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Performance Management

Dr. Herman Aguinis

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Performance Management

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To my wife, Heidi,
The best coach I’ve ever had

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Preface

In today's globalised world, it is relatively easy to gain access to the competition's technology and products. Thanks to the Internet and the high speed of communications, among other reasons, technological and product differentiation is no longer a key competitive advantage in most industries. For example, most banks offer the same types of product (e.g., different types of savings accounts and investment opportunities). And, if a particular bank decides to offer a new product or service (e.g., on-line banking), it will not be long before the competitors offer precisely the same product.

So, what makes some businesses more successful than others? What is today's key competitive advantage? The answer is people. Organisations with motivated and talented employees offering outstanding service to customers are likely to get ahead of the competition, even if the products offered are similar to those offered by the competitors. Customers want to get the right answer at the right time, and they want to receive their products or services promptly and accurately. Only people can make these things happen. Only people can produce a sustainable competitive advantage. Performance management systems are the key tools to transform people's talent and motivation into a strategic business advantage.

Performance management is a continuous process of identifying, measuring and developing performance in organisations by linking each individual's performance and objectives to the organisation's overall mission and goals. Performance management is critical to small and large organisations – for-profit and not-for-profit, domestic and global – and to all industries. After all, the performance of an organisation depends on the performance of its people, regardless of the organisation's size, purpose or other characteristics.

Unfortunately, however, if they have one, few organisations use their existing performance management systems in productive ways. Performance management is usually vilified as an 'HR department requirement'. In many organisations, performance management means that managers must comply with their HR department's request and fill out tedious, and often useless, evaluation forms. These evaluation forms are often completed because it is a requirement from the 'HR cops'. Unfortunately, the only tangible consequence of the evaluation process is that the manager has to spend time away from his or her 'real' job duties.

Plan for the Course

This course is about the design and implementation of successful performance management systems. In other words, it focuses on research-based findings and up-to-date applications that help increase an organisation's human capital. Performance management is ongoing and cyclical. But, for pedagogical reasons, the course needs to follow a linear structure. Because performance observation, evaluation and improvement are ongoing processes, some concepts and practices may be introduced early on in a cursory manner first but receive more detailed treatment in later sections. Also, this course focuses on best practices and describes the necessary steps to create a top-notch performance management system. However, because of practical constraints and lack of knowledge about system implementation, many organisations cut corners and do not implement systems following best practices. Because the way in which systems are implemented in practice is often not close to the ideal system, the course includes numerous examples from actual organisations to illustrate how systems are implemented given actual situational constraints.

Part One includes Modules 1–3 and addresses general issues about performance management and business strategy-related considerations regarding performance management. Module 1 includes a discussion of the advantages of implementing a successful performance management system, and of the negative outcomes associated with deficient systems, including lowered employee motivation and perceptions of unfairness. This module also includes what can be described as the features of an ideal system. Module 2 describes the performance management process, starting with what should be done before a system is implemented, and ending with the performance renewal and recontracting phases. Module 3 links performance management systems with reward systems and an organisation's strategic planning. This module makes it clear that performance management systems are a critical component of the successful implementation of an organisation's strategy.

Part Two, including Modules 4–7, addresses the details of system implementation. The discussion is sufficiently general, yet detailed, so that all managers, not just HR managers, will benefit from this material. Modules Module 4 and Module 5 describe some of the technical aspects associated with the assessment of performance and how to identify and measure both behaviours and results. Module 6 discusses appraisal forms, various types of rating scheme, and the advantages and disadvantages of using various sources of performance information (e.g., supervisor, peers, customers). Finally, Module 7 describes the steps involved in implementing a performance management system, including a communication plan and pilot testing of the system before it is implemented.

Part Three addresses employee development issues. Module 8 includes a description of employee development plans and the advantages of using 360-degree systems for development purposes. Module 9 addresses the skills needed of supervisors to observe and assess performance, as well as those needed to provide constructive feedback.

Part Four is about the relationship between performance management, rewards, the law and teams. Module 10 includes a discussion of traditional and contingent pay plans, pay structures and their links to performance management. In addition, this module provides a discussion of legal issues to consider when implementing a performance management system. Finally, Module 11 addresses the timely topic of how to design and implement performance management systems dealing with team performance.

