



Paper

Performance management, a tale of two practices?

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Of all HR practices, performance management systems appear to be almost universally embedded in organisational best practice. One CIPD survey found that 95 per cent of organisations have appraisals (Sung and Ashton, 2005). Assuming that organisations behave rationally, we might expect that they use appraisals because they benefit the organisation.

There is certainly evidence that they do so...

Performance management improves organisational performance

Performance management is the lifeblood of organisations. It enables objectives and purpose to be aligned, provides a space for regular discussions between a line manager and their member of staff, and contributes to organisational performance. Performance appraisal or performance management systems are a central element in the considerable literature on high-performance work practices, which has tended to find positive associations between such practices and firm performance. Whilst there is no consensus in the literature of exactly which practices can be said to constitute high performance, those identified by Huselid (1995) are often incorporated (and directly cited) into lists provided by many subsequent authors. These practices include incentive compensation and performance management systems. Becker and Huselid (1998) used this list of practices as the basis for their development of a high-performance work system (HPWS) index, which became the measure of choice adopted by many subsequent researchers within the high-performance field (Macky and Boxall 2007, in Hughes, 2008).

In the UK, Guest (2000) identified 18 key practices associated with high performance including regular appraisals, regular multi-source feedback on performance, and individual performance-related pay. The aforementioned CIPD survey by Sung and Ashton explored some 35 practices which linked with performance. These were grouped into three bundles (High Involvement, Human Resources, and Reward and Commitment) and they identified appraisal systems and regular feedback on performance as key Human Resources Practices.

More recently, Stone et al (2012) undertook a research project, jointly commissioned by the Department for Business, Innovation and Skills and the UK Commission for Employment and Skills, which examined the drivers, facilitators and barriers to the adoption of HPWS and included annual performance reviews as one practice amongst 14 (which also included awarding performance-related bonuses and individual performance-related pay).

The recent (and burgeoning) management practices literature from the Centre for Economic Performance at the London School of Economics¹ explores the relationship between a range of practices (including those designed to reward high performance, or how appraisal systems work) and organisational performance. It finds consistently positive relationships between practices and performance across sectors and nations.

If anyone was left in doubt about the potential benefits of performance management processes then a seminal study in the UK healthcare sector should provide reassurance. This study, by West et al in 2002, measured the association between HR practices and patient mortality and found a particularly strong relationship with the extent and sophistication of appraisal.

Performance management systems have been a mainstay of HR systems for decades and for good reason. The gist of a very large literature is that such systems and processes have long been associated with better organisational performance and, we can safely assume, with improved individual performance.

Performance management is unfit for purpose

On the other hand, performance management is often seen as a process that has wasted time and wrought misery in organisations. Sylvia Vorhauer-Smith (2012) asks 'Is there any organisational practice more broken than performance management?' and goes on to suggest that it is universally reviled, by both employees and managers alike. She also remarks that no one does it well, it is a skill that fails to be acquired despite organisations' best attempts, and it doesn't do what it was designed to do. Similarly, Keith Grint (1995) has suggested that 'rarely in the history of business can a system have promised so much and delivered so little'. Certainly perceptual evidence suggests that appraisal is not well liked (eg Brown, 2010) and a host of articles have appeared suggesting that major companies are abandoning their performance management schemes.

A Deloitte Consulting report (2014) argues that traditional performance management no longer meets organisational needs, which are oriented much more towards service or knowledge work with an emphasis on customer empathy and the ability to innovate and drive changes through teams. Performance requires constant development of such capabilities coupled with a more fluid and chaotic work environment where goals shift, strategies evolve, and employees move between multiple projects and managers over quite short periods of time. Deloitte Consulting's survey found 70 per cent of respondents were either currently evaluating or had recently reviewed and updated their performance

¹ See <http://cep.lse.ac.uk/management/>

management systems. Scratch below the surface of the headline though and it is clear that the article is really about performance management systems that promote forced ranking of employees.

