

Performance Review: Balancing Objectives and Content

M Strebler
D Robinson
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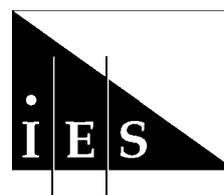
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Report 370

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Executive Summary

Many employers have questioned the relevance and effectiveness of traditional forms of performance review (PR) to their flatter, flexible work cultures. Nonetheless, it is still to the review process they tend to look in order to establish focus on various aspects of performance and development. Much credibility can be gained or lost as a result of the effectiveness or otherwise of the performance management systems that human resources functions design and implement.

This prompted a group of IES Research Club members to finance a study to explore the problems and issues which organisations face in prioritising the objectives and contents of the performance review.

Performance review (PR)

Performance review (PR) systems and processes are the tools to deliver performance management. They represent one of the most visible business-oriented services that HR provides. Performance management (PM) is a systematic approach to improving individual and team performance to deliver business objectives. The application of PM is widespread and extensively researched. The most pertinent research for the purposes of our study shows that:

- it lacks strategic focus
- it gives conflicting messages between encouragement and control
- it has a limited impact on business performance
- it stretches managers who often lack the skills and motivation to deliver it effectively
- it is participation in the review meeting which matters most for employees rather than its outcomes
- the importance of employee commitment is increasing
- there is an emphasis on development, and increased disillusion with the link to pay

Does PR support the business?

How do employers position their performance review processes and systems to reconcile the needs of the business with best practice while ensuring it has a decent shelf life? We have reviewed the approaches taken by some employers to align their performance review to business strategy in the light of recommended best practice.

Good practice suggests that PR systems should be aligned to business strategy. Our findings indicate that aligning too closely with business goals may bring constant pressure for PR systems to change. It will also fail to deliver an important aspect of performance review for managers, namely performance feedback and counselling (see Figure 2.3).

Nonetheless, it has been possible to marry features of the systems to the three options of innovation, quality and cost, recommended by generic strategists.

In practice, the objectives and contents of performance systems do not look that different. As level of user satisfaction with the same system varies across different organisations, it is in the way that systems are introduced, supported and implemented that employers may find real added value. Some of the factors important to success have been reviewed, such as user friendliness.

Confirming previous research, employers in our study were not better or worse at delivering real improvements to the business, but rather more successful at increasing awareness of business goals.

What can PR realistically deliver?

Are PR systems underperforming because of the way they are designed or because of way they are implemented? We have examined the objectives and contents of a number of PR systems, the motivational impact of the review process and of the activities related to feedback, training and development.

Employers need to strike the right balance between the objectives and contents of their PR systems. As employers in our study found, the answer is more likely in designing PR systems that can realistically deliver rather than searching for the text book model.

A number of PR systems with multiple objectives looked as though they were trying to achieve too much. There were also a number of dimensions to 'overloading' which needed to be considered in terms of the messages conveyed to users (*eg* contents of the review meeting, the number of formal meetings, the link to supporting activities and other HR systems).

However, users satisfied with their PR system believed that it did not cover too many purposes to be effective, irrespective of how many objectives it was trying to achieve and whether it was separated from assessment for pay or not. While overloading appeared a useful concept, it is perception of overloading that matters. Furthermore, although time needed to conduct PR is perceived to be valuable, in practice managers were only delivering one or two activities at most.

Users were satisfied with the review process delivered by their managers rather than its contribution to performance improvement and development. This resulted from a poor delivery of coaching and facilitation of training and development. Since users satisfied with coaching and training and development perceived PR to have helped transform the culture of the organisation, employers may be missing out on a way to add real value to their business as well as improve performance.

Does it matter what staff think?

Do users' views about linking PR to pay matter, and at which stage of the PR process do they matter most? We have explored the impact of users' perceptions of objectivity and fairness on the link to pay encouraged by some PR systems.

From a user point of view, PR has two important and visible outcomes: the rating of individual performance and the actual outcome of the review process. As the main vehicle for linking individual performance to pay, the approaches used by the employers in our study for linking PR to pay varied widely in their transparency and simplicity.

While managers were happy with the discussion of their objectives with their managers, they were less so with those set by the business. In some organisations, targets which conformed to the SMART principle were nevertheless perceived to be unfair and imposed, reducing their motivational impact. Objectivity of managers was increased by the use of multisource feedback and increased objectivity in turn led to perceived fairness. Managers had mixed reactions to the use of competencies. While they saw their potential, they fail to understand how these relate to their job roles and had misgivings about competencies helping line managers to judge their performance.

What does the future hold for PR?

Human resources practitioners as the developers and custodians of systems can be in the uncomfortable position of having to find the best 'fit' between the needs of the business on one hand and the needs of users on the other, while delivering HR policies, applying best practice and addressing the issues left over from

previous approaches. These difficulties and somewhat conflicting needs have led an increasing number of employers to question traditional approaches to performance appraisal.

In some of the organisations we studied, the piecemeal growth of PR into an unwieldy vehicle for multiple and sometimes conflicting goals, needs a radical re-think. The starting point of PR has to be the business strategy and then the roles, skills and behaviours required of employees to deliver it. Once this is established, IES experience suggests that PR should conform to some simple rules. It should:

- have clear aims and measurable success criteria
- be designed and implemented with appropriate employee involvement
- be simple to understand and operate
- have its effective use core to all managers' performance goals
- allow employees a clear 'line of sight' between their performance goals and those of the organisation
- focus on role clarity and performance improvement
- be closely allied to a clear and adequately resourced training and development infrastructure
- make crystal clear the purpose of any direct link to reward and build in proper equity and transparency safeguards
- be regularly and openly reviewed against its success criteria.

Methodology

A total of 17 organisations participated in this study, including eleven civil service departments. To establish some baseline for comparison across these organisations, we limited the scope of the study to managers. Our focus was the recipients of the performance review, including both appraisees and appraisers. A survey was completed by 926 managers including Senior Civil Servants, managers from other public services, and managers from private sector organisations.

1. Introduction

Most large organisations have a formal process of performance appraisal or review. Such processes have usually had to operate and evolve against a backdrop of continuous change to both organisational structure and strategy. Many employers have questioned the relevance and effectiveness of traditional forms of performance review (PR) to their flatter, flexible work cultures. Nonetheless, it is still to the review process that they tend to look, to establish focus on aspects of performance and development.

Human Resources (HR) practitioners, as the developers and custodians of systems, can be in the uncomfortable position of having to find the best 'fit' between the needs of the business on one hand and the needs of users on the other, while delivering HR policies, applying best practice and addressing the issues left over from previous approaches. Much credibility can be gained or lost as a result of the effectiveness or otherwise of the 'service' provided by the systems they put in place. Not surprisingly, much investment is spent in getting PR right. Our work in helping organisations design and evaluate their systems shows that effort and time spent on introducing systems are not necessarily matched by perceived benefits.

These difficulties and somewhat conflicting needs have led an increasing number of employers to question traditional approaches to performance appraisal. This prompted a group of IES corporate members of the Research Club to finance a study to explore the problems and issues which organisations face in prioritising the objectives and contents of the performance review.

1.1 Background

Performance appraisal or review has traditionally been the means by which individual performance is managed within large organisations. But it has failed to deliver on many counts. It is often criticised as being backward looking, bureaucratic and time consuming (Egan, 1995; Lawler, 1994). Based on managers' judgements of performance, its ability to deliver objective performance assessments has also been found wanting. So should we abandon performance review altogether? According to Lawler (1994), performance review should not be abandoned in most

organisations but it should be 'selectively reinvented'. But when do employers know they need to reinvent performance review, and which aspects should they selectively attend to? On the one hand, among the drivers for change, we find:

- the increase in the UK of performance management approaches
- flatter structures and seamless operations
- the move from a focus on individual performance alone to team and unit performance
- the emphasis on continuous development.

On the other, the need to deliver multiple, but often conflicting, objectives while keeping systems and processes manageable has been met with somewhat 'knee jerk' reactions. There appear to be distinct groups amongst employers' reactions:

- **Fine tune:** those who continually tweak their PR system in the hope that it will deliver improved performance, putting the onus on the system managing performance rather than the people using it.
- **Re-structure:** those who regularly and extensively redesign their system in the quest for the perfect system. Approaches here are often an attempt to structure the performance review process in the hope of increasing its objectivity. In reality, it is more likely to increase the complexity, structure and content of schemes.
- **Open:** those who have rethought the processes altogether, shifting attention to continuous development. They are likely to have made major changes to the way they are addressing performance management and development, making it a more user friendly and open process, often having separate self-initiated processes for assessment and development.

We set out to address a number of issues faced by employers when they 'selectively reinvent their system'. Much has been written on the subject of performance management and performance review. It was not our purpose to review the state of performance management or examine the characteristics of PM systems. These have been discussed in detail elsewhere (Bevan and Thompson, 1992; Armstrong and Baron, 1998b). The following three main issues emerged from our work with employers and preliminary research. They were refined during a forum with employers.

- Does our PR system support business and organisational objectives?
- Does our system motivate both managers and employees to improve and develop performance?
- How do we reconcile the need to deliver pay and rewards with the need for continuous development?

1.2 Does performance review support the business?

To find out whether systems support business objectives, we need to understand what performance review is there to do, whether there are some common approaches, and what performance review systems actually deliver.

A tool to deliver performance management

Performance management (PM) is a systematic approach to improving individual and team performance in order to achieve organisational goals (Hendry *et al.*, 1997). The application of PM is widespread, covering two in three employees at middle management level and set to grow across all occupational categories (CBI/Hay, 1995). PM is central to the HRM policies that enable HR to establish its credibility as a business partner. While performance review (PR) systems and processes are only the tools to deliver performance management, they represent one of the most visible services that HR provide to deliver results for the business. For senior managers, the credibility of HR rests on its success in delivering services (Csoka and Hackett, 1998). PR affords HR the opportunity to demonstrate its value as a strategic business partner as well as an administrative expert.

A model to link business and individual objectives

An IRS (1999) survey of 140 employers showed that performance appraisal still remains the most popular means for linking individual objectives to business objectives, aims and strategies, to improve individual and corporate performance, and to identify training needs. The most common model is personal and pre-set objectives related to business or team strategy but more likely, a job description. Performance measures are based on individual, company and team. Merit pay is the most common link with pay, while more formal links via skill-based pay and competency-based pay are less common.

A need for strategic focus

PR systems have been criticised for lacking strategic focus. Objectives which are more operational than strategic do not add much value to the business (Egan, 1995). There is evidence that HR professionals are perceived to be slow to adapt to new business challenges of increased international competition, growth through alliances, mergers and joint ventures, and rapid technological advances (IRS, 1999). PR systems have a role to play in delivering HR responses to these challenges but are not perceived to do so. For example, senior management does not see HR as taking a lead role in achieving greater efficiency and productivity and improving customer service.

Employees are unimpressed by how their organisation communicates business goals (eg setting performance targets) and the feedback provided on their performance (Coopers and Lybrand and Investors in People, 1996).

According to Mohrman and Mohrman (1995), there are problems with PM designed to fit hierarchical organisations. The focus is too heavily on the past and on individuals, at the expense of the team/business unit, and it relies too much on managers.

Conflicting messages

PR is being used to deliver a different agenda in practice from that communicated in theory, and can lead to mistrust due to inconsistent messages. PM systems introduced in the public sector overlook the strengths and values of existing employees (Harris, 1997). Furthermore, they are being used to support moves away from the traditional employment contract (eg job security and careers) while attempting to maintain commitment and morale. This leads to concern about accuracy and fairness of PM processes (Stiles *et al.*, 1997).

Limited impact on business performance

Assuming that PR has a strategic role to play, the impact on the business has so far been somewhat disappointing. In practice, PM has not been used to set personal objectives in line with business goals as much as could be expected and there are insufficient links with business performance (CBI, 1995). As yet no direct link has been found between PM and organisational effectiveness (Armstrong and Baron, 1998b).

So conventional wisdom asserts that performance review systems should be derived from business strategy. This should result in different approaches in different organisations. While employers have experimented with various approaches, the strategic contribution of PR to business goals appears so far somewhat limited. Yet it still remains the most popular means for linking individual objectives to business objectives. This may be more to do with the fact that PM encourages communication between managers and employees about improvement in individual performance (CBI, 1995).

1.3 Does performance review motivate?

More work is needed to design systems that not only align with organisational purposes but also with the goals of individual managers (Wood and Marshall, 1993). To be effective, PR should motivate both line managers and employees to improve and develop performance. Why this may not be so is well documented. More recent evidence suggests that 'objectivity into

motivation' doesn't go and points to the increased importance of employee commitment.

Skill deficit and role conflict

PR assumes line managers have the ability and motivation to perform somewhat conflicting roles of judge and coach (Wood and Marshall, 1993). There is evidence that they fail to deliver on both counts. Most PM is about control rather than development, and most line managers do not have the skills to make PR work (Egan, 1995). Cook (1995) argues that biases influencing judgements not only include the usual (age, own race bias, gender), but less easily detectable aspects such as in-group/out-group, personal like and dislike, and politicking. Armstrong and Baron (1998a) have called for the goal of PM to be more towards a quality discussion with managers rather than concentrating so much on the outcomes.

Participation matters most

Most research has been about participant satisfaction with the appraisal interview rather than satisfaction with PR systems. Nonetheless, users' reactions to PR systems may impact on the effectiveness and success of systems as much as technical aspects (Cawley, Keeping and Levy, 1998). Participation in PR (*eg* having one's voice heard) has been shown to be more strongly related to satisfaction with PR than instrumental participation (*eg* influencing the outcome).

Increased importance of employee commitment

Employee commitment has been shown to have a strong mediating influence on the causal link between employee satisfaction, customer satisfaction and business performance (Barber, Hayday and Bevan, 1999). While PM so far has neither motivated employees nor delivered real commitment (CBI, 1995; Lawler, 1994), a positive relationship between PM and a staff feel-good factor has been found (Fowler, 1995).

Conventional wisdom suggests that we should avoid doing too much in a PR meeting since the participants lack the skills and find the conflict between the role of assessor and coach difficult to handle. Nevertheless, PR systems are a good mechanism for communicating grassroots feeling upward and corporate culture downwards. This is probably why so many purposes and objectives are heaped upon them. While employers consider decoupling assessment from development, the acid test for employees is whether PR delivers positive outcomes.