Each of the modules includes a list of its Learning Objectives together with summary points, Review Questions and cases for discussions. I hope this additional material will allow you to have an enjoyable and productive learning experience, which will enhance your own individual human capital.

Acknowledgements

Several individuals were instrumental in allowing me to produce this book. I am indebted to Graeme Martin for encouraging me to start this project. Wendy O'Connell helped me gather numerous examples and illustrations, which I used throughout. Barbara Stephens, Bonnie Davis, Debra Lammers, Christine Henle, Alex Scott and Ray Zammuto gave me excellent and detailed comments that allowed me to improve each of the modules. I thank each of you for your time and intellectual investment in this project. Your coaching and feedback certainly helped improve my performance!

PART 1

Strategic and General Considerations

Module 1 **Performance Management and Reward Systems in Context**

Module 2 **Performance Management Process**

Module 3 **Performance Management and Strategic Planning**

Module 1

Performance Management and Reward Systems in Context

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> *A manager is responsible for the application and performance of knowledge.*
>
> Peter F. Drucker

Learning Objectives

By the end of this module, you will be able to:

- explain the concept of performance management;
- distinguish performance management from performance appraisal;
- explain the many advantages of and make a business case for implementing a well-designed performance management system;
- recognise the multiple negative consequences that can arise from the poor design and implementation of a performance management system, which affect all the parties involved – employees, supervisors, and the organisation as a whole;
- understand the concept of a reward system and its relationship to a performance management system;
- distinguish between the various types of employee rewards, including compensation, benefits and relational returns;
- describe the multiple purposes of a performance management system, including strategic, administrative, information, developmental, organisational maintenance and documentation purposes;

- describe and explain the key features of an ideal performance management system;
- create a presentation including persuasive arguments in support of an organisation implementing a performance management system, including the purposes that performance management systems serve and the dangers of a poorly implemented system;
- note the relationship and links between a performance management system and other HR functions including recruitment and selection, training and development, workforce planning and compensation.

1.1 Definition of Performance Management (PM)

Consider the following scenario:

> Sally is a sales manager at a large pharmaceutical company. The fiscal year will end in one week. She is overwhelmed with end-of-the year tasks including reviewing the budget she is likely to get for next year, responding to phone calls of customers, and supervising a group of 10 salespeople. It's a very hectic time, probably the most hectic time of the year. She receives a phone call from the HR Department: 'Sally, we have not received your performance reviews for your 10 employees; they are due by the end of the fiscal year.' Sally thinks 'Oh, those performance reviews… What a waste of my time!' From Sally's point of view, there is no value in filling out those meaningless forms. She does not see her subordinates in action because they are in the field visiting customers most of the time. All she knows about their performance is based on sales figures, which depend more on the products offered and geographic territory covered than the effort and motivation of each salesperson. And nothing happens in terms of rewards regardless of her ratings. These are lean times in her organisation, and salary adjustments are based on seniority rather than merit. She has less than 3 days to turn in her forms. What is she going to do? She decides to go down the path of least resistance: to please her employees, she gives everyone the maximum possible rating. In this way, she believes they will be happy with their ratings, and Sally will not have to deal with complaints or follow-up meetings. Sally fills out the forms in less than 20 minutes and gets back to her 'real job'.

There is something very wrong with this picture, which, unfortunately, is a frequent situation in many organisations. Although Sally's HR department calls this process 'performance management', it is not.

Performance management is a *continuous process of identifying, measuring and developing performance in organisations by linking each individual's performance and objectives to the organisation's overall mission and goals*. Let's consider each of the definition's two main components:

1. **Continuous process.** Performance management is ongoing. It involves a never-ending process of setting goals and objectives, observing performance, and giving and receiving ongoing coaching and feedback.[1]

2. **Link to mission and goals.** Performance management requires that managers ensure that employees' activities and outputs are congruent with the organisation's goals and, consequently, help the organisation gain a competitive business advantage. Performance management therefore creates a direct link between employee performance and organisational goals, and makes the employees' contribution to the organisation explicit.

Note that many organisations have what is labelled a 'performance management' system. However, we must distinguish between performance management and performance appraisal. A system that involves employee evaluations once a year, without an ongoing effort to provide feedback and coaching so that performance can be improved, is not a true performance management system. Instead, this is only a performance appraisal system. Although performance appraisal (i.e., the systematic description of an employee's strengths and weaknesses) is an important component of performance management, it is just a part of the whole.

