs.	They will: ● know what is expected of them; ● know where they stand; ● know what they need to do to achieve their objectives; ● be given the opportunity to develop their skills and careers; ● be able to discuss with their manager their present job, their development and training needs and their future.

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

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

The Lloyds Banking Group produced this definition of the purpose of its performance management system:

The purpose of performance management: Lloyds Banking Group

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.

The impact of performance management

At organizational level performance management is expected to improve performance by creating a performance culture in which the achievement of high performance is a way of life. At individual level it is supposed to improve performance by indicating what good performance looks like; agreeing performance goals; providing the basis for developing knowledge, skills and abilities; identifying where performance needs to improve and deciding on the steps required to achieve that improvement through performance improvement plans, personal development plans and coaching.

But establishing the impact of performance management on organizational performance is problematic because of causality issues. Determining the link between independent and dependent variables (cause and effect) is a major problem. Correlation does not imply causation. It may be relatively easy to establish correlations in the shape of a demonstration that X is associated with Y; it is much more difficult and sometimes impossible to prove that X causes Y.

A major problem in establishing the extent to which performance management affects organizational performance is causal ambiguity. This refers to the numerous subtle and often hidden interconnections between the factors influencing cause and effect. Boselie *et al* (2005: 75) referred to the causal distance between an HRM input and an output such as financial performance: 'Put simply, so many variables and events, both internal and external, affect organizations that this direct linkage strains credibility.' A basic reason for ambiguity is multiple causation, which exists when there is more than one possible cause for an effect. Performance management may have caused an improvement in performance but there may be many other economic or business factors that contributed to the improvement, and it could be difficult to unravel them. Another factor is the possibility of reversed causality (a situation where A might have caused B, but B might well have caused A). As Purcell *et al* (2003: 2) express it: 'Although it is nice to believe that more HR practices leads to higher economic return, it is just as possible that it is successful firms that can afford more extensive (and expensive) HRM practices.'

This, plus contextual factors, increases the complexity of the relationship between performance management and organizational performance, as shown by the conceptual model produced by den Hartog *et al* (2004: 562) shown in Figure 1.1.

Figure 1.1 Model of the HRM and performance relationship from a performance management perspective

Reversed causality: high profits lead to more willingness and possibilities to invest in HRM

Reversed causality: organizational success leads to high commitment/satisfaction/motivation/trust

Performance management related HRM practices

Direct supervisor/ Front-line manager

Employee perceptions and attitudes

Employee behaviour and performance

Organizational performance

Contextual factors (contingencies):
• Organizational context (internal and external environment)
• Individual employee characteristics and preferences

SOURCE den Hartog *et al* (2004)

As Taylor *et al* (1995: 495) observed, performance management systems constitute 'a human resource management paradox and their effectiveness an elusive goal'. Aguinis (2013: 2) suggested that: 'The lack of clear and compelling evidence for the effectiveness of performance management… has given rise to recent debates about whether or not formal performance management is even necessary.' Pulakos and O'Leary (2011: 146) stated that: 'The formula for effective performance management remains elusive.' Haines and St-Onge (2012: 1171) claimed that: 'few studies support the many claims about the actual contributions of various practices to the overall effectiveness of project management systems'. And DeNisi and Murphy (2017: 429) thought that: 'It is not clear that performance management will lead to more effective organizations.'

Evidence from research into a direct link between performance management and organizational performance is meagre. One of the few instances is the research conducted by McDonald and Smith (1991), which showed that companies that had introduced performance management had made significant gains over three years in financial performance and productivity. But this looks like a classic case of reversed causality. Performance management

systems may have helped to generate successful companies, but it is just as likely that the successful companies were the ones with the inclination and money to introduce sophisticated practices such as performance management. Other projects (Rodgers and Hunter, 1991; West *et al*, 2002; Kochanski, 2007) have established correlation but not causation.

DeNisi and Smith (2014: 134) observed that: 'most models of performance management focus upon changing individual or team performance to better align it with corporate goals, with the assumption that, once these are aligned, corporate performance will be improved'. They commented (page 137): 'The evidence directly linking performance appraisal, or even performance management practices, to firm performance… is quite limited (at best). Thus, it seems likely that, despite the logic of moving from individual- to firm-level performance, such a direct link simply does not exist.' They also pointed out (page 142): 'It is clear that we know almost nothing about how to leverage changes in individual performance up to the level of the firm. Although there have been suggestions about how to go about this… there is almost no empirical evidence that it can be done successfully. It would seem, therefore, that there is considerable evidence that HR practices are related to firm performance, but only when they are bundled.'

Performance management: the ethical dimension

There is an important ethical dimension to performance management. The design of a performance management system and how it is operated should be based on values related to the ethical principles of respect for the individual, mutual respect, justice, procedural fairness and transparency, as defined by Winstanley and Stuart-Smith (1996). These principles refer to beliefs that:

- the management of the organization has the overriding responsibility for creating the conditions in which high performance is achievable;
- everyone is concerned with the improvement of performance; it is the joint responsibility of managers and their teams, and they are mutually dependent on one another to attain this purpose;
- people should be valued for what they are as well as what they achieve;
- the needs of individuals as well as those of the organization must be recognized and respected;

- individuals should be given the opportunity to express their views about the objectives they are expected to achieve;

- individuals should understand and agree to the measures used to monitor their performance and should be able to track their own performance against those measures;

- individuals have the right to obtain feedback on their performance and to comment on that feedback;

- individuals should know how and why decisions affecting them that emerge from performance reviews have been made, and should have the right to appeal against those decisions;

- the focus should be on developing performance rather than merely managing it – priority should therefore be given to the developmental aspects of performance management.