1.4 Integration with other HR systems

Strategic integration of PR is as much about its links with other HR systems (pay and training) as it is with other business planning processes and budgets, and its consistency with the business strategies of the organisation, *eg* top down by line managers or participative (Wood and Marshall, 1993).

In 1992, Bevan and Thompson argued that the debate about 'reward driven' *vis á vis* 'development driven' integration would be one of the most important questions in the 1990s. Initiatives such as liP have since linked development with organisational objectives. While many employers are still debating the issue, at the start of the 2000s are we seeing a shift of emphasis?

New emphasis on development

According to Armstrong and Baron (1998b), new approaches to PM are moving from purely objective and target setting to include a more rounded view of performance, incorporating how people do things as well as what they do – inputs have become as important as outputs. Many employers are showing growing interest in competency-based frameworks (IRS, 1999).

The emphasis is now on development in performance management processes, and documents relating to development are owned and held by individuals (Armstrong and Baron, 1998b).

Multi-source feedback, the process by which individuals receive personal feedback from more than one source (*eg* peer, subordinates and customers) guides development by bringing additional perceptions from different constituencies, capturing the full complexity of managerial behaviours (London and Smither 1995; Kettley, 1997). Employees have welcome its introduction but some practitioners have called for keeping multi-rater well away from performance evaluations (Handy *et al.*, 1996). The use of multi-rater feedback for performance assessment is nonetheless growing as it yields more valid, high quality information for use in decision making and may remedy some of the flaws of performance review (Edwards and Ewen, 1996; Lepsinger and Lucia, 1997).

However, if the emphasis is to improve skills development and provide career counselling, then discussions of assessment of performance should be separated from discussions about development (Lawler, 1994). Since it may not be possible to divorce PM entirely from pay when PRP is in operation, increased openness is required about the way in which pay decisions are made.

The link to pay

Stiles *et al.* (1997) commented that most performance review in the public sector are perceived to be a real bureaucratic nightmare detracting from getting the real job done. Given that pay and promotion opportunities are limited, the lack of positive outcomes engenders resistance and apathy to the process. Some values are given low priority by managers (*eg* teamwork). The real goal is perceived to be meeting budgetary or financial targets.

Much research has been conducted on employees attitudes to performance related pay, in particular in the public sector (Marsden and Richardson, 1994; French and Marsden, 1998). Evidence showed that while staff agreed with the principle of performance related pay (rejecting the idea that it is fundamentally unfair), most believed that the judgements of performance lacked consistency, rewarded favourites and that, despite assurances to the contrary, quotas were used to control costs.

Fairness and performance judgements

PR has allowed HR to conduct personnel research (such as monitoring rating distribution) to check effectiveness and fairness (Wood and Marshall, 1993). Much of the research has concentrated on the psychometric properties of performance assessment, *eg* on how to improve the objectivity of managers' judgements of performance. In many organisations, the issue of fairness is overshadowed by discussions on the consistency of box markings (*eg* distributive justice). While, as Armstrong and Baron (1998a) state, separate performance and pay reviews may no longer require overall ratings, new and related research brings a different perspective on the issues.

Jawahar and Williams (1997) reported that performance evaluations (*eg* ratings) obtained for administrative purposes (*eg* pay or promotions) are more lenient than those obtained for research, feedback or employee development purposes, *ie* they are more lenient when 'for keeps'. Longenecker and Ludwig (1995) claimed that individual line managers see the performance review as a means to encourage improvements in performance, while HR sees it as an end, *eg* a set of data to be used in other decisions. They suggest that the emphasis should be on what steps an organisation can take to increase managers' willingness to provide accurate and honest ratings.

Reviewing US Court decisions concerning performance appraisal cases, Werner and Bolino (1997) observed that the courts examine the issue of procedural fairness of the system more closely than the issue of performance evaluations.

So conventional wisdom tells us that employees find complex and pay-related PR difficult to understand and susceptible to bias and

manipulation. Why should employers be concerned about their employee perceptions when they need to control costs to ensure their business remain competitive?

1.5 Objectives

To put in place a PR system that is likely to work, employers need to know where to target interventions to improve practice. Our work with employers and the growing research evidence suggests that the real impact of PR systems may lie more with the ways they are delivered than the way they are designed. Since effectiveness is to a large extent dependent on individual employees' perceptions and their willingness to make it work, what really matter may be users' views about their PR system and processes.

We examined the performance review systems of several employers and sought feedback from users. From the point of view of conventional wisdom, our objectives were to investigate the following:

- Given that PR should be derived from business strategy, do PR processes with different objectives really look that different?
- Since PR systems should avoid doing too much in one meeting, are PR systems overloaded? And what are the risks of expecting too much of PR?
- Employees find complex and pay-related PR difficult to understand and susceptible to bias and manipulation; how much does it matter what staff think of PR?

1.6 Approach

IES experience of design and evaluation of performance management systems, a workshop with practitioners, and a literature search contributed to the formulation of the research questions and issues for this study. A questionnaire was developed on the basis of this preliminary work and sent to managers across 17 organisations including eleven civil service departments. To establish some baseline for comparison across these organisations, we had limited the scope of the study to managers. At the close of the survey, questionnaires were received from 926 managers, providing a rich source of data and of managers' comments on which to draw for an in-depth analysis of the issues (see Appendix 1 for further details of the methodology).

Table 1.1 shows that the case study participants enabled a comparison to be made of the same performance review system used by eleven departments and different systems used by both

Table 1.1: The case study organisations participating in the survey

The performance review system for senior civil servants across eleven government departments and agencies	N=550
The performance review of managerial and professional staff in one NHS Trust	N=72
The retail end of a large national bank	N=58
The commercial banking function of a fairly recently merged large national bank	N=41
A regional operation based in the South East of a large national insurance organisation	N=58
A business group of a large public service organisation	N=81
The head office of an organisation in the energy sector	N=65

Source: IES 2000

public and private sector organisations. Our research focused on key aspects of the review, namely actual experience of performance review system, experience of the review process between appraisees and appraisers, and outcomes of review both actual and perceived.

The following chapters follow the main questions investigated.

- Chapter 2: 'Performance review processes: choosing an approach' examines organisational systems, design and implementation issues.
- Chapter 3: 'What can performance review realistically deliver?' discusses the role of the line manager in delivering performance review, performance feedback and training.
- Chapter 4: 'The link to pay: does it matter what staff think of PR?' explores the impact of users' perception of objectivity and fairness on the link with pay.
- Chapter 5: 'Performance review: balancing objectives and contents' highlights issues and challenges which PR faces in tomorrow's organisations.

2. Performance Review Processes: Choosing an Approach

Given that research evidence reviewed in the previous chapter fails to demonstrate a clear link between performance review and improvements in business performance, why should employers want to align their performance review with business strategy? What are the benefits and pitfalls? What are the risks if they do not? This chapter examines the issues faced by employers when they want to give their systems a strategic focus. In particular:

- What do performance review systems that are aligned to business strategy and organisational practices look like?
- Do performance review systems with different objectives really look that different? And what objectives are delivered in practice?
- What really matters in choosing an approach?

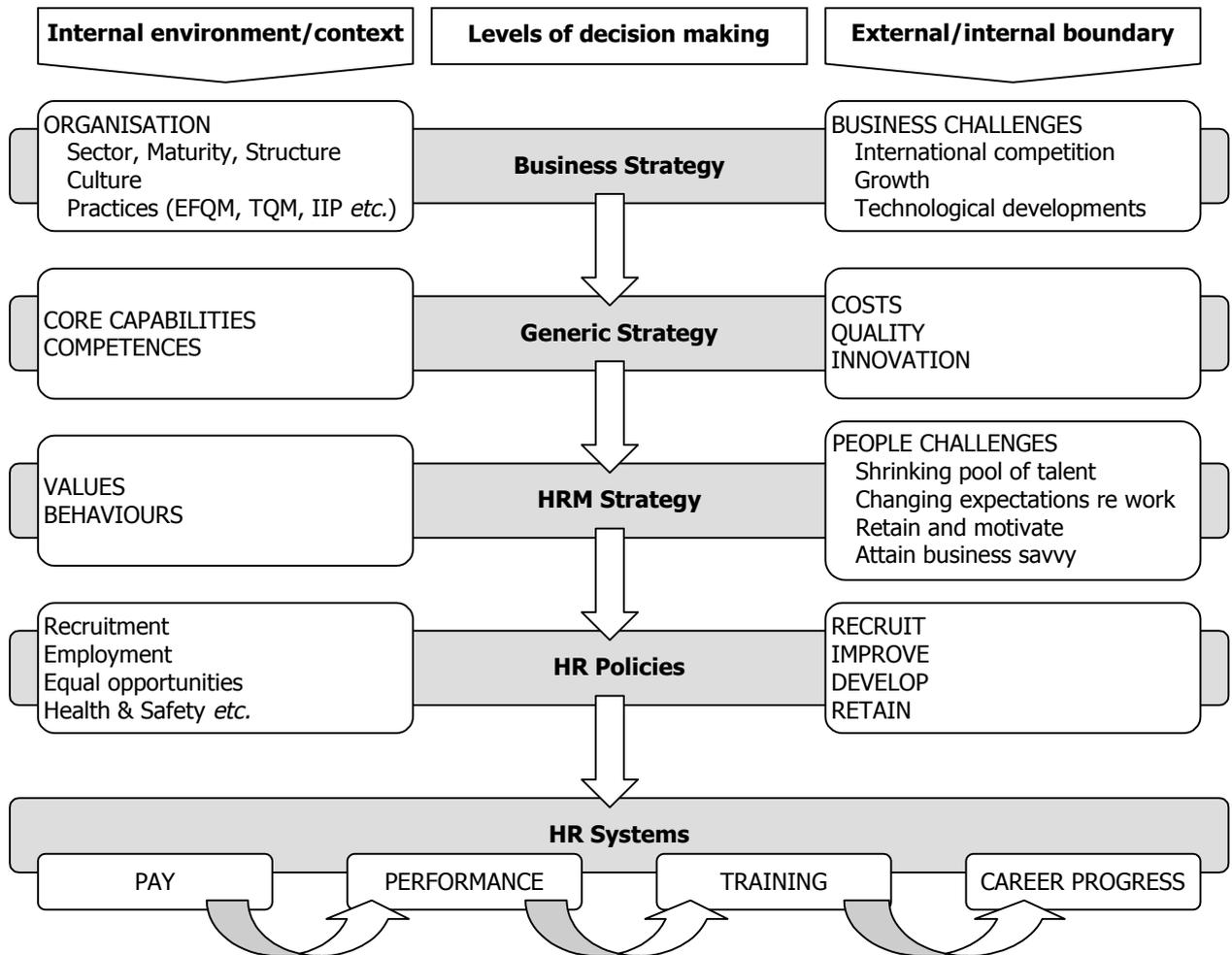
When deciding which approaches and systems would best fit the organisation, HR professionals are confronted with a host of approaches and recommendations. The case study organisations provided illustrative examples of a range of performance review systems. We first consider how the approaches used were likely to fit business directions and strategy.

2.1 What do performance review systems look like?

As Carter and Robinson (2000) argue, if HR is included as a strategic partner in the organisation, there may already be HR policies and practices that are aligned to business strategy. It may be more likely, however, that HR would have to search for clues to identify areas related to people practices that are of strategic value to the organisation which can be meaningfully reflected in performance review systems. In both cases, then and only then, the objectives of the performance review and its contents should be adapted to business needs. But this is the theory.

In reality, HR attention (particularly if its role of administrative expert is dominant) is more likely to be focussed at the system level rather than its strategic context. Figure 2.1 presents a simplified representation of the strategic and organisational

Figure 2.1: Levels of strategic decision making for performance review



Source: IES, 2000

context in which systems operate. It illustrates that performance review systems that only represent at best the fourth level of decision making, will fail to reflect business needs if no attempt is made to address some of the issues arising at *all* levels. We may not be surprised, therefore, if the system is constantly under review. Searching for clues from the organisations participating in the study, we considered if and how their approaches were:

- responding to business challenges
- adapted to organisational background
- impacting on objectives and contents.

2.1.1 The strategic context

First, the approach to performance review will obviously depend on the type of organisation, its ownership/autonomy, what it is there to achieve, and the stage of maturity of its business. Increasingly, however, business changes drive changes to PR systems. For example, the changes that had been made by

employers in our study to their systems seemed to echo the need to establish a closer link with business changes and business goals. Responding to increased international competition was in evidence in the public service organisation that had reviewed its system following a programme of reorganisation to support its new world-wide vision. Facilitating change was the preoccupation of the commercial arm of a recently merged large bank. It was shifting the focus of its performance review from individuals to teams. This approach was likely to answer the concerns of one of the senior managers in a civil service department that had recently delayed who commented:

'While I have no doubt that an individual objective setting and performance appraisal system is a major step in getting managers to communicate with their staff, it is largely out of step with my organisation's desire for cross-directorate/matrix working. Individual performance review undermines such an approach.'

but not those of another manager in the same organisation, who thought:

'...we have introduced a flat management structure to improve vertical communication and keep management costs down. This necessitates wide management spans of control. To manage this you need a streamlined appraisal system that addresses performance, pay, potential and development in a single process without too many iterative steps. And you want to avoid frequent major changes with costly retraining...'

Quality initiatives such as TQM and the popularity of benchmarking against excellence models are increasing. These have been slow to be reflected in performance management, and performance review processes have not been aligned closely to these. However, their importance will continue to grow. The Business Excellence model, for example, features prominently in the *Modernising Government* White Paper (Cabinet Office, 1999).

Given that the business strategic horizon is shortening and increasingly difficult to predict, aligning performance review too closely with business strategy will mean constant pressure for the system to change. Yet a performance review system needs at least two years to embed. Frequent changes are not only costly and disruptive, they have a negative impact on users' confidence, as illustrated by one of the senior managers in our study:

'It is clearly difficult for any system to maintain credibility when the users are regularly informed that the system is not delivering the required results and must be changed.'