As an illustration, consider how Merrill Lynch has changed from having simply a performance appraisal system to now having a performance management system. Merrill Lynch is one of the world's leading financial management and advisory companies, with offices in 36 countries and private client assets of approximately US$1.1 trillion (http://www.ml.com/). As an investment bank, it is a leading global underwriter of debt and equity securities and strategic advisor to corporations, governments, institutions and individuals worldwide. Recently, Merrill Lynch started the transition from one performance appraisal per year to focusing on one of the important principles of performance management: the conversation between managers and employees where feedback is exchanged and coaching is given if needed. At the first review of the year, employees and managers set employee objectives. Mid-year reviews assess what progress has been made toward the goals, and consider personal development plans. Finally, the end of the year review incorporates feedback from several sources, evaluates progress toward objectives, and identifies areas that need improvement. Managers also get extensive training on how to set objectives and conduct reviews. In addition, there is a website that managers can access for information on all aspects of the performance management system. In sharp contrast to their old performance appraisal system, Merrill Lynch states that the goal of the newly implemented performance management programme is to say: 'This is what is expected of you, this is how we're going to help you in your development, and this is how you'll be judged relative to compensation.'[2]

Performance management systems that do not make explicit the employee contribution to the organisational goals are not true performance management systems. Making an explicit link between an employee's performance objectives and the organisational goals also serves the purpose of establishing a shared understanding about what is to be achieved and how it is to be achieved. This is painfully clear in the case of Sally described above: from her point of view, the performance review forms did not provide any useful information regarding the contribution of each of her subordinates to the organisation.

In subsequent modules we shall describe best practices on how to design and implement performance management systems. For now, however, let's say that well-designed and implemented performance management systems make substantial contributions to the organisation. Let's describe these contributions in detail.

1.2 The Performance Management Contribution

There are many advantages associated with the implementation of a performance management system. A performance management system can make the following important contributions:[3]

1. **Motivation to perform is increased.**
   Receiving feedback about one's performance increases the motivation for future performance. Knowledge about how one is doing and recognition of one's past successes provide the fuel for future accomplishments.
2. **Self-esteem is increased.**
   Receiving feedback about one's performance fulfils a basic need to be appreciated and valued at work. This, in turn, is likely to increase employees' self-esteem.
3. **Managers gain insight about subordinates.**
   Direct supervisors and other managers in charge of the appraisal gain new insights into the person being appraised. The importance of knowing your employees is highlighted by the fact that the Management Standards Centre has recognised that developing productive relationships with colleagues is a key competency for managers (www.management-standards.com, Standard D1: Develop productive working relationships with colleagues). Gaining new insights into a person's performance and personality will help the manager build a relationship with that person. Also, supervisors gain a better understanding of each individual's contribution to the organisation. This can be useful for direct supervisors as well as for supervisors once removed.
4. **The job definition and criteria are clarified.**
   The job of the person being appraised may be clarified and defined more clearly. In other words, employees gain a better understanding of the behaviours and results required of their specific position. Employees also gain a better understanding of what it takes to be a successful performer (i.e., which criteria define job success).
5. **Self-insight and development are enhanced.**
   The participants in the system are likely to develop a better understanding of themselves and of the kind of development activities of value to them as they progress through the organisation. Participants in the system also gain a better understanding of their strengths and weaknesses, which can help them better define future career paths.
6. **Personnel actions are more fair and appropriate.**
   Performance management systems provide valid information about performance, which can be used for personnel actions such as merit increases, promotions and transfers, as well as terminations. In general, a performance management system helps ensure that rewards are distributed on a fair and credible basis. In turn, such decisions based on a sound performance management system lead to improved interpersonal relationships and enhanced supervisor–subordinate trust.