These values are underpinned by the need to pay attention to due process. In law, there are three essential features of due process: (1) adequate notice – that individuals be held responsible for obeying laws only when they have been published or otherwise communicated and for satisfying only those charges explicitly presented; (2) a fair hearing – that all relevant evidence to a proposed violation be presented and considered and that charged parties be given the opportunity to provide commentary; and (3) judgement based on evidence to ensure that procedural, distributive and interactional justice are achieved. The latter refers to the quality of the interpersonal treatment people receive and is particularly important. Folger *et al* (1992) proposed that these principles should be applied to performance management as follows: (1) adequate notice of the performance standards to be met, (2) fair hearing based on evidence, and (3) judgements based on evidence to apply consistently across employees.

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. This work has generally 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 led researchers 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.

The approach to managing performance

The context of the organization will have a considerable influence on how performance is managed. It has been said that: 'Rather than manage *performance,* manage the *context* in which performance occurs' (Jones, 1995: 426). He went on to explain (page 431) that:

> In this equation, the role of management focuses on clear, coherent support for employees by providing information about organization goals, resources, technology, structure, and policy, thus creating a context that has multiplicative impact on the employees, their individual attributes (competency to perform), and their work effort (willingness to perform). In short, managing context is entirely about helping people understand; it is about turning on the lights.

The context includes the organizational culture, the people involved at all levels, including top management, line managers and employees generally, the employee relations climate, and the internal environment in terms of the organization's structure, size and technology, and working practices. Commentators such as Deming (1986) and Coens and Jenkins (2002) stress that system factors are instrumental in governing the level of organizational performance. The latter (page 41) referred to the need to replace the mechanistic model of managing individual performance, that is, a performance management system, with a more dynamic, organic model. Note the reference to leadership in the description of such a model. According to Coens and Jenkins (2002):

> [It] attributes organizational outcomes to the interaction of organizational systems and structures (sometimes called *systems theory*) rather than individual performance. This model capitalizes on *freedom* rather than maintaining *control*. We see more and more managers who are willing to experiment with leadership attuned to this new paradigm. It is based on *trust* and a greater belief in people. It assumes that, with less control and greater *autonomy*, commitment and innate motivation will flourish. It rests on the premise that with *less* structure, people can effectively work in concert, within naturally emerging systems that foster optimal work patterns. [italics in original]

A high-performance culture

A systems approach at organizational level will involve developing a high-performance culture; one in which the achievement of high levels of performance is a way of life. It has the following features:

- Management defines what it requires in the shape of performance standards and improvements, sets goals for success and monitors performance to ensure that the goals are achieved.
- People know what is expected of them – they understand their goals and accountabilities.
- People feel that their job is worth doing and there is a strong fit between the job and their capabilities.
- There is a focus on promoting positive attitudes that result in an engaged, committed and motivated workforce.

Senior management should take the lead in creating and maintaining a high-performance culture, but the support of line managers and employees is essential. The development of a high-performance culture can be achieved with the help of a high-performance work system (HPWS), a bundle of HR practices such as talent management, leadership development, and learning and development that facilitate skill enhancement, motivation and employee engagement (see also Chapter 15).

Choice of approach to managing performance

The basic choice is between having a formal performance management system or relying on the effectiveness of line managers as performance leaders. In the former case, there is a choice of the type of system to be adopted and the degree of formality required. (The choices available and the factors to be considered in making them are reviewed in Chapter 23.) In the latter case, talent management and leadership development programmes will be required to ensure that there are managers available who have the skills required to exercise performance leadership (see Chapter 6) and the desire to do it.

The views set out below of two managers interviewed by Dilys Robinson (2013) are interesting. They were obtained when she carried out research for the Institute for Employment Studies, in which she initially identified a number of managers in large organizations who were in charge of departments where surveys revealed that levels of employee engagement were high, and

then investigated how they contributed to the achievement of those levels through the ways in which they managed performance.

> Performance management is seen as something you do to keep HR quiet. It's seen as owned by HR not about how you manage people properly.
>
> This organisation has a very structured performance management framework, as you would imagine from a big company. I try and avoid using it unless I have to, I would rather try and develop the personal relationship with someone, to understand their issues and try and improve their performance by working with them, rather than going through procedural ways of managing performance.

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The conceptual framework of performance management

02

Introduction

Performance management is carried out more effectively if the relevant concepts relating to performance – the meaning of performance, the distribution of performance, the factors affecting individual performance, the underpinning theories, and the significance of the psychological contract – are understood and applied. The purpose of this chapter is to describe these concepts and examine their practical significance.

The meaning of performance

If you can't define performance, you can't manage it. Bates and Holton (1995: 279) pointed out that: 'Performance is a multi-dimensional construct, the measurement of which varies depending on a variety of factors.' They also stated that it is important to determine whether the measurement objective is to assess performance outcomes or behaviour.