2.1.2 The organisational background

Organisations in our study addressed the people challenges differently (see Figure 2.1). In order to maintain a pool of talent, for example, the civil service manages and develops its top senior managers from the centre. It therefore uses a common system for

senior civil servants across the different departments. Other organisations in the public sector such as the NHS Trust focused on continuous professional development using competences linked to standards and professional qualifications. The public service had concentrated on the skills required for new roles. In order to control the pay bill, improve, retain and/or buy in talent, most of the organisations had linked their performance review closer to individual pay.

The need to define the values and behaviours of an organisation has prompted an increasing number of employers to include competences in their performance processes. Most of the organisations in our study had competence-based performance review processes. The approaches can also vary according to people initiatives such as liP, which have led to a greater focus on training and development aligned to business needs. Similarly, the diversity agenda is, and will increasingly be, important, particularly in the civil service. Equal opportunities policy therefore has a role to play in influencing the system at least in its monitoring and evaluating capacity.

2.1.3 Impact on objectives and contents

Defining the required results of performance review in terms of its contribution to deliver the generic strategy (*eg* reducing costs, enhancing quality and encouraging innovation) aligned to an organisation mission and core capabilities, may be a more fruitful avenue to pursue. These may provide a more stable base. To this end, a performance review system may need to:

- contribute to an organisation controlling its costs and improving productivity
- help maintain and improve the quality of an organisation's products and/or services
- encourage innovation by nurturing ideas generation and promoting skill development.

The business strategists tell us that the dominance of any of these aspects of generic strategy will be determined by any of the parameters we previously discussed, such as the type of organisation, its business cycle and maturity. For example, an organisation that chooses to compete on cost leadership might not be so interested in quality, while competing on quality might lead to a reduction in productivity. Similarly, not all organisations have innovation as a core competence. However, it could be argued that these boundaries are becoming increasingly blurred. The advent of the Internet has meant that all employers have to be alert to innovative practices (Internet banking is an example). The *Modernising Government* White Paper includes elements of all three in its strategy (Cabinet Office, 1999).

Table 2.1: Performance review processes and systems: objectives and approaches

Common objectives	Different focus
Setting objectives	Link to business or team plans
Assessing against competences	Behaviours or standards and link to professional qualifications
Rating performance	Multiple ratings or overall box markings
Performance feedback	Self-assessment or multi-source feedback
Identifying training needs and development	By manager at review meeting or at separate event or via a coach/trainer
Determining pay and salary increases	Link to market rates or merit pay
Feed into other HR processes	Integrated in system as multiple objectives or separate (eg potential assessment)

Source; IES, 2000

So how are organisations to reflect these somewhat conflicting aspects in their systems? We could align some of the objectives performance review systems were trying to achieve with these broad generic criteria and highlight how organisational approaches differed according to specific changes that had occurred or were occurring in their businesses.

Table 2.1 shows the commonalties of the objectives of the performance review processes and systems used by the organisations in our study and the differences in how they were approaching them.

Arguably, for performance review processes to contribute to controlling costs and improving productivity, they must align individual performance to business objectives, improve performance and control the pay bill by rewarding individuals on the basis of achieved targets and outputs. All the performance review processes and systems we reviewed had processes for setting individual goals and objectives; assessing performance against objectives; rating performance and determining pay and salary increases. For example, the system in use by the commercial banking organisation fitted this model. The difference between organisations was whether training and development was delivered within, or separated from, the PR process.

Similarly, the need to define what is meant by quality has prompted an increasing number of organisations to include competences in their performance processes. Most of the organisations in our study had competence-based performance review processes. The performance review objectives that were likely to contribute to quality enhancement included performance feedback and counselling, defining roles against competences, and assessing against competences.

In order to encourage innovation, an organisation needs to foster future skill development. The following objectives of the performance review processes in several organisations seemed aligned to this criterion: identifying training and development needs; assessing potential; drawing up personal development plans; and planning careers (promotion, succession planning).

While the focus for skills differed slightly, a manager in the retail banking organisation could clearly see the benefit:

'Our learning and development and performance assessment procedures are very strong and if used correctly are a powerful tool to help manage/motivate individuals.'

A senior civil servant thought the approach taken to deliver training and development needed to change:

'Development and training is wrongly tacked onto performance review: it's completely overlooked ... it is rare that more than a day a year can be spared given pressures and a typical 55 hour working week.'

In response, a number of organisations had separated, or were in the process of separating, assessment from development (eg the public service organisation and the regional insurance company). Others were hesitant about doing so, given their culture and the time already needed to conduct one review. To address the latter, several organisations had introduced the role of coach/training manager to help line managers deliver development.

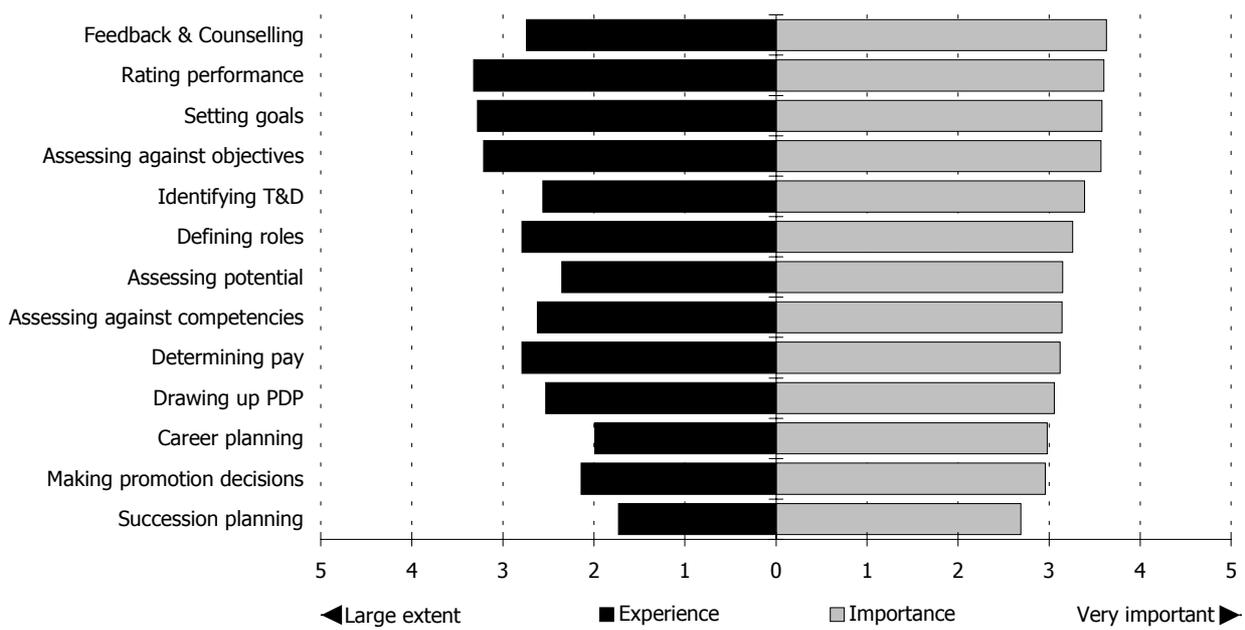
2.2 Which objectives are delivered?

While organisations need to be clear about the objectives their performance review processes and systems are trying to achieve, and how these link to business strategy, they must not lose sight of the people that are going to achieve these for them. A broad measure of effectiveness of a system would therefore be the extent to which it reaches the people it is intended for. From a user point of view, it will be important for their expectations and needs to be matched.

2.2.1 Objectives are important to users ...

Figure 2.2 shows how important users feel each of a range of objectives for PR is to them (right hand column). The most obvious and significant difference between employers and users' views is the importance of performance feedback and counselling. It is debatable as to whether business strategists would consider this objective, more associated with traditional purposes of reviews, to be the most closely aligned to the objectives of the business. Nevertheless, they can be heartened by the fact that the various aspects of performance planning feature amongst the most important objectives.

Figure 2.2: Matching users' expectations: Importance and experience of purpose of performance review systems (all managers – means)



Source: IES, 2000

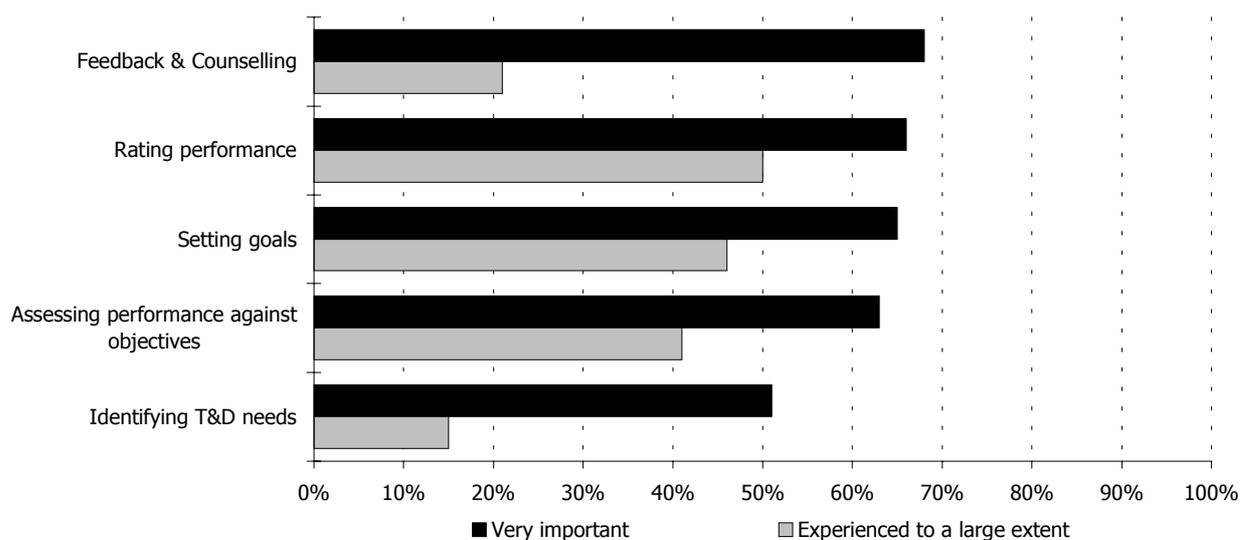
Similarly, an approach focusing on skill development is likely to find favour with users. The importance attached to it by organisations seemed to be mirrored by users prioritising its importance.

2.2.2 ... but not all experienced to a great extent ...

The extent to which users had a positive experience of these objectives enables us to gauge whether their experience was likely to meet their expectations (see Figure 2.1 left hand column). This shows that these employers were the most successful at delivering all aspects of performance planning and reward – objectives most likely to contribute to cost control and help deliver business objectives. By contrast, performance feedback and training and development were considered very important by many, but experienced positively by far fewer.

To obtain some degree of magnitude, we looked at the five objectives users had selected as very important and examined the extent to which managers said they had positive experience of them (see Figure 2.3). Perhaps not surprisingly, organisations in our study seemed better able to meet users expectations in delivering performance planning (eg setting goals and objectives) than performance feedback and counselling. The largest gaps between importance and experience were for performance feedback and counselling and identifying training needs.

Figure 2.3: Mismatch between perceived importance and actual experience of purpose of performance review systems (all managers)



Source: IES, 2000

2.2.3 ... and of mixed impact

Again, Table 2.2 confirms that performance planning is the most effectively delivered objective of performance review in these organisations. The majority of managers (most of them senior managers) could see a clear 'line of sight' between individual objectives and improving the awareness of business objectives.

While making sure everyone operates within business goals is important, the impact on outcomes is somewhat disappointing. More than half do not agree that it has increased the quality of work, and two-thirds think it has not improved the performance of teams and that it does not motivate staff.

Clearly, the systems used by employers in our study were managing to maintain a 'line of sight' between the business needs and individual performance. That these organisations appeared poor at delivering feedback and training suggests a need to redress the balance between the different aspects of business strategy. Of course, this will depend on business priorities.

Table 2.2 Impact of performance review processes*

People managers' views (N=764)

- 76% setting individual objectives improves awareness of business objectives
- 44% has increased quality of work from direct reports
- 33% improved the performance of my team
- 23% enables managers to motivate staff

* survey respondents who agreed and strongly agreed

Source: IES, 2000

Besides, performance review processes and systems are not the only mechanism for motivating staff. Given the key role of performance feedback on quality improvement, and staff motivation on customer satisfaction (and in turn on business performance), this should nonetheless be of concern.

2.3 Finding the 'best fit' approach

Aligning performance management to business strategy is fine in theory and in a static environment. Left to business strategists however, it may fail to meet some important objectives. Furthermore, business changes bring new pressures on the need of HR processes to adapt. But which approach is likely to fit an organisation? It is left to HR professionals to design performance review processes and systems which:

- reconcile the needs of the business
- fit the culture of the organisation
- apply lessons learned from past experience of systems
- take account of best practice.

2.3.1 Benchmark users' satisfaction

Designing a system that satisfies users may encourage them to use it effectively. Managers were asked to indicate whether they agreed or disagreed with '*I am satisfied with my organisation's current performance review system*'. Comparing the twelve organisations with the largest samples of managers shows that the level of satisfaction varies widely from most satisfied (the retail banking organisation) to most dissatisfied (one of the civil service departments) as shown in Appendix Tables 2.1 and 2.2.

Looking at patterns across the organisations reveals that the private sector organisations were not on the whole more successful at introducing systems that satisfied their managers than their counterparts in the public sector. The variations across all Civil Service departments, however, suggested that other aspects might influence satisfaction. Although benchmarking satisfaction with systems may be useful as a broad measure, the satisfaction may have less to do with the system than the context and the way in which it is implemented. Some of the managers' comments provide hints about possible causes.

2.3.2 Consider needs of all stakeholders

To begin with, the increasing complexity of some of the systems might be a real barrier. To make the process work, managers themselves have to be motivated to want to use it. Yet almost one in three managers agreed that: '*if the system was made more user friendly more managers would actually complete it*'.

Similarly, there will be a proportion of staff for whom performance review systems cannot deliver. The following quotes taken from managers in our study illustrate aptly the tensions HR faced in trying to satisfy all stakeholders when views about the value of the process can be so far apart:

'Appraisal is an excellent way of assessing performance and motivating ... used in the correct way it can provide outstanding results.'