7. **Organisational goals are made clear.**
   The goals of the unit and the organisation are made clear, and the employee understands the link between what he or she does and organisational success. This is a contribution to the communication of what the unit and the organisation are all about and how organisational goals cascade down to the unit and the individual employee. Performance management systems can help improve employee acceptance of these wider goals (i.e., organisational and unit level).
8. **Employees become more competent.**
   An obvious contribution is that the performance of employees is improved. In addition, there is a solid foundation for developing and improving employees by establishing developmental plans.
9. **There is better protection from lawsuits.**
   Data collected through performance management systems can help document compliance with regulations (e.g., equal treatment of all employees regardless of sex or ethnic background). When performance management systems are not in place, arbitrary performance evaluations are more likely, resulting in an increased exposure to litigation.
10. **There is better and more timely differentiation between good and poor performers.**
    Performance management systems allow for a quicker identification of good and poor performers. Also, they force supervisors to face up to and address performance problems on a timely basis (i.e., before the problem is too costly and cannot be remedied).
11. **Supervisors' views of performance are communicated more clearly.**
    Performance management systems allow managers to communicate to their subordinates their judgements regarding performance. Thus there is greater accountability in how managers discuss performance expectations and provide feedback. Both assessing and monitoring the performance of others are listed as key competencies for managers by the Management Standards Centre (www.management-standards.com, Standard D6: Allocate and monitor the progress and quality of work in your area of responsibility). When managers possess these competencies, subordinates receive useful information about how their performance is seen by their supervisor.
12. **Organisational change is facilitated.**
    Performance management systems can be a useful tool to drive organisational change. For example, assume an organisation decides to change its culture to give top priority to product quality and customer service. Once this new organisational direction is established, performance management is used to align the organisational culture with the goals and objectives of the organisation to make change possible. Employees are provided with training in the necessary skills, and are also rewarded for improved performance so that they have both the knowledge and the motivation to improve product quality and customer service. This is precisely what IBM did in the 1980s when it wanted to switch focus to customer satisfaction: the performance evaluation of every member in the organisation was based, to some extent, on customer satisfaction ratings regardless of function (i.e., accounting, programming, manufacturing, etc.).[4] For IBM, as well as for numerous other or-

ganisations, performance management provides tools and motivation for individuals to change, which, in turn, helps drive organisational change.

What CEOs Say About the Contribution of Performance Management Systems

A study conducted by Development Dimensions International (DDI), a global human resource consulting firm specialising in leadership and selection, found that performance management systems are a key tool that organisations use to translate business strategy into business results. Specifically, performance management systems influence 'financial performance, productivity, product or service quality, customer satisfaction, and employee job satisfaction.' In addition, 79 per cent of the CEOs surveyed say that the performance management systems implemented in their organisations drive the 'cultural strategies that maximise human assets.'[5]

Table 1.1 lists the 11 contributions made by performance management systems. Now, please go back to the description of Sally's situation at the beginning of this module. Which of the contributions included in Table 1.1 result from the system implemented at Sally's organisation? For example, are Sally's employees more motivated to perform as a consequence of implementing their 'performance management' system? Is their self-esteem increased? How about Sally's insight into and understanding of her employees' contributions to the organisation? And is Sally's organisation now better protected in the case of potential litigation? Unfortunately, the system implemented at Sally's organisation is not a true performance management system, but simply an administrative nuisance. Consequently, many, if not most, of the potential contributions of the performance management system are not realised. In fact, poorly implemented systems, as in the case of Sally's organisation, not only do not make positive contributions but can also be very dangerous and lead to several negative outcomes.

Table 1.1 **Contributions of performance management systems**

- Motivation to perform is increased
- Self-esteem is increased
- Managers gain insight about subordinates
- The definitions of job and criteria are clarified
- Self-insight and development are enhanced
- Personnel actions are more fair and appropriate
- Organisational goals are made clear
- Employees become more competent
- There is better protection from lawsuits
- There is better and more timely differentiation between good and poor performers
- Supervisors' views of performance are communicated more clearly
- Organisational change is facilitated

1.3 Disadvantages/Dangers of Poorly Implemented PM Systems

What happens when performance management systems do not work as intended, as in the case of Sally's organisation? What are some of the negative consequences associated with low-quality and poorly implemented systems? Consider the following list:

1. **Employees may quit due to results.**
   If the process is not seen as fair, employees may become upset and leave the organisation. They can leave physically (i.e., quit) or withdraw psychologically (i.e., minimise their effort until they are able to find a job elsewhere).
2. **False or misleading information may be used.**
   If a standardised system is not in place, there are multiple opportunities for fabricating information about an employee's performance.
3. **Self-esteem may be lowered.**
   Self-esteem may be lowered if feedback is provided in an inappropriate and inaccurate way. This, in turn, can create employee resentment.
4. **Time and money are wasted.**
   Performance management systems cost money and quite a bit of time. These resources are wasted when systems are poorly designed and implemented.
5. **Relationships are damaged.**
   As a consequence of a deficient system, the relationships among the individuals involved may be damaged, often permanently.
6. **Motivation to perform is decreased.**
   Motivation may be lowered for many reasons, including the feeling that superior performance is not translated into meaningful tangible rewards (e.g., pay increase) or intangible rewards (e.g., personal recognition).
7. **Employees suffer from job burnout and job dissatisfaction.**
   When the performance assessment instrument is not seen as valid, and the system is not perceived as fair, employees are likely to feel increased levels of job burnout and job dissatisfaction. As a consequence, employees are likely to become increasingly irritated.[6]
8. **There is increased risk of litigation.**
   Expensive lawsuits may be filed by individuals who feel they have been appraised unfairly.
9. **Unjustified demands are made upon managers' resources.**
   Poorly implemented systems do not provide the benefits that well-implemented systems provide, yet they still take up managers' time. Such systems will be resisted because of competing obligations and allocation of resources (e.g., time). Worse, managers may simply choose to avoid the system altogether.
10. **Standards and ratings vary and are unfair.**
    Both standards and individual ratings may vary across and within units, and may also be unfair.
11. **Biases can replace standards.**
    Personal values, biases and relationships are likely to replace organisational standards.
12. **Mystery surrounds how ratings were derived.**
    Because of poor communication, employees may not know how their ratings are generated or how the ratings are translated into rewards.

What Happens when Performance Management is Implemented Poorly?

One example of a poorly implemented performance management system resulted in a $1.2 million lawsuit. A female employee was promoted several times, and succeeded in the organisation until she started working under the supervision of a new manager. She stated in her lawsuit that, once she was promoted, her boss ignored her and did not give her the same support or opportunities for training that her male colleagues received. After 8 months of receiving no feedback from her manager, he called her into his office to tell her that she was failing, was being demoted, and would receive a $20 000 reduction in her annual salary. When she won her sex discrimination lawsuit, a jury awarded her $1.2 million in emotional distress and economic damages.[7]

Table 1.2 summarises the list of disadvantages and negative consequences resulting from the careless design and implementation of a performance management system. Once again, consider Sally's organisation. What are some of the consequences of the system implemented in her company? Let's consider each of the consequences listed in Table 1.2. For example, is it likely that the performance information used is false and misleading? How about the risk of litigation? How about the time and money invested in collecting, compiling, and reporting the data? Unfortunately, an analysis of Sally's situation *vis-à-vis* the positive and negative consequences listed in Table 1.1 and Table 1.2 leads to the conclusion that this particular system is more likely to do harm than good. Now, think about the system implemented at your current organisation, or at the organisation you have worked for most recently. Take a look at Table 1.1 and Table 1.2. Where does the system fit best? Is the system more closely aligned with some of the positive consequences listed in Table 1.1 or more closely aligned with some of the negative consequences listed in Table 1.2?

Table 1.2 **Disadvantages/danger of poorly implemented performance management systems**

- Employees may quit due to results
- False or misleading information may be used
- Self-esteem may be lowered
- Time and money are wasted
- Relationships are damaged
- Motivation to perform is decreased
- Employees suffer from job burnout and job dissatisfaction
- There is increased risk of litigation
- Managers are required to use an unjustified amount of resources
- Standards and ratings vary and are unfair
- Biases can replace standards
- Mystery surrounds how ratings were derived

One of the purposes of a performance management system is to make decisions about employees' compensation (e.g., pay increases). For many employees, this is perhaps one of the most meaningful consequences of a performance management system. Module 10 will provide a detailed discussion of how a performance management system is used to allocate rewards. Before we do so, however, it is important to discuss some basic features of reward systems and the extent to which the allocation of various types of reward is dependent upon the performance management system.

1.4 Definition of Reward Systems

An employee's compensation, usually referred to as **tangible returns**, includes cash compensation (i.e., base pay, cost of living and merit pay, short-term incentives, and long-term incentives) and benefits (i.e., income protection, work/life focus, tuition reimbursement and allowances). However, employees also receive intangible returns, also referred to as **relational returns**, which include recognition and status, employment security, challenging work and learning opportunities. A reward system is the set of mechanisms for distributing both tangible and intangible returns as part of an employment relationship.