Latham *et al* (2007) emphasized that an appropriate definition of performance is a prerequisite for feedback and goal-setting processes. They stated that a performance theory is needed that stipulates:

- the relevant performance dimensions;
- the performance standards or expectations associated with different performance levels;
- how situational constraints should be weighed (if at all) when evaluating performance;

- the number of performance levels or gradients;
- the extent to which performance should be based on absolute or comparative standards.

There are different views on what performance is. It could just mean outcomes – the results obtained, or it could mean behaviour – how the results were obtained, or it could be both results and behaviour.

Performance as outcomes

Bernadin *et al* (1995) suggested that performance should be defined as the outcomes of work because they provide the strongest links to the strategic goals of the organization, customer satisfaction and the economic contribution to performance. Kane (1996: 124) argued that performance 'is something that the person leaves behind and that exists apart from the purpose. More specifically, it is the record of the person's accomplishments.'

Performance as behaviour

Campbell (1990) made the point that performance is behaviour and should be distinguished from the outcomes because they can be contaminated by systems factors. Campbell *et al* (1993) focused on the measurement of performance, which they defined as behaviour or action relevant to the attainment of the organization's goals that can be scaled, that is, measured. They suggested that performance is multidimensional and that each dimension is characterized by a category of similar behaviour or actions. The components consist of: (1) job-specific task proficiency, (2) non-job-specific proficiency (such as organizational citizenship behaviour), (3) written and oral communication proficiency, (4) demonstration of effort, (5) maintenance of personal discipline, (6) facilitation of peer and team performance, (7) supervision/leadership and (8) management/administration.

Borman and Motowidlo (1993) put forward the notion of contextual performance that covers non-job-specific behaviours such as cooperation, dedication, enthusiasm and persistence and is differentiated from task performance covering job-specific behaviours. As Fletcher (2001) mentioned, contextual performance deals with attributes that go beyond task competence and foster behaviours that enhance the climate and effectiveness of the organization.

Performance as both outcomes and behaviour

It can be argued that a more comprehensive view of performance is achieved if it is defined as embracing both behaviour and outcomes. When people are said to be performing well it does not solely cover the results they deliver, it also refers to their behaviour in achieving those results. The Oxford English Dictionary defines performance as: 'The accomplishment, execution, carrying out, working out of anything ordered or undertaken.' This refers to outputs/outcomes (accomplishment) as well as behaviours (carrying out the work). Brumbach (1988: 388) noted that:

> Performance means both behaviours and results. Behaviours emanate from the performer and transform performance from abstraction to action. Not just the instruments for results, behaviours are also outcomes in their own right – the product of mental and physical effort applied to tasks – and can be judged apart from results.

Defining performance like this leads to the conclusion that, when managing the performance of individuals and teams, both inputs (behaviour) and outputs (results) need to be considered. This was supported by Aguinis (2005: 11) who suggested that performance management: 'focuses on achieving important results that lead to organizational effectiveness and also on driving effective employee behaviour. The focus on both results and behaviour is important because the most impressive results fade in the presence of bad behaviour.'

This is the mixed model of performance management that covers competency levels and achievements as well as objective setting and review. It is concerned not only with *what* people do but also *how* they do it and has become the generally accepted basis for performance management.

The distribution of performance

It has long been assumed that levels of performance in a population are distributed in accordance with the normal curve of distribution (the Gaussian curve), as illustrated in Figure 2.1.

This type of distribution may be correct for IQs (intelligence quotients) but there has been no evidence that it applies to levels of performance or productivity. In spite of this lack of evidence, the practice of forced distribution or ranking has been based on it.

Figure 2.1   A normal curve of distribution
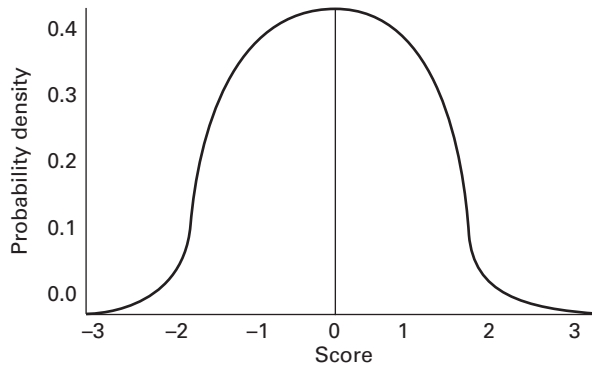
Aguinis and Bradley (2015: 161), in their analysis of what they called 'star performers', defined them as those who 'consistently generate exorbitant output levels that influence the success or failure of their organizations and even society as a whole.' They referred to them as 'the secret sauce for organizational success'. Their initial research challenged the concept of a normal distribution of performance levels and they suggested that: 'It is time we change management theories and practices so that we conceptualize the distribution of performance as being non-normal instead of changing the data to fit our existing, and often incorrect, conceptualization' (page 162).

The results of their extensive research to establish the facts were published by Aguinis and his colleagues in 2016. They hypothesized that, rather than following a normal distribution, performance would be distributed in accordance with the characteristics of what is known as a 'power law' distribution. This has a long tail on the right, as illustrated in Figure 2.2. It is associated with the *Pareto Principle*, which states that for many phenomena 80 per cent of the result comes from 20 per cent of the effort. The research involved the use of 229 datasets including 633,876 productivity observations collected from approximately 625,000 individuals. To understand this principle as it applies to performance or productivity the researchers adopted as their framework the principle of cumulative advantage – the process by which small initial differences compound to yield large differences. One form of cumulative advantage is the 'Matthew effect', as formulated by Merton (1988), where initial small advantages in wealth, education and opportunity over time lead to very large gaps between the 'haves'and 'have-nots'.