'I am not motivated to do a better (or worse) job by the current system, so I take as little notice of it as possible – and that is to be able to almost completely ignore it, and spend 30 minutes per year changing my job description and one hour per year in formal review. Basically, I do what needs to be done to the best of my ability without the boredom of a stupid system.'

Hopefully, an organisation will have a greater proportion of those who value the process over those who do not. It will be important to find out why this is so and aim for the middle ground – *ie* a system that is user friendly. There are, however, a number of aspects that they need to take into consideration.

2.3.3 Avoid change for change's sake

PR systems evolve, and inevitably there will be a need to review and/or change the system. Aligning systems too closely with business strategy may bring unnecessary pressure. However, there will be times when this is unavoidable: like when a new Chief Executive demands it. Organisations do not start with blank sheets of paper, and past use of systems will influence their choices. Some employers in our study were tinkering with their systems on a regular basis. As illustrated by their managers, there is a need to avoid 'change for change's sake':

'We have been through several different systems in the past that have failed miserably in the majority of people's eyes. Hence they are extremely sceptical about the current system.'

'The company appraisal system has been revamped every two to three years, the organisation appears incapable of adopting a system over a long enough period of time for it to become part of the organisational culture.'

There are, however, a number of simple changes that could make a real difference, like aligning the performance review cycle to the business planning cycle.

2.3.4 Manage the interface between different systems

Prior to delegated responsibilities to departments and agencies, the Civil Service had a common appraisal system for many years. To a certain extent, some of the staff resistance to new approaches implemented by various departments is due to the need to break

the habit. Despite its pitfalls, the civil service system had currency across each of the departments.

The varying levels of satisfaction with the same system implemented by different civil service departments shows that the organisational context had more impact on system satisfaction than the system itself. These appeared to be mainly about the need to operate multiple systems, as highlighted by this comment:

'It is unhelpful and confusing to have two major systems, both of which I have to apply at the same time. It also sounds unfair. Both systems have been subject to a stream of guidance on interpreting the boxes and comments.'

Again, some of the comments from the department whose managers were the most dissatisfied suggest why this may have been the case:

'The change ... to the SCS scheme was very badly handled with little training or guidance. The whole handling of SCS by HR has been poor with no career guidance, leaving people to fend for themselves. There is no sense of identity or buy into the SCS or the performance system.'

By contrast, the following quote shows that it was not uniform across all other departments:

'I am sorry if my answers have been boringly uniform but I am very happy with the way my employers have honed their system in recent years.'

Looking at the variations in satisfaction levels and some of the comments that accompanied them, we may speculate that operating multiple systems had an impact on satisfaction and the direction of the impact (*ie* positive or negative) seemed to depend on the extent to which departments had been successful with their own performance review systems. While this was mainly a feature of the senior civil service system, it is not uncommon for organisations to have a different approach to performance management and reward for senior managers.

2.3.5 Reconcile the needs of business with best practice

Aligning approaches was demonstrated by the commercial arm of a recently merged bank that had reviewed its approach to performance review in line with its business and HR strategy. It had decided to let business units decide their own approach to performance review, while setting some parameters and governing principles, such as removing ratings, and extending reporting cycles to two years, *etc*. It also removed the need for HR to review systems.

Turning to users' feedback, as shown in Table 2.3, the characteristics of what makes a good system compared to a poor one, reveal that the retail banking organisation was successful in delivering its objectives as well as addressing some of the issues highlighted by best practice (eg avoiding conflicting purposes). The fact that this system appeared to be the most user friendly (eg encouraging partnership between all parties, form etc.) compared to the SCS which has multiple objectives, may have an impact.

2.3.6 Introducing systems: what makes a difference?

All the research on impression management tells us that the first impression of a system is critical in establishing its credibility. Yet, in many large organisations, the first time people encounter a new system is often when the form and guidance land on people's desk or they attend a training course. This also is likely to be one initiative out of a long line of initiatives. How can users find the process motivating if they do not know why it is being introduced and what it seeks to achieve, ie they are not persuaded of its benefits in the first place? So what can organisations do to support the introduction of PR processes and systems? Differences of perceptions between satisfied and dissatisfied managers indicate that employers need to:

- consult and involve users at the design stage
- ensure the system is user friendly by providing a user-friendly appraisal form and clear guidance and documentation
- communicate the benefits of the system for the business as well as staff (30 per cent of managers have not been trained)
- provide enough HR support to make it work (31 per cent have had no support from HR).

Shifting attention from the mechanics to the strategic purpose of performance review should not detract from the need to attend to the basics. HR can achieve quick wins if they get these right, as illustrated by one manager from the retail banking organisation:

Table 2.3: Managers' feedback on performance review processes and systems

The worst system	The best system
Can't give staff the rating they deserve and staff find the rating system demotivating	Have experienced performance feedback training and development to a great extent
Has not helped managers to motivate staff, and staff did not find last review motivated them to work harder	Does not cover too many purposes to be effective
Rewards highly visible rather than quiet performers	Has helped organisation become more open and communicative
Has not helped improve the performance of team, and team members find it difficult to co-operate	Has increased quality of work and improved performance of team

Source: IES, 2000

'The new forms introduced are now more user friendly and the overall process more streamlined as a result.'

By contrast, a senior civil servant dissatisfied with the system demonstrates the impact of the departmental context:

'Getting people to complete forms and keeping track of the process – forms have to change hands about 15 times!'

It has long been recommended best practice to provide adequate support and training when introducing new PR systems. So these observations may be common sense and confirm what we intuitively knew. What our study shows, however, is a direct and significant impact on satisfaction with the system, in particular selling its benefits. In other words, attending to the way systems are being introduced and supported may compensate for faulty system design. While altogether a bad system may be worse than none, a flawed system may be made better or worse by the way it is first implemented.

2.4 Summary

So how do employers position their performance review processes and systems to reconcile the needs of the business with best practice while ensuring it has a decent shelf life? This chapter has reviewed the approaches taken by employers to align their performance review to business strategy in the light of recommended best practice.

Good practice suggests that PR systems should be aligned to business strategy. Our findings indicate that aligning too closely with business goals may bring constant pressure for PR systems to change, it will also fail to deliver an important aspect of performance review for managers, namely performance feedback and counselling. Nonetheless, it has been possible to marry features of the systems to the three options of innovation, quality and costs as recommended by generic strategists.

In practice, the objectives and contents of performance systems do not look that different. As level of user satisfaction with the same system varies across different organisations, it is in the way that systems are introduced, supported and implemented that employers may get real added value. Some of the factors important to success have been reviewed, such as user-friendliness.

Confirming previous research, employers in our study were not better or worse at delivering real improvements to the business, but rather were more successful at increasing awareness of business goals. However, aligning performance review to business strategy without considering what performance review can realistically achieve, and the role of the key players in delivering it, would be pointless. It is to these issues we now turn.

3. What Can Performance Reviews Realistically Deliver?

Performance review can be a powerful tool in motivating and developing employees. Yet, as we have seen, it can often under-perform when it meets the harsh reality of organisational life. One reason for this under-performance may be the way PR is implemented by line managers. Another may be the basic design of PR itself, with organisations expecting too much of both the PR systems themselves and the individuals responsible for delivering them. This chapter addresses the following:

- Are PR systems overloaded?
- What makes a difference to users' acceptance of PR?
- Can PR deliver training and development?
- What are the implications of users' motivation for PR systems?

We demonstrated in the last chapter that users' satisfaction with PR is dependent on the context in which systems are implemented. To better understand the factors that may serve to motivate users, we need to untangle the effects due to the organisational context from the impact due to the specific features of processes and systems.

3.1 Are PR systems overloaded?

Common sense tells us that loading too many objectives on PR systems, particularly if they conflict in their focus (assessment vs. development) is not recommended. As one user clearly expressed

'... our system is very good for defining objectives and assigning responsibilities but it's useless for motivating.'

Nonetheless, from the point of view of practicality and costs, the proponents of streamlining the process would argue that the time taken reduces cost effectiveness. We discussed overall satisfaction with systems in the previous chapter. Here we examine the contents and related activities embraced by the PR systems used by the employers in the study.

3.1.1 Approaches to balancing objectives and contents ...

In order to achieve the overall aims of PM, employers need to strike the right balance between the objectives and contents of PR systems. Figure 3.1 shows simplified models of the main approaches as they appear from the supporting forms and guidance provided. The PM system used for senior civil servants is a multiple objectives/multiple contents (a), while the retail banking organisation system is typical of a multiple objectives/dual contents (b), and the public service a separate objectives/separate contents (c). The other systems we examined in our study seemed to be hybrids of (c). For example, the commercial bank concentrates on the team performance planning and measurement directly linked to pay (left-hand strand). The regional insurance emphasised development using 360 degree and trainers/coaches (right hand strand).

The messages conveyed by these models highlight several key aspects:

- the contents of the PR meeting (white boxes in the figure): the number of activities and tasks to be achieved in the performance review meeting ranging from 'multiple' (a), via 'dual' (b), to 'separate' (c)
- the number of formal meetings (eg performance review (a and b), and development review(c))
- the link to other available supporting activities (from explicit (b) to implicit (a and c))
- the link to pay from direct via ratings (a, b and partly c) to indirect (via development c) (see also chapter 4)
- the link with other HR systems: despite including potential assessment (a), does not succeed in linking this clearly with career planning.

Again, this is how it appears in theory. In order to judge whether systems were overloaded, users' perceptions are informative. Users dissatisfied with their system also believed it covered too many purposes. By contrast, those who were satisfied with their system also indicated that their 'system was not covering too many purposes to be effective'. Since both satisfied and dissatisfied users include senior civil servants using the same system (a) across different departments, perceptions of overloaded systems may have more to do with the context than with the objectives they are seeking to achieve. Nonetheless, we should also be mindful of the fact that departments' own systems may have been impacting on users' satisfaction (see 2.3.4).

Some writers have argued that the future generation of performance review systems needs to look different (Mohrman and Mohrman, 1995). Flexibility will be the order of the day and

we may see the advent of a kind of 'portable' appraisal. One approach is to 'devolve' ownership and control to the line, letting the unit or team decide on a need basis when and how they want to review performance. Another approach is employee-centred, letting individuals 'pick and mix' from a package of available options (eg Mercury, BP Amoco etc.). None of the employers in our study were using such flexible PRs although the commercial banking organisation seemed to be paving the way for introducing such an approach (see 2.3.5). Nonetheless, the extent to which activities were delivered may point to the likelihood of managers being able to switch successfully to more flexible approaches.

3.1.2 ... but are multiple activities delivered?

First, it is revealing to find that many managers in our study indicated they were completely confident in their ability to deliver PR effectively. Looking in detail at the operation of the systems, was this level of confidence matched by practice? We saw that delivering PR involves a number of formal meetings but, as is good practice, the employers in our study also emphasised continuous and informal feedback. Although the type of system used and the stage reached in the performance cycle in each organisation may have had some impact on the frequency of these activities, only 131 managers (15 per cent) had experienced all the following activities related to performance management:

- an annual discussion of performance at the review meeting
- discussion of progress at the mid year review
- attending a separate development meeting with manager or coach to discuss development needs and career progression
- attending a separate development event.

We would expect a greater proportion of users experiencing a greater number of these activities. Managers in the civil service appeared to fare poorly compared to their counterparts in the private sector (nine per cent compared to 28 per cent have attended four activities). Similarly, mid-year reviews are still relatively rare (concerning only 16 per cent of all managers). Arguably, if managers cannot deliver a mid-year review which is a basic requirement of a good performance review process, what chances are there that they will deliver separate development reviews?

3.1.3 ... and is time taken a factor?

The time taken is another common criticism directed at the performance review process and seen as a potential drawback of the operation of system. On the whole, managers participating in the survey held positive views about the time taken:

- Managers agreed with: *'I was given sufficient time to prepare for my last performance review'* (77 per cent strongly agree and agree).
- Those amongst them who managed people agreed with: *'time spent on continuous review is valuable'* and *'managers have time to conduct separate development reviews'* (70 per cent and 50 per cent strongly agree and agree respectively).
- Finally, those who were satisfied with their system also agreed that: *'the system was not too time consuming'*, whereas dissatisfied managers disagreed.

Employers seeking to minimise overheads or 'indirect activity' will be particularly alert to the cost implications of the time needed to deliver PR. Time taken is always difficult to judge accurately. It is liable to be influenced by negative reactions to the system and it is rarely compared against an accurate baseline (*ie* how long the system needs to be operated effectively). It is also important to differentiate between the legitimate time staff need to spend on performance management and that which is caused by the complexity of the system. According to Egan (1995), however, most organisations need to move from seeing PR merely as a cost heading to one that adds value.

Given that time taken is one of the most frequent criticisms by managers, and one often cited against the business case for PR, these findings are significant. The small number of activities carried out in practice, however, seems to negate time perception somewhat. So is time taken a factor in systems being overloaded? It would appear not. The actual time taken does not seem to impact on the perception of time. Those who have experienced a greater number of activities and, therefore likely to have spent more time on PR, did not find the process more time consuming. On balance, managers seemed to find the process and time spent valuable, but argued that they find it increasingly difficult to fit in with wider spans of command, and increased targets and workloads. As competition increases, this is unlikely to abate. It will further increase the pressure for user friendly PR systems and employee participation.

Considering whether PR systems are overloaded purely on the basis of the objectives they are seeking to achieve shows that employers in our study were unlikely to deliver all the activities required by separate processes. On the other hand, overloading PR systems, with as wide a range of diverging and conflicting purposes as some employers were attempting to do, appeared not only unrealistic but potentially detrimental, neither purposes being completed particularly effectively. This is the reason why some employers were introducing the role of 'coach' to support line managers. However, respective roles need to be clearly defined and interface between parties carefully managed.

Given that most of the review process in our study is centred around the review meeting for the managers, not only the quantity but the quality of the meeting must be a factor.

3.2 Users' acceptance of the review process

Most of the research has concentrated on issues with the process, in particular the need to equip managers with good appraisal skills. One of the participants illustrates the key role of managers in delivering performance reviews:

'Any system is only as good as the individuals operating it, some of my comments would have been very different with different line managers.'