It should be noted that not all types of returns are directly related to performance management systems. This is the case because not all types of returns are allocated based on performance. For example, some allocations are based on seniority as opposed to performance. Let's define the various types of returns next.[8]

1.4.1 Base Pay

Base pay is given to employees in exchange for the work performed. The base pay focuses on the position and duties performed rather than on an individual's contribution. Thus the base pay is usually the same for all employees performing similar duties, and ignores differences across employees. However, differences may exist based on such variables as experience and differential performance. In some countries (e.g., the United States), there is a difference between wage and salary. Salary is base cash compensation received by employees who are exempt from regulations of the Fair Labour Standards Act and, in most cases, cannot receive overtime pay. Employees in most professional and managerial jobs are exempt employees, also called salaried employees. On the other hand, non-exempt employees receive their pay based on an hourly wage.

1.4.2 Cost-of-Living Adjustments and Contingent Pay

Cost-of-living adjustments (COLA) imply the same percentage increase for all employees regardless of their individual performance. Cost-of-living adjustments are given to combat the effects of inflation in an attempt to preserve the employees' buying power. For example, in the United States, organisations that implemented a COLA used a 2.1 per cent pay increase in 2003. This same percentage was only 1.4 per cent in 2001. Year-by-year COLA percentages can be obtained from such agencies as the Social Security Administration in the United States (i.e., http://www.ssa.gov/OACT/COLA/colaseries.html).

Contingent pay is given as an addition to the base pay based on past performance. Module 11 will describe the topic of contingent pay in detail. But, in a nutshell, contingent pay means that the amount of additional compensation depends on an employee's level of performance. So, for example, the top 20 per cent of employees in the performance score distribution may receive a 10 per cent annual increase, whereas employees in the middle 70 per cent of the distribution may receive a 4 per cent increase, and employees in the bottom 10 per cent may receive no increase at all.

1.4.3 Short-term Incentives

Similar to contingent pay, incentives are allocated on past performance. But incentives are not added to the base pay, and are only temporary pay adjustments based on the review period (e.g., quarterly or annual). So incentives are one-time payments, and this is why they are also referred to as **variable pay**.

A second difference between incentives and contingent pay is that incentives are known in advance. For example, a salesperson in a pharmaceutical company knows that, if she meets her sales quota, she will receive a $3000 bonus at the end of the quarter. She also knows that if she exceeds her sales quota by 10 per cent, her bonus will be $6000. In contrast, in the case of contingent pay, in most cases the specific value of the reward is not known in advance.

1.4.4 Long-term incentives

Whereas short-term incentives usually involve an attempt to motivate performance in the short term (i.e., quarter, year) and involve cash bonuses or specific prizes (e.g., two extra days off), long-term incentives attempt to influence future performance over a longer period of time. Typically, they involve stock ownership or options to buy stocks at a pre-established and profitable price. The rationale for long-term incentives is that employees will be personally invested in the organisation's success, and this investment is expected to translate into a sustained high level of performance.

Both short-term and long-term incentives are quite popular. Take, for example, the public sector in the United States. A survey administered in late 1998 to 25 state and 400 local governments employing more than 6 people showed that all but one of the state governments and 242 (i.e., 85 per cent) of the local governments used some type of incentives.[9]

1.4.5 Income Protection

Income protection programmes serve as a back-up to employees' salaries in the event that an employee is sick, disabled or no longer able to work. Some countries mandate income protection programmes by law. For example, Canadian organisations pay into a fund that provides income protection in the case of a disability. Take, for instance, the University of Alberta, which offers a monthly income of 70 per cent of salary to employees who become severely disabled (http://www.hrs.ualberta.ca/docs/Benefits/Guides/Academic_Staff.doc). In the

Unites States employers make 50 per cent of an employee's contribution to social security so that income is protected in case of death, or of a disability that prevents the employee from doing substantial work for one year, and also when an employee reaches retirement age. For example, an employee who is about 40 years old, who earns an annual salary of $90 000, and is expected to continue to earn this salary until retirement age, would receive about $1400 a month if he decided to retire at age 62, about $2000 a month if he retired at age 67, and about $2500 if he retired at age 70.