Figure 2.2   The power-law distribution
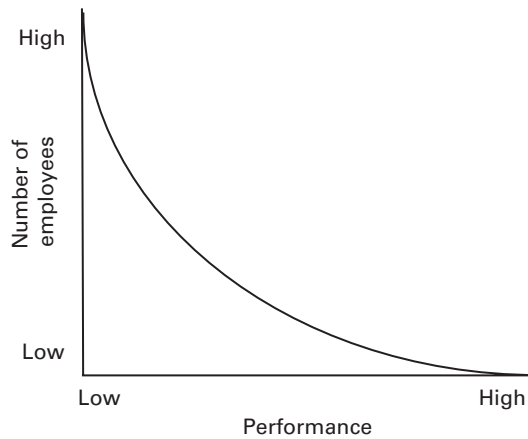
Aguinis *et al* (2016: 9) stated that the principle of cumulative advantage is: 'a generating mechanism that shifts the source of production from being primarily vested in a large group of average workers to a small group of productivity stars, thereby leading to a heavy-tailed rather than a normal distribution'. The principle also means that those who find themselves with an initial advantage over others will be offered more opportunities to produce more and better outcomes in the future: 'such differences, albeit small, quickly result in the presence of heavy-tailed productivity distributions and a greater proportion of productivity stars than would be realistically possible, from a probability standpoint, by a normal distribution.'

As Murphy (2020) points out, this distribution does not mean that most people are poor performers. It simply explains that there is a relatively small number of people who are highly effective and a much larger number of people who are less effective. The implication, according to Murphy, is that the differences will be so obvious that they will be easy to detect, and elaborate evaluation schemes are therefore unnecessary.

Factors affecting individual performance

Four major influences on performance were identified by Harrison (1997):

- *the learner*, who needs the right level of competence, motivation, support and incentives in order to perform effectively;

- *the learner's work group,* whose members will exercise a strong positive or negative influence on the attitudes, behaviour and performance of the learner;
- *the learner's manager,* who needs to provide continuing support and act as a role model, coach and stimulator related to performance;
- *the organization,* which may produce barriers to effective performance if there is no powerful, cohering vision; ineffective structure, culture or work systems; unsupportive employee relations policy and systems, or inappropriate leadership and management style.

These can be classified as individual, systems and contextual factors.

Individual factors

Vroom (1964) suggested that performance is a function of ability and motivation as shown in the formula: Performance = f (Ability × Motivation). The effects of ability and motivation on performance are multiplicative not additive. People need both ability and motivation to perform well and if either ability or motivation is zero there will be no effective performance.

A development of this formula was produced by Boxall and Purcell (2003). It states that performance depends on the individual's ability, motivation and opportunity. Employees must have the ability to perform well and the motivation to do so, while organizations must ensure that they are given the opportunity to perform. Boxall and Purcell (2016: 155) formulated the AMO framework as P = f(A,M,O). They noted that someone's ability, motivation and opportunity to perform would depend on two groups of factors: (1) the individual's experience, intelligence, health personality and so on, and (2) the situational factors of HR policies and practices orientated to creating 'AMO', and related variables in the production system and the organizational context.

Systems factors

Individual performance is influenced by systems factors as well as person factors (Cardy and Dobbins, 1994). As formulated by Miller and Rice (1967), systems theory states that organizations should be treated as open systems that transform inputs into outputs within the environments (external and internal) upon which they are dependent. Systems theory is the basis of the input-process-output-outcome model of managing performance, which assesses the entire contribution that an individual makes within the system in

carrying out his or her allotted tasks. *Inputs* are the skills and knowledge that an individual brings to a job. *Process* is how people actually perform their jobs. *Outputs* are the results of performance expressed in quantified terms such as sales volume, income generated or units of production. *Outcomes* are a visible effect that is the result of effort but cannot necessarily be measured in quantified terms. The input-process-output-outcome model of managing performance is important, first because it provides the basis for measuring performance and second, because all the factors that influence performance, including the system and the context, can be taken into account when assessing it.

Bowen and Ostroff (2004) advocated a 'strong' HR system to ensure the more effective implementation of HRM practices, including performance management. They developed a model of HRM in which HR practices can be viewed as communications from the employer to employee, and suggested that: 'when the HRM system is perceived as high in distinctiveness, consistency, and consensus, it will create a strong situation' (page 208). They argued that a strong HRM system can significantly affect firm performance by creating powerful, focused organizational cultures that help to structure and direct employee behaviour and effort towards desired organizational goals. Performance management needs to function like this.

Contextual factors

Systems operate within the context of the organization. Nadler and Tushman (1980) stated that:

> The manager needs to understand the patterns of behaviour that are observed to predict in what direction behaviour will move (particularly in the light of management action) and to use this knowledge to control behaviour over the course of time. Effective managerial action requires that the manager be able to diagnose the situation he or she is working in.