PR systems make increasing demand on feedback and coaching skills. We found in the previous chapter that users were dissatisfied with the amount of feedback they experienced, and discussed earlier that feedback and coaching are likely to happen during the more formal review meeting. Benchmarking satisfaction with both processes may highlight the aspects that users found motivating.

3.2.1 Benchmarking satisfaction with the review process

Benchmarking satisfaction with the review meeting also enables us to gauge whether or not systems are overloaded. Findings in Table 3.1 suggest that reviewees are more satisfied with the process during the meeting, rather than with the contribution of PR to performance improvement and development. Indeed, participation in the performance review (eg having one's voice heard) has been shown to be more strongly related to satisfaction with performance review than instrumental participation (eg influencing the outcome) (Cawley, Keeping and Levy, 1998). As one reviewee illustrated:

'On the whole a very valuable experience, at first I found the process stressful but after the first review this changed. I now see them as a positive experience.'

Table 3.1: Satisfaction with the performance review meeting (N=926)

Satisfied and very satisfied with:	Dissatisfied and very dissatisfied with:
78% extent to which you had your say	33% coaching by line manager to improve job performance
62% time allocated to the process	30% discussion of long term objectives
49% the preparation undertaken by manager	24% discussion of training needs in current job

Source: IES, 2000

3.2.2 Impact of feedback and coaching

Given the lack of mid-year review, we should not be surprised if the annual review itself appeared to be the main mechanism by which performance feedback and coaching was delivered in the participating organisations. Previous research evidence shows that reviewees prefer formal appraisal with informal feedback during the year, and that ongoing feedback is considered to be the most important coaching activity (Gosselin, Werner and Halle, 1997). Increased frequency of feedback has also been linked to higher satisfaction of reviewees with PR.

We argued previously that employers were not only poor at delivering performance feedback and coaching, but if they used a top down business strategic approach to align their PR system, they were unlikely to attach the same importance to it as users do (see 2.2.2). The fact that users are dissatisfied with: *'coaching by line manager to improve job performance'* may in turn have a detrimental impact on business performance. Nonetheless, we found that managers who are very satisfied with the coaching they receive also believe their system is helping: *'to transform the culture of the organisation'* and helping: *'the organisation become more open and communicative'*. These findings serve to demonstrate that coaching can yield real value for businesses as well as for individuals.

But as one manager illustrates, it may be better to ensure that the gap between the PR system and the current organisational culture is not too wide: *'a good system in advance of the culture of the organisation'*.

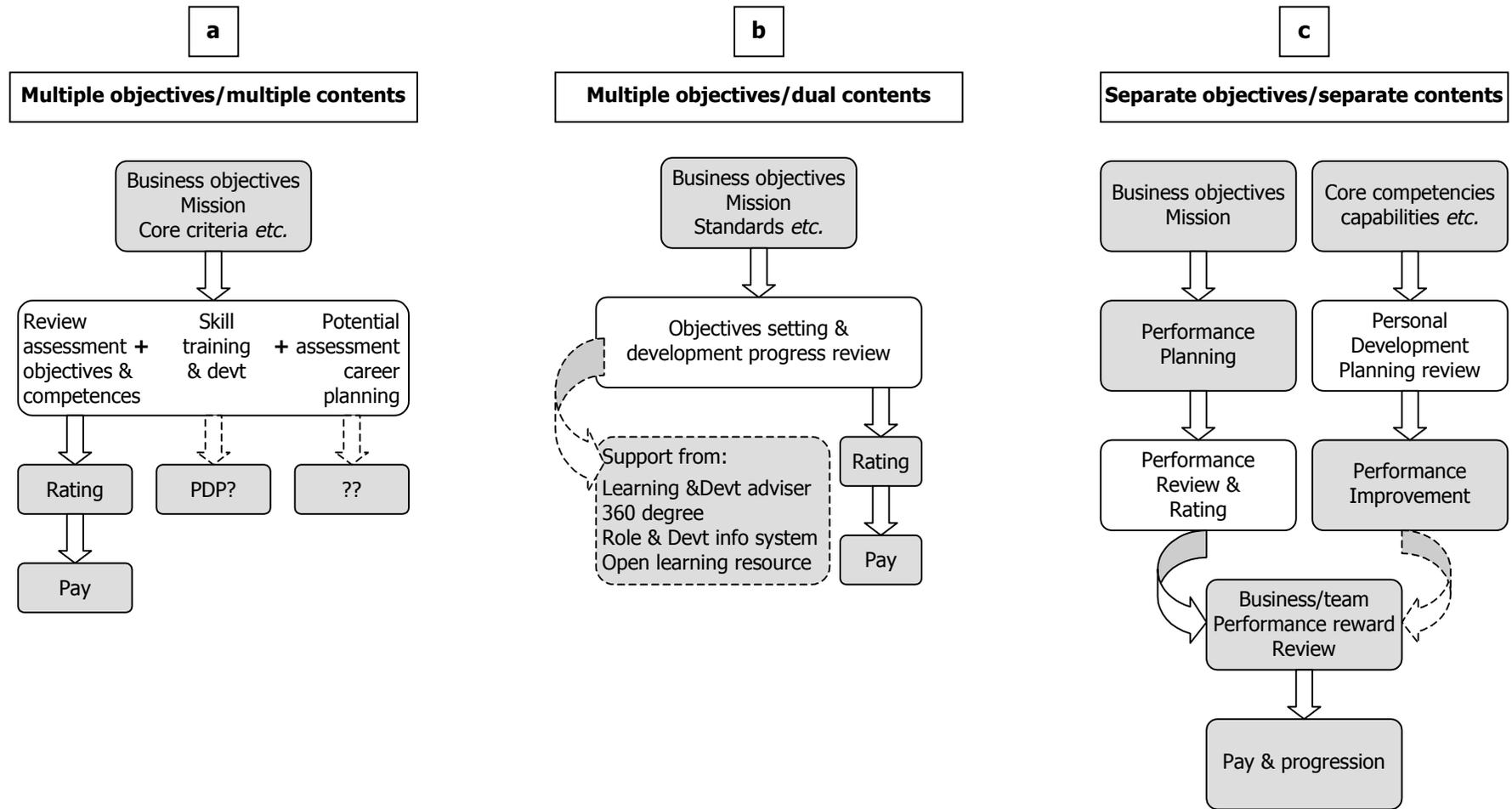
Managers in our study who had attended a greater number of activities were significantly more likely to be positive about their experience of performance feedback and coaching. The greater the number of activities, the more positive the impact. Compared to other organisations in our study, this was more likely to be a feature of the retail banking organisation.

A manager aptly illustrates the importance of this process:

'The performance review is good. However, it falls over because there is no feedback during the year, so if one's performance is below par, there would be no feedback until the end of the year thus not giving the individual a chance to improve.'

But do managers of people themselves receive feedback? More than half the managers of people have received feedback on their management skills (63 per cent) and most have found it useful or very useful (64 per cent). On the whole, civil service departments were better at giving feedback on management skills than other firms, except the Department whose managers were dissatisfied with their system. Interestingly, the employers whose PR system, it could be argued, were making the most demand on coaching skills (right hand strand of model (c), Figure 3.1) were failing to give feedback to 55 per cent of their managers.

Figure 3.1: Models of PR systems



Source: IES, 2000

Table 3.2: Impact of positive experience of performance feedback and coaching (N=190)

Managers positive about performance feedback and coaching:

Experience a greater number of activities related to PM (*eg* mid-year review, development meeting *etc.*)

Talk freely during the meeting and perceive feedback to be honest

Receive informal feedback during the year

Are confident about asking for feedback and coaching others to improve their performance

Are satisfied with coaching to improve their performance

Are confident in improving their current job performance

Are satisfied with their PR system

Source: IES, 2000

The fact that over 80 per cent of managers reported that they give feedback to colleagues seems to suggest a gap between managers' perception – they may think they give feedback more than the recipients think they do. While knowing that organisations are poor at delivering signals on the need for intervention, those that have experienced it can give some clues. Table 3.2 summarises what positive feedback and coaching means and what its impact is likely to be.

These findings suggest that while participation in the PR meeting may be more important than influencing the outcomes of PR, employers who do not capitalise on the positive impact of feedback and coaching may be losing out. They may not only fail to gain individual performance improvements but also to exploit a means to change the culture of the organisation. However, training and development, if delivered, has the potential to compensate somewhat.

3.3 Can PR deliver training and development?

For employers who opt for a strategy of quality enhancement, PR provides the means to identify training and development needs and inform the development of skills required for the future. Managers in our study were generally perceived to be poor at identifying training and development needs and discussing these during the review meeting. Only 137 managers reported a positive experience. Delivering training and development is about facilitating access to training, optimising its benefits by enhancing and consolidating newly acquired or developed skills and ensuring that development needs are tackled.

3.3.1 Satisfaction with training ...

Managers across the different organisations are on the whole satisfied with their access to training. Interestingly, managers in

Table 3.3: Impact of positive experience of training and development (N=137)

Managers positive about training and development:

Experience a greater number of activities related to PM , in particular mid-year review and development meeting

Are more likely to have separate processes and attend a development event

Are satisfied with discussion of training needs and long term objectives

Think PDPs are good to address training needs

Are satisfied with access to training

Are more likely to be briefed and debriefed by manager before and after training

Source: IES, 2000

the organisations which had a system focussing on training (eg the NHS Trust and the public service) are the most dissatisfied with their access to training, as one of their managers illustrated:

'I have found that in some areas insufficient information is available, eg personal training and development is discussed but little information is available on training courses and opportunities.'

Again, Table 3.3 shows what it means to managers to have a positive experience and its impact. Findings seem to support the benefit of separating processes. However, the benefits gained from being trained might be short-lived if learning is not transferred to the workplace. A staggering 72 per cent of managers (the senior civil servants in particular) have not been: *'briefed before and debriefed after attending training'*. While it depends on whether managers had actually been trained (but 66 per cent of those who had attended a separate development event had not been briefed and debriefed) and senior managers may not need training or think they need training (86 per cent of managers in one department had not been briefed) (Kettley and Strebler, 1997).

3.3.2 ... and tackling development needs

Since managers were somewhat dissatisfied with the discussion of their long-term development objectives as part of their review meeting, examining whether they were confident that their: *'development needs will be tackled over the next year'* is revealing. Only two organisations managed to deliver, ie their managers believed that it would happen. Interestingly, these are the two employers whose managers are the most satisfied with their PR systems. The two organisations with the strongest focus on training again score badly on this criterion.

One of the senior civil servants points to the possible causes:

'Development and training is wrongly tacked onto performance appraisal; it's completely overlooked, and is really a matter for individuals to pursue – but it is rare that more than a day a year can be spared given pressures and a typical 55 hour working week.'

3.3.3 The impact of multisource feedback

Reviewees want regular feedback on tangible outcomes and results rather than broad traits as emphasised by many appraisal forms (Gosselin *et al.*, 1997). The type and content of feedback is therefore a factor and organisations increasingly rely on feedback from other sources to inform development needs. The use of multi-source feedback (*ie* feedback from external customers, internal clients, peers and subordinates) was not widespread amongst the organisations participating in our study. Less than one-third of managers have experienced multi-source feedback, other than from line managers and self.

Nonetheless, we found multi-source feedback to have some impact on several aspects likely to motivate users. It improves users' satisfaction with (all sources unless mentioned):

- coaching
- the discussion of long-term objectives and confidence that development needs will be tackled
- the PR system
- the discussion of training needs and career development opportunities (except external and subordinate source of feedback respectively).

3.3.4 Potential and career development

We have so far mainly concentrated on current job development. All employers need to identify potential and retain their best performers. For the civil service, however, this has to be achieved across a wide range of different departments. What happens when PR also has for objective to identify potential and discuss career planning, as is explicitly the case for the SCS system? Our findings suggest that these objectives are not well delivered:

- The managers in our study did not think that PR helped them '*identify high potential*' but managers of people are slightly more positive. The SCS system was not more successful than other systems, suggesting that the inclusion of potential assessment as an additional objective is not sufficient in itself to make it happen.
- Paradoxically, multiple objective systems seemed to fare better than separate or single objective systems in their perceived capacity to identify high potential (possibly because they integrate inputs with outputs, giving a more rounded picture).
- Managers agreed that their system: '*provides information to make decisions for promotion*' but disagreed that they: '*know where to find information on career opportunities*', except for managers working in the retail banking organisation.

- However, managers: 'don't know whether they are likely to be promoted' and: 'don't believe that promotion is based on merit'. Interestingly, managers from the public service and the NHS Trust disagree the most but SCS are slightly more positive than managers in the private sector. Similarly, people managers are significantly more positive about promotion than specialists.

3.3.5 The role of competencies for training and development

Given that competences are meant to help organisations reinforce behaviours and values, and help managers identify training and development needs, managers' views about their usefulness is rather disappointing and particularly so for the civil service departments. Two-thirds of SCS (59 per cent) disagree that 'competences have helped my manager identify my strengths and weaknesses', compared to one-third of managers (34 per cent) in other organisations. One senior manager illustrates why this might be so:

'I find competencies useful for evaluating potential but perhaps paradoxically ... of less practical value for evaluating development needs ... they are broad in type and often development is better either in narrower skills (eg IT, media skills) or in broader development activities across a broad range of competencies.'

Given their use in vacancy-filling exercises, the problem may lie more in their use rather than their definition, as suggested by another civil servant:

'The present use of competencies is another unhelpful straightjacket which is currently leading to the situation in which those without management experience have little chance of gaining it, because they cannot demonstrate the competence. So they get sifted out for jobs with a management component.'

Yet, competencies have a positive impact on PR since they make the process of performance review more open (Strebler *et al.*, 1997a). They have also a dual role: they play a part in setting performance standard and assessing performance (see Chapter 4).

3.4 What are the implications of users' motivation?

To begin with, we argued that the impact of systems on motivation would increase in importance given the link with business performance. The previous chapter highlighted that managers on the whole do not find PR motivating. Our audit of the PR system features and contents in this chapter have highlighted some of the aspects and features of PR that may serve to increase users' motivation.