Microsoft is reported as having abandoned rankings (Ovide and Feintzeg, 2013) with employees believing the practice resulted in 'capricious rankings, power struggles among managers, and unhealthy competition among colleagues'. Others such as Accenture, Motorola and Kelly Services have reportedly followed this lead (Kirton, 2015; Deloitte Consulting, 2014). The CIPD report a shift away from annual appraisals to more frequent, less formal catch-ups, citing examples such as Expedia, Adobe and Google (Kirton, 2015), in part to enable more agile responses to changing business conditions and to change the dynamic of the conversation away from high-stress low-return models to something more engaging, productive and in line with business values. In a similar vein, Deloitte Consulting suggest shifting towards a more continuous, coaching and development model of performance management decoupled from compensation.

There is plenty of evidence that the organisational reality is disappointing. A large survey conducted by WorldatWork and Sibson consulting (2010) found that over half of organisations (58%) rated their performance management systems as a 'Grade C or below'.

Despite this current peak in commentary suggesting performance appraisal is in crisis, criticisms of performance management are not new. Way back in 1957, Douglas McGregor took 'An Uneasy Look at Performance Appraisal' (in McGregor, 1972) making the point that managers are reluctant to 'judge' people due to the respect we hold as human beings for the inherent value of the individual. We end up expecting managers to be both supportive of those they manage and to assume a judicial role in terms of both making and pronouncing judgement on individuals. In a similar era, Rensis Likert (1959) commented that 'Performance review interviews as a rule are seriously deflating to an employee's sense of importance and self-worth. Not only is the conventional review failing to contribute, in many executives' opinion, it can do irreparable harm'.

More recent criticisms have highlighted neuroscience research which suggests that conversations about compensation provoke a fight or flight reaction among employees which inhibits any learning response (Deloitte, 2014). Duncan Brown (2010) points out that the shift from performance appraisal to performance management was part of a desire to shift control-oriented appraisal systems to something more positive that married employee engagement and organisational performance. But in the process HR departments were setting themselves 'an expanded and formidable agenda of goals to achieve,' seeking to link disparate strands of HR practice – talent management, development, reward and diversity – through performance management processes. Small wonder Hirsh et al (2011) likened performance appraisal to an overstuffed suitcase.

Performance management: friend or foe?

So, according to different viewpoints, appraisal systems are either a key driver of high performance or alternatively they are at best, a waste of time and effort or, at worst, a destructive force with regard to organisational engagement. So which is right and why?

Well, maybe they both are. On the plus side, performance management allows organisations to get their ducks in a row and make sure all the relevant people are aligned to the organisational goals, objectives and purpose. It provides the space (and the push) for managers and employers to meet and discuss how things are going and it formalises development discussions.

On the downside, it seems every HR system has the potential to be developed to death. Pile too much into appraisal processes; put the focus on the link to pay; implement awful US imports such as rankings or forced distributions (or the even more odious 'rank and yank'); expect line managers to engage and enthuse whilst telling their people they're fundamentally average (whoever thought that was a good idea?), and unsurprisingly the cost-benefit ratio looks less appealing.

For most organisations, the answer is not to jettison the performance management system outright but rather to take a step back and consider what you most importantly want it to do; and then make sure every bit of it helps deliver that. Actually if you look past the hyperbole of recent commentaries, you can see organisations doing just that – although my bet is that a few will go a little too far. The soul-searching around performance management systems is unlikely to be over just yet.

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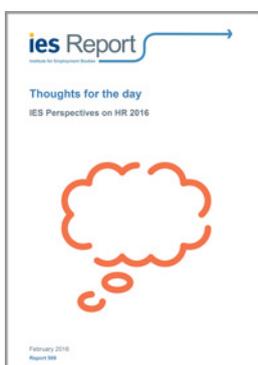
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Performance management is always in the press. HR practitioners are often complaining that their 'system' is not working, balanced by a few successful case studies. More recently the HR press has announced the growing repudiation of performance ratings and a re-positioning of performance appraisal to make it more effective. So what's really going on? Is there really something radical happening or simply a presentational repackaging? And more importantly should we be rethinking performance management and the role it plays in organisational life?

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