This point should be extended to include the people managers manage – they equally want to know and are entitled to know the situation *they* are working in.

The situation or context in which people work and the way performance can be measured can be described in terms of systems theory as described earlier. More specifically, the context includes the organizational culture, the employee relations climate, the people involved and the internal environment in terms of the organization's structure, size, technology and working practices.

Organizational culture

Organizational culture is the pattern of shared beliefs, norms and values in an organization that shapes the way people act and interact and strongly influences the ways in which things get done. From the performance management viewpoint one of the most important manifestations of organizational culture is management style. This refers to the ways in which managers behave in managing people and how they exercise authority and use their power. If the prevailing management style in a command-and-control type structure is autocratic, directive, task-orientated, distant and tough, a 'caring and sharing' philosophy of performance management is not likely to work, even if it were felt to be desirable, which is unlikely. Alternatively, a non-directive, participative and considerate style is more likely to support a 'partnership' approach to performance management, with an emphasis on involvement, empowerment and ownership.

It is vital to take account of cultural considerations when developing and implementing performance management. The aim must be to achieve a high degree of fit between the performance management processes and the corporate culture when the latter is embedded and appropriate. Moreover, performance management is one of the instruments that can be used in a cultural change programme where the focus is on high performance, engagement and involvement.

Employee relations climate

The employee relations climate of an organization represents the perceptions of employees and their representatives about how relationships between management and employees are maintained. It refers to the ways in which formal or informal employee relations are conducted and how the various parties (managers, employees and trade unions or staff associations) behave when interacting with one another. The climate can be good, bad or indifferent, according to perceptions about the extent to which:

- the parties trust one another;
- management treats employees fairly and with consideration;
- management is open and honest about its actions and intentions;
- harmonious relationships exist – management treats employees as stakeholders;

- employees are committed to the interests of the organization;
- what management does is consistent with what it says it will do.

Clearly, a good climate will be conducive to the effective operation of performance management processes as long as these are developed jointly by those involved and take account of their interests. An improved employee relations climate may also result from pursuing the development and implementation of performance management in accordance with the ethical principles set out in Chapter 1.

People

Performance management processes will vary in accordance with the composition of the workforce. For example, the approach by a firm employing mainly knowledge workers is likely to be different from one in a manufacturing firm. Within the organization, approaches may vary between different groups of employees.

Organization structure

A hierarchical or functional structure with well-defined layers of authority is likely to support a directive, top-down approach to setting objectives and reviewing performance. A flatter, process-based structure will encourage more flexible participative approaches with an emphasis on teamwork and the management of performance by self-directed teams.

A structure in which responsibility and authority are devolved close to the scenes of action is more likely to foster a flexible approach to performance management. A highly centralized organization may attempt to impose a monolithic performance management system, and fail.

Technology and working practices

There is no conclusive evidence that advanced technology and working practices are associated with sophisticated approaches to performance management. But it is reasonable to assume that high-technology firms or sophisticated organizations are more likely to innovate in this field. Another aspect of work practices is the extent to which the work is computer or machine controlled, or routine. Computerized performance monitoring

(CPM) provides an entirely different method of measuring performance, which is related directly to outputs and/or errors. As Bates and Holton (1995) noted as a result of their research, this can have detrimental effects by transforming a helpful supervisory style into one that is more coercive.

Research conducted by Earley (1986), however, found that employees trusted feedback from a computer more than feedback from a supervisor. Earley claimed that CPM could have a greater impact on performance because of higher self-efficacy (the individual's self-belief that they will be able to accomplish certain tasks).

Bureaucratic methods of working may also affect the design and operation of performance management. Organizations that function as bureaucracies, appropriately or inappropriately, are more likely to have a formalized performance management system. The system may be centrally controlled by human resources and the emphasis will be on the annual appraisal carried out in accordance with strictly defined rules. The appraisal may be a top-down judgemental affair referring to personality traits. Performance and potential will be rated.

Organizations that work flexibly with an emphasis on horizontal processes and teamwork – what Burns and Stalker (1961) called 'organic organizations' – are more likely to have a less formal process of performance management, leaving more scope for managers and teams to act as performance leaders and manage their own processes in accordance with agreed principles.

Size of organizations

Research carried out by Beaver and Harris (1995) into performance management in small firms came to the conclusion that:

> The performance management systems of large firms simply cannot be scaled down to fit the smaller enterprise which often exhibits a radically different management process and operation.

They described the management process in small firms as likely to be characterized by the highly personalized preferences, prejudices and attitudes of the firm's entrepreneur or owner, who will probably work close to the operating process.

The external environment

If the external competitive, business, economic and political environment is turbulent – which it usually is – organizations have to learn to respond and adapt rapidly. This will influence the ways in which business strategies and plans are developed and the sort of objectives people are expected to achieve. Performance management has to function flexibly in tune with the constant changes in demands and expectations to which the organization is subject. A business which operates in a fairly steady state as far as its external environment is concerned (rare, but they do exist) can adopt more structured and orderly performance management systems. The way in which performance is managed will be different when a large proportion of the workforce is working from home, as is happening following the Covid pandemic (see Chapter 18).