3.4.1 What makes a PR meeting motivating?

Did users perceive the system to have an impact on their motivation? Responses from managers to: *'my last performance review motivated me to work harder'* are revealing. The aspects that have the most significant impact in order of importance are:

- satisfaction with review system
- satisfaction with coaching by line manager to improve performance
- feedback from internal clients
- training and development for promotion as an outcome of the review.

3.4.2 What makes a PR system motivating?

Responses from managers of people to: *'system enables me to motivate staff'* again in order of importance include:

- satisfaction with review system
- last review motivating
- recognition of managers' efforts.

To make the process work, managers of people not surprisingly have to be motivated. They are unlikely to be motivated if they feel that their perseverance in trying to make it work is not recognised. One in three managers agreed that the: *'efforts of managers to review staff are not recognised by their organisation'*.

3.5 Summary

Are PR systems underperforming because of the way they are designed or because of way they are implemented? This chapter has examined the objectives and contents of PR systems, the motivational impact of the review process and of the activities related to feedback, training and development.

Employers need to strike the right balance between the objectives and contents of their PR systems. As employers in our study found, the answer is more likely in designing PR systems that can realistically deliver, rather than searching for the text book model.

At first sight, a number of PR systems with multiple objectives looked as though they were trying to achieve too much. There were also a number of dimensions to 'overloading' which needed to be considered in terms of the messages conveyed to users (eg contents of the review meeting, the number of formal meetings, the link to supporting activities and other HR systems).

Users satisfied with their PR system believed it does not cover too many purposes to be effective, irrespective of how many objectives it was trying to achieve and whether it was separated from assessment for pay or not. While overloading appeared a useful concept, it is perception of overloading that matters. Furthermore, although time needed to conduct PR is perceived to be valuable, in practice, managers were only delivering one or two activities at most.

Users were satisfied with the review process delivered by their managers rather than its contribution to performance improvement and development. This resulted from a poor delivery of coaching and facilitation of training and development. Since users satisfied with coaching and training and development perceived PR to have helped transform the culture of the organisation, employers may miss out on a way to add real value to their business as well as improve performance. Given that most of the systems were linked to pay, we now turn to the issues related to pay.

4. The Link to Pay: Does it Matter What Staff Think of PR?

Performance review is the main vehicle for linking pay and reward more closely to individual performance. The assumption is that people won't work effectively unless they are rewarded for their individual efforts. Pressure on costs has also prompted many organisations to move to merit increases as a lever to control their pay bill. Pay and reward in this sense is used as a means to motivate, incentivise and control. Yet there is considerable evidence that performance related pay absorbs much management time, and employees find complex and pay-related systems difficult to understand and susceptible to bias and manipulation. This chapter explores the impact of users' perceptions of objectivity and fairness on the link to pay encouraged by some PR systems. It covers:

- what were the approaches used by participant organisations to link PR to pay?
- what makes managers objective?
- what were the pay outcomes of PR for users?
- do users' views about fairness and consistency matter for PR systems?

We have seen previously that organisations were fairly poor at delivering feedback and development as a result of PR. Does this mean that employers in our study are more likely to rely on reward alone to motivate employees? Concentrating on the outcomes is pointless without considering the effectiveness of the performance planning and assessment. We trace the process back, starting with the approaches used by employers to link PR to pay.

4.1 PR link to pay: organisational approaches

Good practice suggests that for pay and reward systems to be effective they should be affordable, transparent, felt to be fair, and simple to administer. As the tool to deliver PM, PR has a role to play in supporting the delivery of pay and reward strategies. However, PR linkages to pay can take many forms. The overall objectives of PR systems have been discussed in the previous

chapter. This time, we examine the implications of the different approaches adopted by employers to link PR to pay.

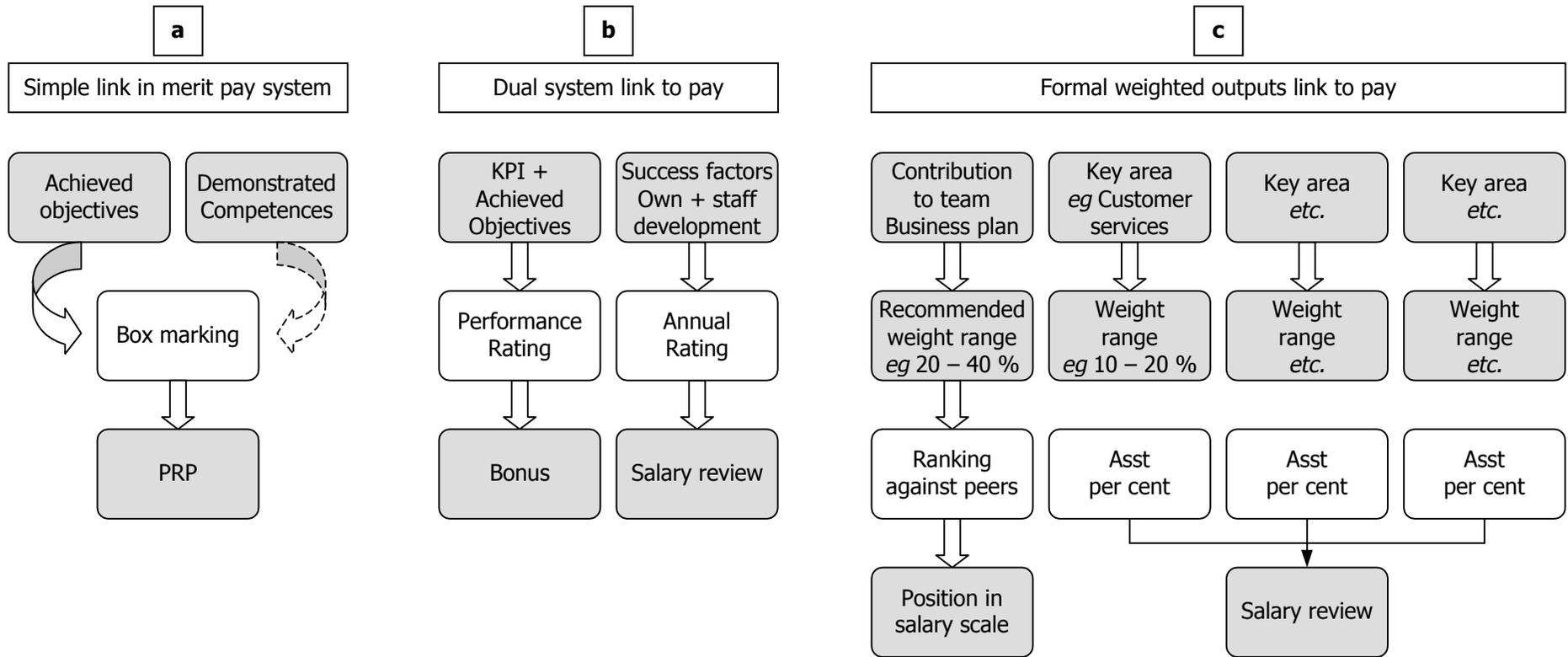
4.1.1 Approaches used to link PR to pay

We identified several approaches, the most relevant to our purposes are the three main types of linkages to pay out of PR illustrated in Figure 4.1 (white boxes). Some of the most relevant variations include:

- *indirect* or *direct* link: approach (a) is an example of an indirect link, the most common linkage out of PR. Skill-based pay would be an example of a direct link.
- *explicit* versus *implicit*: approach (c) is more explicitly linked to pay (eg it calculates the value of efforts) rather than (a) and (b) which are relying on box markings alone.
- *ratings* or *weightings*: approach (a) is the most common and uses either a 7 or 5 box rating system; approach (b) a five point system for both strands; and approach (c) combines both ranking and weightings.
- *team* or *individual* rewards: approach (c) has an element of team rewards combined with individual performance; the other approaches are based on individual performance, although all reinforce team-working behaviour via competencies.
- *simplicity* versus *complexity*: the box markings used by approaches (a) and (b) appear the most simple means of linking PR to pay, whereas (c) is a rather complex method of calculating an overall performance mark.
- *openness* or *secrecy*: despite PR being a more open process, all approaches seemed to fail adequately to explain how performance measures translated into a salary increase or bonus (see also 4.3).

Given the close association between the performance rating achieved and potential reward, not only the value and fairness of the actual monetary outcome (linkage into the pay structure) but also the perceived objectivity and consistency of the performance assessment process (linkage out of PR) will be significant. One senior civil servant highlights how much perception may be influenced by the effectiveness or otherwise of the performance planning process:

'The system currently in place has enormous advantages ... it is open and every individual is aware of his/her objectives and knows how he/she is marked against them.'



Source: IES, 2000

Table 4.1: Satisfaction and confidence with aspects of performance planning and assessing (N=926)

Satisfied and very satisfied	Completely confident and largely confident
67% opportunities to discuss own performance assessment	76% make an objective assessment of someone's performance
63% opportunity to discuss and agree own objectives with manager	73% collect evidence to demonstrate your achievement of objectives
47% process of cascading down individual objectives from business plan	72% align individual objectives with those of organisation
42% information given before the meeting about manager's assessment	57% assess your own performance against competencies
22% evidence collected from other sources by manager	53% set SMART objectives

Source: IES, 2000

4.1.2 Is the cascading of objectives effective?

Managers perceived the closer alignment of individual objectives with business objectives to be the most successful purpose of PR, as it increases business awareness (see Chapter 2). Benchmarking satisfaction with the performance planning and assessment process not only highlights the most effective aspects but identifies some of the problems to be addressed, as shown in Table 4.1. A public service executive aptly explains the process:

'As a manager I need to review continuously not only my performance but the whole unit's ... not just on a personal level but by taking in things as KPIs (key performance indicators) throughputs and costs. As managers we are interested in these areas and at team briefs with our staff we cascade these down.'

While managers were happy with the discussion of their objectives with their own managers, they were less so with those set by the business. For instance, managers in the regional insurance company and the commercial banking organisation were more dissatisfied with the process of cascading down objectives and, as their managers' comments indicate, this led to perceptions of unfairness. This is particularly significant, since the PR system used by the commercial banking organisation is based on team objectives and solely linked to pay. So targets can be SMART, but if they seem unfair, or if they are imposed, they lose their motivational impact:

'... setting of targets and performance measures is a top down process with little room for input. Targets are as a result imposed and unrealistic ...'

'There remains the problem of managers setting arbitrary objectives and staff being unfairly treated when factors outside of their control impact upon attainment of so called SMART objectives.'

On the other hand, undue weighting of some 'high profile' criteria could downplay the value of more practical outputs, as shown by one of the participants in the NHS trust:

'One feels you have to be a 'super' nurse to gain recognition. Some objectives are unrealistic – if everyone was excellent at doing research the hospital would be overrun with people carrying out research.'

4.1.3 Are objectives SMART?

While most managers are confident they can align their individual objectives to the business, almost half of the managers in the civil service department who were the least satisfied with their PR system also indicated that they were not confident they can set SMART objectives (45 per cent). Some managers were of the view that it was an impossible task:

'My job and those of my people involves work on Ministerial policy, legislation, litigation and advising the network of local offices. There are in my view no sensible objective measures of performance - the flow of work varies constantly because of outside forces.'

Given that the lowest level of confidence in setting SMART objectives is confined to managers in this department, this may be a clear training need. Furthermore, we reported earlier that these managers had received the least feedback on their management skills (see Chapter 3). Nonetheless, the process of setting SMART objectives appeared less meaningful in some roles and environment than others as reiterated by another senior civil servant.

'I am a lawyer in the senior civil service and the work I do is predominantly legal. It is difficult to set objectives for me that are meaningful, because the work I do (along with about 1,000 other government lawyers) is demand led. The priorities that have to be met are the client's, not mine.'

There were however others who felt that concentrating on outputs alone was irrelevant:

'My organisation appears too keen to measure what is measurable (because it is measurable) without regard to the fact that often it is totally irrelevant in determining how well work is being done.'

'Another difficulty is much of the job does not lend itself to measurement by targets ... in my job quality is important; it cannot be reduced to numerical objectives.'

4.1.4 Inputs vs. outputs: do competencies help?

Quality initiatives have been supported by employers adopting competency frameworks to reinforce values and behaviours. Some managers highlighted the benefits to be gained by their introduction:

'There has been insufficient stress laid upon 'how' objectives are met, thus undermining the importance of behaviour.'

Despite their potential, managers in our study had misgivings when competencies were used in conjunction with objective setting. Forty-six per cent of managers held negative views about the extent to which: *'competencies have helped me understand what other peoples' jobs entail'*, suggesting a lack of clarity as to how competencies fit in with job evaluation and role profiling:

'We have concentrated on behavioural competencies and down-graded skills and experience; as a result the business is suffering ... very few people see the relevance of the system to the Department business needs.'

Performance assessment in the participating organisations was conducted on the basis of achieved objectives, increasingly combined with achieved competencies. Competencies provided examples of observable behaviours, which, no doubt, should have been helpful for assessing performance. However, only 28 per cent of managers of people agreed that: *'competencies have helped managers improve their judgements of performance'*. Reasons for this may be due to their relatively recent introduction or more adverse reactions from senior civil servants to their current competency framework. Again, reasons were illustrated by one of the managers in a civil service department:

'Competencies may be the latest buzz word but used in practice they are hopeless in assessing performance – it is generally possible to assess against objectives (eg what the organisation this manager actually headed actually delivered) and that is what matters, but assessing a manager's leadership is a pretty vague undertaking – it is not surprising that the results are inconsistent across departments.'

Nonetheless, the comments by a manager from the retail banking organisation which had used competencies for many years tended to support the view that competencies were more suited to development rather than assessment:

'The present system represents an improvement as we have moved away from competency-based assessment to a process of reviewing performance against business-focused objectives. This shifts the emphasis from simply being 'good at the job' to added value in supporting business goals and targets.'

Given our previous finding that managers were not adopting competencies wholeheartedly for training and development, and the costs and time needed to develop them, is there a backlash against competencies? There is growing evidence that employers who do not consider, at least, encouraging managers to discuss with their direct reports how competencies match job requirements, are unlikely to get the best results (Strebler *et al.*, 1997a).