Underpinning theories

Performance management practice is underpinned and explained by the theories summarized below. Goal theory has perhaps been the most influential because setting goals and assessing performance against those goals is such a significant part of a performance management system. But other theories are relevant, such as those relating to control and reinforcement, which explain the fundamental mechanism of feedback, and expectancy theory, which indicates how performance management can help to motivate people. Social learning theory links reinforcement and expectancy theory, and self-efficacy theory highlights the importance of helping people to believe in themselves and their ability to improve.

Goal theory

Goal theory as developed by Latham and Locke (1979) highlights four mechanisms that connect goals to performance outcomes: (1) they direct attention to priorities; (2) they stimulate effort; (3) they challenge people to bring their knowledge and skills to bear to increase their chances of success and (4) the more challenging the goal, the more people will draw on their full repertoire of skills. Motivation and performance are higher when individuals are set specific goals, when goals are demanding but accepted, and when there is feedback on performance. Goals must be clearly defined. Participation in

goal setting is important as a means of getting agreement to the setting of demanding goals. Feedback is vital in maintaining motivation, particularly towards the achievement of even higher goals. Robertson *et al* (1992: 41) suggested that:

> Goals inform individuals to achieve particular levels of performance, in order for them to direct and evaluate their actions; while performance feedback allows the individual to track how well he or she has been doing in relation to the goal so that, if necessary, adjustments in effort, direction or possibly task strategies can be made.

Goal theory supports the emphasis in performance management on setting and agreeing goals or objectives against which performance can be measured and managed.

However, the universality of goal theory has been questioned. Pintrich (2000) noted that people have different goals in different circumstances and that it is difficult to justify the assumption that goals are always accessible and conscious. And Harackiewicz *et al* (2002) warned that goals are only effective when they are consistent with and match the general context in which they are pursued. But support for goal theory was provided by Bandura and Cervone (1983), who emphasized the importance of self-efficacy (a belief in one's ability to accomplish goals).

Expectancy theory

Expectancy theory as originally formulated by Vroom (1964) states that effort (motivation) depends on the extent to which people expect that rewards will follow effort and that the reward is worthwhile.

Performance management is concerned with influencing behaviour to achieve better results. It operates in line with expectancy theory by defining the relationship between effort, achievement and reward, thus motivating people and providing them with a sense of direction. Positive feedback produces a reward in the shape of the recognition of work well done. This is intrinsic motivation offered by the work itself, which arises when work satisfies needs for accomplishment, provides opportunities for growth and the scope to use and develop abilities, and fosters self-belief.

An expectancy-based motivational model for individual performance improvement was devised by DeNisi and Pritchard (2006). It is based on the belief that people allocate energy to actions in a way that will maximize their anticipated need satisfaction. The sequence is illustrated in Figure 2.3.

Figure 2.3 Expectancy-based motivational model for performance

| Actions | → | Results | → | Evaluation | → | Outcomes | → | Need satisfaction | → | Performance |
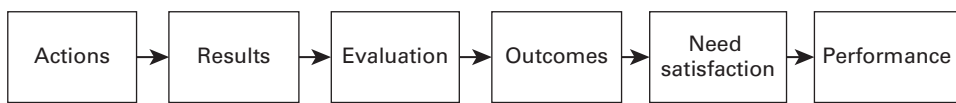
The key to effective performance management is to ensure that evaluations and outcomes are structured so that employees will focus their actions in the ways desired by the organization, resulting in the kind of performance that is needed and in appropriate rewards. The stronger the links between each element in the motivation process, the greater will be the motivation of employees to improve their performance. The process should aim to strengthen the perceived connection between actions and outcomes.

Control theory

Control theory focuses attention on feedback as a means of shaping behaviour. As people receive feedback they appreciate the discrepancy between what they are doing and what they are expected to do and take corrective action to overcome the discrepancy. Feedback is recognized as a crucial part of performance management.

Reinforcement theory

Reinforcement theory (Hull, 1951) states that successes in achieving goals and rewards act as positive incentives and reinforce the successful behaviour, which is repeated the next time a similar need arises. Positive feedback therefore provides for positive reinforcement. Constructive feedback can also reinforce behaviours that seek alternative means of achieving goals.

Social learning theory

Social learning theory as formulated by Bandura (1977) combines aspects of reinforcement and expectancy theory. It recognizes the significance of the basic concept of reinforcement as a determinant of future behaviour, but also refers to the importance of internal psychological factors, especially expectations about the values of goals and the ability of individuals to reach them. The theory emphasizes the significance of learning from other people, which

suggests that performance management for teams (see Chapter 16) is important as well as individual performance management.

Self-efficacy theory

Self-efficacy theory, also developed by Bandura (1982), indicates that self-motivation will be directly linked to the self-belief of individuals that they will be able to accomplish certain tasks, achieve certain goals or learn certain things. An important aim of performance management is to increase self-efficacy by giving individuals the opportunity to consider and discuss with their managers how they can do more. Managers should encourage self-belief in the minds of those with whom they discuss performance and development.

Performance management and the psychological contract

The psychological contract is the set of reciprocal but unwritten expectations that exist between individual employees and their employers. A psychological contract is implied and inferred rather than stated and agreed. It cannot necessarily be spelt out in detail because it evolves over time. But performance management processes can be used to ensure that performance expectations are agreed and reviewed regularly. And this should contribute to the clarification of the psychological contract and the employment relationship.

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Performance management systems

03

Introduction

Formalized performance management systems attempt to represent the normal processes of management – planning, executing, reviewing, taking corrective action – as a procedure for managing performance that managers and employees are obliged to follow. Each of these processes is covered in the usual version of the performance management cycle in which managers agree objectives with the people who report to them, provide feedback, review and evaluate performance, agree any actions required to develop capabilities and manage performance, and complete a report on the outcomes of these activities. It can therefore be argued that a performance management system is no more than a formal description of a natural process. As such, it has its uses as a framework for managing performance, but it does not mean that it has to be blown up into a bureaucratic process that purports to provide all the answers to managing performance. As a framework it may help, but it should not be regarded as the ultimate answer. The effective management of performance is much more about exercising effective performance leadership than conforming to the requirements of a system.

The first section of this chapter describes the overall features of a formal performance management system. The next three sections summarize the main constituents of such a system, namely: performance and development planning, monitoring and reviewing.
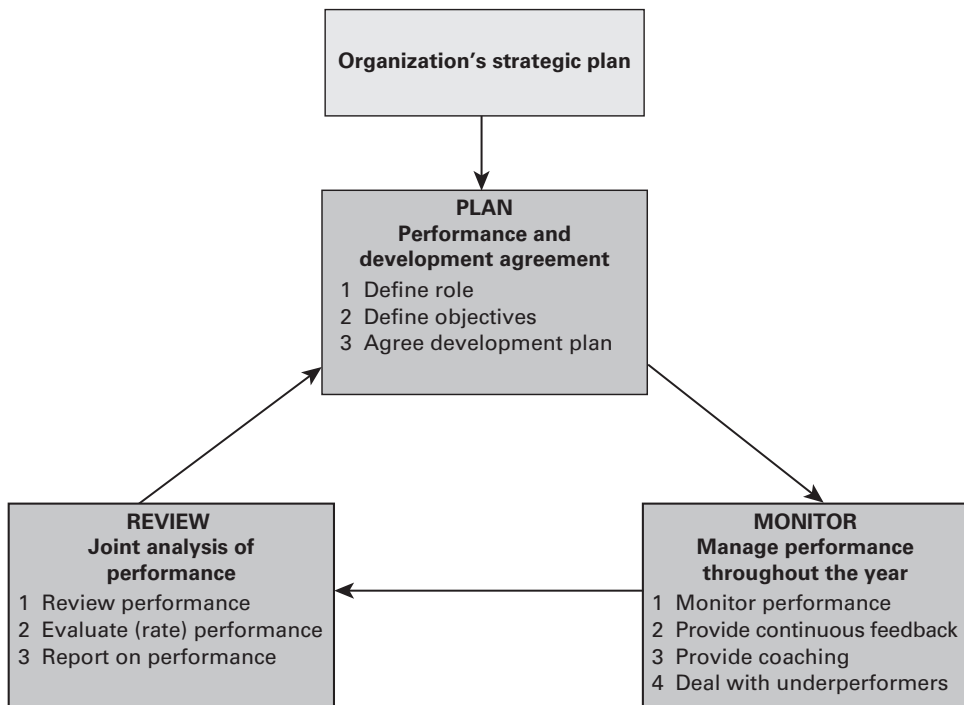
Features of a performance management system

A performance management system is a defined set of procedures for planning, monitoring, reviewing, evaluating and reporting on performance that

are interconnected and, in sequence, constitute an organization's formal approach to managing performance.

Ideally, the system flows from the organization's objectives and then operates as a continuous and self-renewing cycle, as shown in Figure 3.1.

Figure 3.1   The performance management cycle

Three examples of performance management models are shown in Figures 3.2, 3.3 and 3.4. They exhibit similar features. It is notable that coaching plays a central role in two of them.

These models depict an apparently logical sequence of activities, each of which contributes cumulatively to the achievement of the objective of improved performance. There is nothing wrong with the logic. But the success of the process depends on each stage being conducted properly. And this makes demands on the participants – managers and their team members – that can be hard to meet. The nature of these demands under each of the three headings of the cycle is summarized below.