4.2 What makes managers objective?

Performance planning and assessment may be increasingly construed as a partnership between two individuals negotiating and agreeing each stage of the process. It follows that the process needs information and rests on managers' ability to use this evidence to form judgements. Managers have the dual and conflicting role to play of a coach and a judge. We discussed the role of coach in the previous chapter. Here we consider which aspects of the assessment process contributed to the perceived objectivity of managers.

4.2.1 Are users confident that their managers are objective?

Given that, by its very nature, the process of PR can only be subjective, arguing for objectivity may be a sterile debate. We were interested in the impact of perceived rather than achieved objectivity, arguing that determining what a manager does in practice which makes him or her perceived to be objective by the recipients of review, would seem to be a more fruitful and potentially useful avenue to pursue.

Taken as a whole, managers seemed mostly positive about the objectivity of their own managers and tended to agree with the statement that: *'I am confident that my manager is as objective as possible when assessing my performance'*. The small number of managers working part time (45, mostly female) were less confident than managers working full time, particularly so in one of the firms.

4.2.2 Collecting evidence from other sources

Table 4.1 shows that managers expressed some dissatisfaction about the: *'evidence collected by their manager from other sources'* and: *'the information they got before the meeting about their manager's own assessment'*. Paradoxically, while users are dissatisfied about the lack of additional information provided by their managers, they are very confident about collecting evidence themselves.

Traditionally, 360 degree feedback has been kept well away from pay-related assessment, many employers preferring to reserve the process for performance feedback and development (see Chapter 3). Nevertheless, managers who had received feedback from other sources were significantly more satisfied with the evidence collected by their managers from other sources, compared to others who did not and were dissatisfied:

'The current 360 degree review system is much fairer than relying on just your immediate manager's opinion, as they do not always know enough about you and your job.'

Receiving feedback from other sources (including internal, external, peer and subordinate) further and significantly increased managers' satisfaction with performance planning and confidence with objective setting.

4.2.3 It's not what you know but what you think you know

On the other hand, managers must be aware (or convinced) that their judgements would be improved if they collected evidence from other sources. Interestingly, users agreed less with the statement: *'my manager knows enough about my performance to assess objectively'* than they did with: *'I know enough about the work of my staff to assess objectively'*. Collecting evidence from other sources increased users' perception that their manager knows enough about their performance.

By contrast, managers of people think they have greater knowledge of staff work, irrespective of whether they have collected evidence from other sources, and of whether they think their manager is actually objective. While we may not expect as great a shift as for their own performance, it is significant when we consider that managers are also largely confident they can assess someone's performance objectively. Given the large body of research evidence pointing to the influence of biases and the inconsistency of performance judgements, this high degree of confidence seems rather overstated. In other words, users are more confident about their ability to judge others than they are about others judging them.

4.2.4 Perceived objectivity increases perceived fairness

The ability of managers to deliver the activities related to performance planning has a direct and significant impact on whether he or she is perceived to be as objective as possible. Again, satisfaction with the evidence collected from other sources, and the information given by managers before the meeting, has the most significant and greatest impact on perceived objectivity:

'I was very happy with my manager's assessment and approach. Although my manager is remote and not seen very often, she was clearly well prepared and put in the effort to make the review worthwhile.'

More importantly, perceived objectivity has a significant impact on perceived fairness. Users who believe their manager to be objective also agree that the: *'performance measures are fair'* and that they: *'have been evaluated fairly'*. It would no doubt help managers in justifying their assessment. As one civil servant demonstrates, some need it more than others:

'In my experience the quality of performance appraisal reports varies greatly ... lawyers tend to debate/argue every word written about them and invoke grievance procedures readily. The tendency is for less able managers to take the easy way out and write bland reports and give them satisfactory markings.'

Furthermore, managers who worked part time did not perceive their performance measures to be fair, were dissatisfied with the information they got from their managers before the meeting, and did not believe their managers knew enough about their performance.

So even though objectivity often seems like a 'holy grail', managers can still improve the recipient's perception of their objectivity by ensuring that their judgements are communicated in advance and based on evidence from others as well as on their own.

4.3 What were the outcomes of PR for users?

From a user viewpoint, PR has two important and visible outcomes: the rating of individual performance and the actual outcome of the review process. Using pay to motivate implies that a positive outcome will result and that this will be differentially motivating depending on the level of performance rating on which it is based.

4.3.1 Users expect performance ratings based on evidence

Most of the employers in our study were using ratings as a means to measure individual performance and link it to pay. Rating performance is the second most important purpose of PR, and for civil servants at least, their experience is matching expectations (see Chapter 2). The psychometric properties of the rating process – *ie* whether achieved ratings are valid and a true measure of actual performance – is the most researched aspect of the performance assessment. The lack of concluding evidence and contentious nature of the debate has prompted large employers and practitioners to call for its deletion (Armstrong and Baron, 1998b). Despite attempts to diminish its impact in some organisations, we may not be surprised if much energy is still spent in trying to get it right, given that user views are so diametrically opposed:

'Box markings motivate as much as absolute cash.'

'Ratings should be abolished.'

Appendix Table 4.1 shows that a greater proportion of senior managers in the public sector had been awarded an exceptional performance rating as a result of their last review, compared to managers in the firms (44 per cent for SCS and 31 per cent for firms respectively). Similarly, people managers tended to get a

Table 4.2: Managers' views about the motivational impact of the rating system*

Negative views	Positive views
Three SCS departments and one firm	Two SCS departments and one firm
Specialists	People managers
Part-time managers	Performance rated exceptional
Strongly disagree manager is objective	Strongly agree that manager is objective
Very dissatisfied with the evidence collected and information provided	Very satisfied with evidence collected and information provided by managers

* based on significant responses to 'current system is not demotivating' and 'rating system enables managers to give staff the rating they deserve'

Source: IES, 2000

higher performance rating in the civil service, and to some extent the firms, compared to the other public service examples (the Trust in particular). Compared to others, managers who have received an exceptional rating are significantly more satisfied with the outcome of the performance review.

Given that performance rating occupies much management time and seems the most lamented feature of PR system, our findings again support the view that the organisational context and the ability of managers to administer ratings had more to do with its overall motivational impact (or failure to demotivate) than the type and number of boxes actually used, as shown in Table 4.2. Nonetheless, there was some indication that either a complex system heavily based on numerical calculations (eg type (c) in Figure 4.1) or a small number of boxes may have been found the most demotivating. We cannot, however, distinguish this effect from the fact that managers in these organisations had felt the objectives on which their rating was based had been set unfairly.

Some reasons for these views were again apparent from the comments of managers. There were those who saw the issue as the number of boxes:

'I'm beginning to be less than convinced by the case for overall performance markings. My organisation has just moved from a five to three box system and I can see a strong case for getting rid of boxes altogether.'

or the messages given by the type of rating system used:

'... the standard mark for people doing a good job is D – the perception of this by staff who know the GCSE grade is that it is a failure. This also pushes the grades up so the marks become meaningless.'

or the way ratings were allocated:

'... people have become focused around the review headings (a little like wasps around jam) for the sole purpose of gaining points (and points mean prizes) rather than improving the quality of care they deliver.'

Table 4.3: Managers views about the consistency and fairness of assessment

Managers' views

- 83% disagree that behaviour/decision-making of managers is consistent across their organisation*
- 75% agree that more consistency is needed in the way that managers give appraisal gradings
- 46% agree that the system rewards highly visible rather than quiet, good performers*
- 46% agree that competitive and ambitious people do better regardless of ability
- 35% agree they have to stay on the right side of a manager to get on
- 34% disagree that standard setting and monitoring have improved the consistency of assessment by managers*

* managers of people only

Source: IES, 2000

'... it seems that you can earn an excellent rating by bringing lots of business even though the lending quality is awful and you ignore your staff all year.'

4.3.2 ... but distrust their consistency and fairness

Distrust about the consistency of ratings, and beliefs that they are fundamentally unfair is universal amongst all managers and organisations in our study, as indicated by both responses to the survey and comments. Of all the aspects and features covered in this study, managers' views (consistency of managers, in particular) are some of the most negative, as shown in Table 4.3.

Managers' comments point to several reasons for inconsistencies; because of the link to pay:

'People are reluctant to give marks that are correct because of the effect on pay.'

'Capped pay awards are demotivating because box markings depend upon the statistics rather than on appraisal of work.'

for ulterior motives:

'Locally we suffer at the hands of a dictatorial regime where sycophants toeing the party line are rewarded.'

'It is virtually impossible to fire poor or belligerent staff, better to give a good appraisal and promote them away.'

or because of implicit quotas inconsistently applied:

'A firm message has been issued that the vast majority of people should expect a box 3 (out of 5) = good/satisfactory. This is acceptable if applied consistently but we discover that a high proportion of the very highest grades in HO get more Box 1s (excellent) or 2s (very good)

than Grade 5s in operational units. Moreover, we learn that other government departments award a much higher proportion of box 1s and 2s. ... all this unfair and demotivating.'

4.3.3 Pay is the main outcome of PR ...

Pay is the main outcome of PR for most of the participants (see Appendix Table 4.2). Comparatively more SCS from the departments have received a salary increase or bonus than managers in other public services and the firms. Over 90 per cent of senior civil servants in our study indicated they had received a salary increase or bonus as a result of their last PR, compared to 74 per cent in firms.

On further examination, the effect seems to be due to seniority of the managers rather than the sector, as 93 per cent of senior managers have received a salary increase, compared to 64 per cent of middle to junior managers.

Compared with others, senior managers were no more likely to be at the upper end of their pay scale. Interestingly, a higher proportion of SCS than respondents from other organisations did not know their position on the salary scale. All managers, irrespective of their position on the salary scale, are likely to receive a pay award, although position on the salary scale is clearly a factor, as indicated by managers' comments:

'Last review I moved up 4 competencies but because my salary was near the top of the range for the competency levels set, I received a relatively small salary increase. Some of my colleagues moved up 1 competency but because they were on a lower salary range, their salary increase for moving one competency was more than mine for moving up four – demotivating or what?'

'If you are in a department where there are a number of lower paid staff that management wish to move up the pay bands ... the more experienced staff have to give up some of their rise to allow the others to catch up.'

4.3.4 ... but managers cannot explain their pay system ...

So while the linkage of PR to pay may appear simple, the link into pay structures and rewards may in reality be quite complex, as illustrated by one of the managers:

'I am not alone in failing completely to understand the Board's complicated pay infrastructure with its pay band matrices ... we desperately need a new simpler user friendly system based more on motivation and psychology than simply hitting the right competency buttons!'

Discussing pay architecture is clearly beyond this study. In fact, most of the PR guidance provided by the employers in our study

lacked good information about PR's link to pay. Nonetheless, with performance ratings now leading to:

- incremental progression
- progression within broad-banded pay zones
- non-consolidated bonuses for those at grade maxima
- accelerated progression for those at the low end of pay zones

it is increasingly important that managers understand how ratings from PR affect the salary position of their staff. It is equally important that should be able to **explain** this position with reference to both the PR and the reward policy.

While managers are on the whole positive about their experience of the use of PR for determining pay and salary increases, clearly this is unlikely to be matched by their understanding of how pay was determined.

- Almost one in three managers are dissatisfied with the: *'information given by their own manager on how their performance impacts on their pay'*.
- Almost one in two are not confident that they can: *'explain their organisation's pay system'*

Compared to managers in the private sector (the financial organisations in particular), a larger proportion of senior civil servants are not confident that they can explain their pay system. These findings show how the seeds of discontent may be sown and feelings of unfairness created. As one manager in the retail banking organisation remarked:

'We are kept in the dark on how bonuses are drawn up and agreed across the board. I am not convinced that we have cracked a fair and consistent approach to how the overall pot is shared. It would be nice to see figures in black and white for all to see, ie what sectors/branches have been allocated what.'

While another offered a solution!

'The missing link is a sensible relationship between a pretty good performance appraisal system and a real reward through a transparent pay system.'

So already the approaches to linking PR to pay used by the employers in our study fail to adhere adequately to recommended good practice (*ie* transparency and simplicity). For employees, however, this may not matter too much if PR consistently results in positive outcomes.

Table 4.4: Impact of salary increase or bonus as an outcome of PR

Agree	Disagree
More satisfied about the information received on how my performance affects my pay	Work harder to achieve my objectives because it affects my pay*
Understands how performance affects pay	Last review motivated me to work harder*
Improves confidence in explaining organisation's pay system	Not able to talk about weaknesses with my manager because it may affect my pay

** Managers who have received a pay award significantly disagree more than their counterparts who have not received it*

Source: IES, 2000

4.3.5 ... and reward does not motivate managers

Benchmarking satisfaction with the outcomes of PR reveals that the small group of managers who had received training and development for promotion as an outcome across the participant organisations, found outcome of the review is the most satisfying (see also Chapter 3). An increase of responsibilities is also found to have a positive influence on managers' satisfaction, while that of pay is much lower, having no impact on satisfaction with the outcomes for managers in the firms (see Appendix Table 4.3) as illustrated by the following quote:

'I see the PR system as the donkey and carrot method of motivating people. A little money is always nice but it is not the driving force to doing a good job.'

Turning to the views of managers who have received a salary increase or bonus, compared to those who have not, reveals an improvement of the understanding of the mechanics rather than any increase of the motivational impact of the reward itself (see Table 4.4). In fact, those who had received a salary increase or bonus were significantly 'demotivated' and did not feel it had made them work harder to improve their performance.

Comments from managers suggest that it was the size of the reward that was felt the most demotivating and particularly so for managers in the civil service:

'PR should produce proper pay increases for good performers. The additions are derisory. People work hard for other reasons and not because they want to receive a bonus of £275. Good performance should be rewarded with proper money.'

'I received a one-off bonus ... This was equivalent to one-third of one per cent of my normal salary. This bonus did not motivate me; it infuriated me because the amount was insulting.'

These findings run contrary to those of previous studies, which suggest that performance-related awards were unpopular on the grounds of equity. This study suggests that many managers and staff want PRP to differentiate *more*, even though they claim it is not a motivator.