Figure 3.2 Model of the performance management system in AstraZeneca
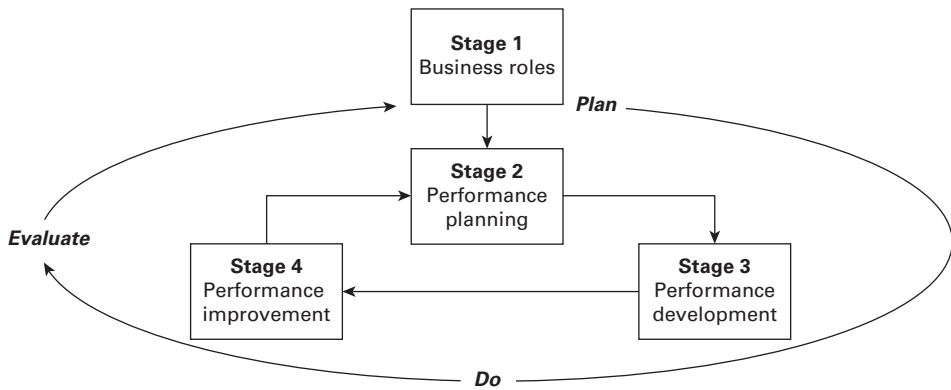
Figure 3.3 Model of the performance management system in Halifax Bank
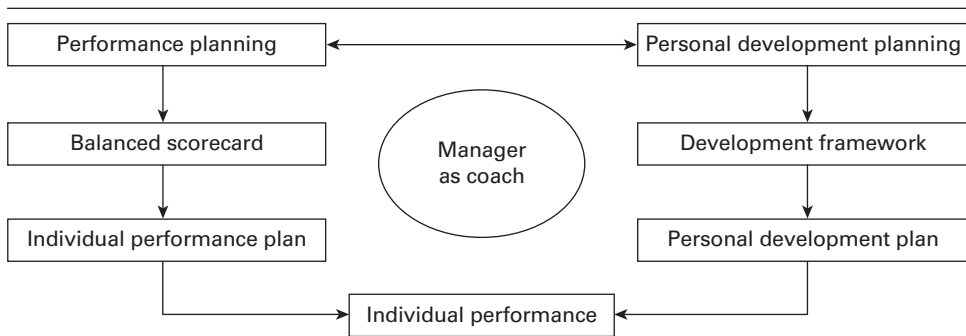
Figure 3.4 Model of the performance management system in Pfizer Inc.
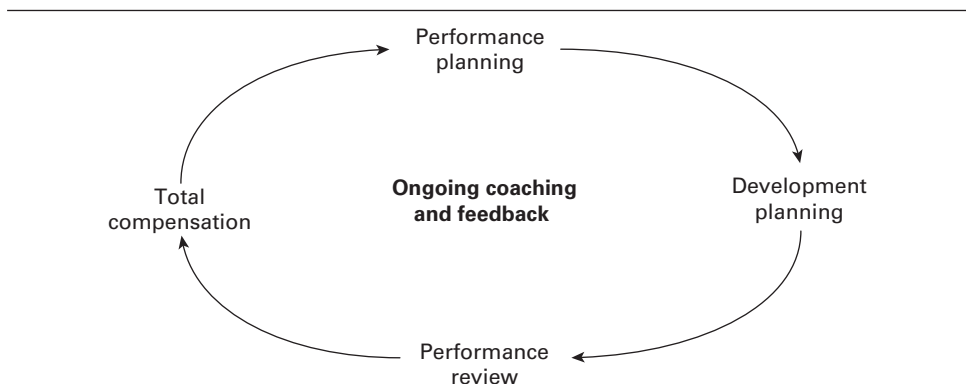
Performance and development planning

A performance and development plan or agreement is the outcome of the decisions made jointly by the manager and the individual during the planning part of the performance management sequence. Its purpose is to provide a foundation for managing performance throughout the year and for guiding development and improvement activities. It can be used as a reference point when planning and reviewing performance and is therefore a key component of an ideal performance management system. It contains agreements on expectations in the form of the results, competencies and actions required – defined as performance and learning objectives – and on action plans to develop performance and abilities. Individual objectives are agreed, which flow from departmental and organizational goals and support their achievement, a process known as 'cascading'. The alignment of individual objectives with the organization's strategic goals is generally regarded as a key feature of a performance management cycle. The basis for these agreements is a role profile that is jointly developed by the two parties. Performance and development planning is described fully in Chapter 7 and defining objectives in Chapter 11.

Monitoring

Perhaps one of the most important features of an ideal performance management system 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, providing or obtaining feedback and ensuring that corrective action is taken when necessary. The feedback and recognition of good work by the manager 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. Managing performance throughout the year also means updating objectives and providing continuous learning on the job or through coaching. Another requirement is to deal with underperformers in good time so that improvements can take place.

The ongoing management of performance is important and ought to take place whether or not there is a formal performance management system. It will not always happen even if there is a system, but it will be carried out by effective managers when such a system does not exist.

Reviewing

A defining feature of a traditional performance management system is a formal performance review, sometimes called a performance appraisal, which typically takes place annually.

Formal performance reviews are traditionally annual events in which a joint analysis of performance over the past year takes place to establish the extent to which objectives have been achieved and the development plan has been implemented. They often provide for some form of performance evaluation through rating or ranking. And this may inform performance pay decisions. Following the review, a revised performance and development plan is agreed for the next year. The outcome is recorded on a performance management form (online or paper) illustrated in Chapter 9 (Figures 9.1 and 9.2) and submitted to HR or some other authority.

The use of formal annual reviews has been the subject of much criticism, as set out in Chapter 4. A number of organizations have abandoned them in favour of less formal and more frequent performance and development conversations or 'check-ins' throughout the year.

The reality of performance management

The model of a performance management system shown in Figure 3.1 is straightforward and persuasive. The performance management cycle closely resembles the cycle for continuous improvement defined by William Deming (1986): 'plan-do-check-act'. This is not a coincidence. Performance management is also concerned with continuous improvement. However, in practice, the system often probably does not work according to plan. There are four problems with the model.

1 It indicates a steady progression through the stages of performance management, each of them linked together. This is desirable but in reality 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.

2 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. 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 is to ensure that the basic processes are explained and illustrated in communications about the system and in training programmes.

3 Cascading the organization's strategic goals to individual objectives is 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 to achieve it. Strategic goals will probably be determined by top management without consulting employees, and 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.

4 The successful application of the model 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 that 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. Performance management is applied in many 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.