4.3.6 What about rewarding teams instead?

Increased emphasis is currently being placed on teamworking by employers, although this did not go as far as using team based pay. However, the organisation using model (c) (Figure 4.1) had a team element. Managers' views about teamworking and team reward are revealing:

- Seventy-two per cent of managers in the retail banking organisation agree that: '*PR does not make it difficult for team members to co-operate*', while almost half of the managers from the civil service department who are the least satisfied with their PR system disagree.
- The same pattern can be seen for the statement about outcome, the retail bank agreeing that: '*PR has improved the performance of my team*' (see also chapter 2).
- Considering that the commercial banking organisation had an element of team based reward, managers' views about its effect on teamworking and improvement were rather disappointing. One manager suggests why this may have been the case:

'Present application of PR leads to discontent amongst staff/managers due to different challenges and agendas faced by relationship teams compared to regional and HO teams.'

Other views highlighted that some of the issues associated with team based reward may not really be that different from individual based pay:

'PRP has proved divisive and in my view has not motivated teams.'

'Teams allocating their own bonus is not always good as inevitably the bonus is split equally, even though it is obvious some deserve a larger portion of bonus for their efforts than others.'

'Units operate as individual non-co-ordinated sections, not as a team. The culture is one of keeping one's own patch clear regardless of the damage done to others.'

So while most managers have received a salary increase or bonus as an outcome of PR, employers were nowhere near being able to deliver the size of reward that would motivate managers, in fact quite the opposite. Instead, the lack of clear information about the PR link to pay raised suspicion and served to further demotivate managers. Managers in our study were similarly doubtful about team based pay.

4.4 Implications for PR systems

Employers who use pay as a lever to both control costs and improve productivity should be concerned by our findings. What does this mean for the PR link to pay? And for approaches to PR systems design?

4.4.1 PR link to pay

As the main mechanism for linking individual pay to performance, PR should conform to the same criteria as those applied to reward systems. Our audit of approaches used for linking PR to pay, point to them failing most criteria.

The link to pay lacks transparency and most managers do not feel well equipped to explain how it works. Some of the rating systems are quite complex and found to be demotivating. Yet ratings are increasingly acting as proxy for recognition of efforts, and managers use them to motivate and encourage staff to improve. The consequence of this is rating drift and perceived lack of consistency. On the other hand, integrating multisource feedback with PR may improve the accuracy of ratings and minimise rating drift somewhat.

PR is only felt to be fair if goals and targets set are perceived to be fair relative to others, managers are perceived to be objective when assessing performance, and judgements of performance are consistent across the organisation. While our findings suggest ways to improve performance measures and perceived objectivity, not one practice (including standard setting and monitoring) seemed to have had any significant impact in changing people's views about the lack of consistency between managers in different parts of the organisation. In other words, we seem to be confident in our ability to judge self and others' performance, but far less so in others judging us. These findings will be of concern for organisations, particularly in the civil service increasingly relying on standard setting to increase accuracy and consistency. It may be better to home in on procedural fairness rather than policing rating accuracy.

4.4.2 Integrate or separate?

What are the implications of our findings for the design of PR systems? PR systems must be flexible and user friendly to fit newer approaches aligned to constant business changes and pressures. Approaches to PR which use two separate but parallel strands (*eg* development and assessment for pay) seem somewhat artificial. Individuals do not necessarily operate like that, *ie* they want to talk about pay and/or development when they need to, rather than when best practice suggests or the system dictates. We conclude that it is not separation or integration that are the most important but rather individuals understanding the various parts that form the whole 'performance management package' and their interdependencies (*eg* work roles, performance planning and assessment, performance development and reward). Employers should perhaps concentrate on equipping line managers so that they know – and are able to explain – how they integrate, but also how they can be used as 'stand alone' and supported by other activities or processes.

4.5 Summary

Do users' views about links between PR and pay matter, and at which stage of the PR process do they matter most? This chapter has explored the impact of users' perception of objectivity and fairness on the link to pay encouraged by some PR systems.

From a user point of view, PR has two important and visible outcomes: the rating of individual performance and the actual outcome of the review process. As the main vehicle for linking individual performance to pay, the approaches used by employers for linking PR to pay varied widely in their transparency and simplicity.

While managers were happy with the discussion of their objectives with their managers, they were less so with those set by the business. In some organisations, targets which conformed to the SMART principle were nevertheless perceived to be unfair and imposed, reducing their motivational impact. Managers had mixed reactions to the use of competencies. While they saw their potential, they failed to understand how these related to their job roles and had misgivings about competencies helping line managers to judge their performance.

Objectivity of managers was increased by the use of multisource feedback and increased objectivity in turn led to perceived fairness. Ratings are increasingly acting as proxy for recognition of efforts, and managers use them to motivate and encourage staff to improve. While a salary increase or bonus was the main outcome of PR, employers were nowhere near being able to deliver the size of reward that would motivate managers, in fact quite the opposite. Instead, the lack of clear information about the link between PR and pay raised suspicion and served to further demotivate managers. Our findings have highlighted issues and challenges for employers. It remains for us to draw the emerging themes.

5. Performance Review: Balancing Objectives and Content

This study has looked in some detail at the current state of one of the most frequently used HR management tools: Performance Review (PR). We have found a wide diversity of goals, design, implementation, outcomes, effectiveness and popularity in the performance review processes we have examined. The existence of this diversity tells us something of the range of uses to which PR is now being put, and bears testament to the fact that, in some organisations, it is being stretched beyond its limits.

In this final Chapter, we seek to highlight the issues and challenges which performance review faces in tomorrow's organisations. We will argue that a radical re-think of some fundamentals about the purpose and nature of PR is now overdue.

5.1 Rationality meets reality

Personnel management textbooks are full of touching accounts of how to design and implement performance appraisal and performance management schemes in organisations. The models they propose are based on a rational and linear logic which assumes that an organisation's goals can be translated into individual goals which, in turn, can be delivered through feedback, training, development and reward.

The reality of organisational life is, as we have seen, somewhat different. For example:

- **Politicisation of Performance Management.** In the Public Sector, performance review has become a process within performance management. With individual (and now team-based) performance pay as part of its fabric, the original, rational approach to performance review has been fundamentally altered. In the private sector too, performance review has also been developed into a pay delivery and control mechanism, making some of its performance and developmental goals more difficult to deliver.

- **HR devolution to line managers.** At the same time as PR became a more complex beast, organisations began wholesale devolution of HR responsibilities to line managers. This has meant that these managers have had to grasp and deliver the often quite complex and subtle management skills required to set goals in line with a wider business plan, assess performance, give constructive feedback, identify training and development needs and rate or rank performance for pay purposes. Not all have embraced this opportunity willingly or consistently, resulting in, at best, PR schemes of variable quality.
- **The equity paradox.** If this were not enough, performance review (an inherently subjective process) is now required to conform to a range of equity and transparency criteria (predicated on the need to conduct PR objectively). While this desire is completely understandable and just, it places an extra burden of reality on an already over-burdened process.

As the reality of political and business agendas have changed and evolved, PR has been used as a framework of management processes on which to hang additional objectives and practices. As our study has shown, the strain is beginning to show.

5.2 HRM meets personnel management

Perhaps no other ‘people management’ process illustrates the difference between old-style *Personnel Management* (the welfareist and admin-driven ideology) and *Human Resource Management* (an ideology driven as much by control as by commitment). In one sense, performance review has become a metaphor for the meeting of, or conflict between, these two ideologies. The result is an uncomfortable paradox. Performance review has ceased to be a conduit for the communication of a shared purpose between the individual and the organisation. Rather it has become a bottleneck of stark contradictions which:

- encourages skill formation – but rewards short-term gain.
- encourages openness about development needs – but rewards those with fewest of them.
- espouses meritocracy – yet reinforces patronage.

We have seen in the reactions of those involved in the mechanics of performance review, that these contradictions make it very difficult to use it effectively.

5.3 An overloaded and unsafe vehicle?

One conclusion from this study might be that the more objectives an organisation has for its performance review process, the less successful it will be in delivering any of them. In the Civil Service,

the Makinson Review (2000) all but confirms this view when it recognises the need to separate performance review and performance rewards.

A serious consequence of 'overloading' can be that staff faith in either the procedural or distributive justice of performance review can be severely (or terminally) undermined. This can result in the worst of both worlds: a time-consuming, costly and cumbersome PR process which actually *reduces* employee motivation to perform.

5.4 Design meets implementation

A problem with PR is that employer's eyes are bigger than their stomachs: they cannot implement what they design. IES has worked with many organisations who come up with cunning, elegant and 'integrated' designs for PR, linked to pay progression, team bonuses, personal development plans, competences and 360 degree feedback (via their intranet)! These designs frequently fail a number of tests:

- Can our line managers assimilate and deliver these processes competently?
- Can we afford the line management and staff training which will be needed for this approach to go live and to 'deliver the goods' on a sustainable basis?
- Can the HR function provide high quality, ongoing support to this scheme within the response times necessary?
- Will we ever be able to tell if we have recouped the costs of designing, implementing and running this scheme through increased productivity and performance?

While, if they were honest, most organisations would probably answer 'no' to most of these questions, the main problem is that many go ahead anyway! This blind faith or foolish optimism accounts for the under-performance of so many HR processes like PR, and the under-performance of individuals and organisations themselves.

5.5 What does the future hold for PR?

In some organisations the piecemeal growth of performance review into an unwieldy vehicle for multiple and, sometimes conflicting, goals has caused permanent damage. This means that even well-designed elements are so discredited that they must be jettisoned before employees will begin to trust the employer again to manage their performance. In these cases PR becomes a convenient 'lightning rod' for a raft of concerns and gripes which employees have about the organisation, its culture and management style. PR stands no chance of rehabilitation in such circumstances and the only choice is to start again.

As we suggest in Chapter 2, the starting point for PR has to be the business strategy of the organisation and then, derived from this, the roles, skills and behaviour required of employees to deliver it. Once this is established, IES experience suggests that PR should conform to some simple rules:

- It should have clear aims and measurable success criteria.
- It should be designed and implemented with appropriate employee involvement.
- It should be simple to understand and operate (especially for busy line managers).
- Effective use of PR should be core of all managers' performance goals.
- It should allow employees a clear 'line of sight' between their roles and performance goals and those of the organisation.
- It should focus on role clarity and performance improvement.
- It should be closely allied to a clear and adequately resourced training and development infrastructure.
- It should make crystal clear the purpose of any direct link to reward, and build in proper equity and transparency safeguards.
- It should be regularly and openly reviewed against its success criteria.

One could readily argue that even this simplified approach contains within it the seeds of its own destruction. Over time, as in the past, organisations will not be able to resist the temptation incrementally to add to this model, leading to the overload from which so many contemporary PR schemes suffer. Yet, as the average time between shifts in business strategy or structure gets shorter in most organisations, the less likely PR schemes will be able to survive without fundamental re-alignment and re-design. This, for some organisations at least, should afford some protection against the ossification of the past.

Appendix 1: Methodology

We held preliminary interviews with a number of organisations, and discussions with participants at IES forums and workshops. A total of 17 organisations participated in the study, including eleven civil service departments. To establish some baseline for comparison across these organisations, we limited the scope of the study to managers.

A questionnaire was developed on the basis of this preliminary work and IES consultancy work in performance management. Our focus was the recipients of the performance review, including both appraisees and appraisers. A questionnaire was sent to managers across the 17 organisations. At the close of the survey, questionnaires were received from 926 managers, making a total response rate of 42 per cent, which is high for a survey of this kind. The survey respondents form three distinct samples:

- Senior Civil Servants (SCS) across 11 departments 550
- Managers from other public services 153
- Managers from private sector organisations 223

The characteristics of the 926 respondents provide opportunities for interesting comparisons. However, these samples are skewed as follows:

- Mainly from the public sector (three quarters = 703).
- Almost one in two were senior managers (*eg* 550 SCS).
- Senior managers were mostly male, older, head office based with long length of service (*eg* 20 years plus), except in the Trust where there was more gender mix.
- Managers from private sector organisations were more junior, include both males and females, were younger, located both at head office and elsewhere, and with medium length of service (five years plus).
- Respondents overall tended to be operational rather than from HR, working full-time and recent in their current job.

Appendix Tables: Chapter 2

Appendix Table 2.1: Satisfaction with system – same system/different organisations

	Means	N	SD
SCS1	3.10	20	1.02
SCS2	3.23	30	0.94
SCS3	2.90	178	1.08
SCS4	3.08	61	1.04
SCS5	2.43	152	1.11
SCS6	3.13	52	1.03

Source: IES, 2000

Appendix Table 2.2: Satisfaction with system – different systems/different organisations

	Means	N	SD
NHS Trust	2.85	72	1.21
Public services	2.78	81	1.02
Regional insurance	2.78	58	1.09
Banking commercial	2.78	41	1.06
Retail banking	3.69	58	1.01
Utility	2.91	65	1.02

Source: IES, 2000

Appendix Tables: Chapter 4

Appendix Table 4.1: Percentage of level of performance ratings achieved by managers at their last performance review

Performance Ratings	SCS		Other public		Private sector		Total sample	
	N	%	N	%	N	%	N	%
Exceptional	241	44	51	33	68	31	360	39
Good/competent	275	50	84	55	117	53	476	1
Other*	23	6	17	12	33	16	73	10
<i>Total</i>	<i>539</i>	<i>58</i>	<i>152</i>	<i>18</i>	<i>218</i>	<i>24</i>	<i>909</i>	<i>100</i>

* includes 'need for improvement', 'too early to say' and 'unsure'

Source: IES, 2000

Appendix Table 4.2: Outcomes of last review process (percent of responses)*

Outcome of review	SCS		Other public		Private sector		All responses	
	%	N	N	%	N	%	N	%
Salary increase or bonus	93	443	68	58	144	74	655	83
Training and development for current job	18	86	39	33	54	28	179	23
Training and development for promotion	7	32	10	9	26	13	68	9
Increase of responsibilities	11	54	31	26	60	31	145	18
Change of job role/content	6	27	14	12	28	14	69	9
Lateral job move	4	20	11	9	15	8	46	6
Reduction of responsibilities	1	3	2	2	1	1	6	1
Appeal against assessment	1	4	1	1	1	1	6	1
Counselling	1	3	13	11	3	2	19	2
Threat of disciplinary action	0	0	1	1	0	0	1	0

* managers could choose several outcomes

Source: IES, 2000

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