Other types of benefits under the income protection rubric include medical insurance, pension plans and savings plans. These are optional benefits that organisations provide, but they are becoming increasingly important, and often guide an applicant's decision to accept a job offer. In fact, a recent survey including both employees in general and HR professionals in particular showed that health care/medical insurance is the most important benefit, followed by paid time off and retirement benefits.[10]

1.4.6 Work/life Focus

Benefits related to work/life focus include programmes to help employees achieve a better balance between work and non-work activities. These include time away from work (e.g., vacation time), services to meet specific needs (e.g., counselling, financial planning, on-site fitness room) and flexible work schedules (e.g., telecommuting, non-paid time off). For example, Sun Microsystems actively promotes an equal balance between work and home life, and closes its Broomfield, Colorado, campus from late December through till early January every year. This benefit (i.e., vacation time for all employees in addition to their yearly vacation time) is part of Sun's culture. Sun believes in a work hard/play hard attitude, as is evident by a statement by their CEO Scott McNealy, who believes in the 'kick butt and have fun' motto.[11]

1.4.7 Allowances

Benefits in some countries and organisations include allowances covering housing and transportation. This is typical for expatriate personnel, and is also quite popular for high-level managers in many countries. In South Africa, for example, it is common for a transportation allowance to include one of the following choices:[12]

- The employer provides a car and the employee has the right to use it both privately and for business.
- The employer provides a car allowance, more correctly referred to as a travel allowance, which consists of reimbursing the employee for the business use of the employee's own car.

1.4.8 Relational Returns

Relational returns are intangible in nature. They include recognition and status, employment security, challenging work, opportunities to learn, and opportunities to form personal relationships at work (including friendships and romances).[13] For example, Sun Microsystems allows employees to enrol in SunU, which is Sun's own on-line education tool. SunU encapsulates a mix of traditional classroom courses with on-line classes that can be accessed anywhere in the world at any time.[11] Sun offers its employees enormous scope for development and career progression, and there is a commitment to ensuring that all employees are given the opportunity to develop professionally. Furthermore, the new knowledge and skills acquired by employees can help them not only to advance their careers within Sun, but also to take this knowledge with them if they seek employment elsewhere. Thus some types of relational return can be long lasting.

Table 1.3 contains a list of the various returns we have discussed, together with their degree of dependence on the performance management system. As an example of the low end of the dependence continuum, cost of living adjustment has a low degree of dependence on the performance management system, meaning that the system has no impact on this type of return. In other words, all employees receive this type of return regardless of past performance. At the other end of the continuum, short-term incentives have a high degree of dependence, meaning that the performance management system dictates who receives these incentives and who does not. Between the high and low end, we find some returns with a moderate degree of dependence on the performance management system, such as base pay, a type of return that may or may not be influenced by the system.

Table 1.3 **Returns and their degree of dependence on the performance management system**

Return	Degree of dependence
Base pay	Moderate
Cost of living adjustment	Low
Contingent pay	High
Short-term incentives	High
Long-term incentives	High
Income protection	Low
Work/life focus	Moderate
Allowances	Moderate
Relational returns	Moderate

Think about the performance management system of your current employer, the system used by your most recent employer, or the system in place at an organisation where someone you know is employed at present. Based on Table 1.3, try to think about the various types of tangible and intangible return allocated in this organisation. To what extent is each of these returns dependent on the organisation's performance management system?

1.5 Aims and Role of PM Systems

The information collected by a performance management system is most frequently used for salary administration, performance feedback and the identification of employee strengths and weaknesses. In general, however, performance management systems can serve the following purposes:[14] (a) strategic, (b) administrative, (c) information, (d) developmental, (e) organisational maintenance, and (f) documentation. Let's consider each of these purposes in turn.

1.5.1 Strategic Purpose

The first purpose of performance management systems is to help top management achieve the strategic business objectives. By linking the organisation's goals with individual goals, the performance management system reinforces behaviours consistent with the attainment of organisational goals. Moreover, even if for some reason individual goals are not achieved, linking individual with organisational goals serves as a way to communicate what are the most crucial business strategic initiatives.

1.5.2 Administrative Purpose

A second function of performance management systems is to furnish valid and useful information for making administrative decisions about employees. Such administrative decisions include salary adjustments, promotions, retention or termination, recognition of individual performance, identification of poor performers, layoffs and merit increases. So the implementation of reward systems based on information provided by the performance management system falls within the administrative purpose.

1.5.3 Information Purpose

Performance management systems serve as an important communication device. First, they inform employees about how they are doing, and provide them with information on specific areas that may need improvement. Second, related to the strategic purpose, they provide information regarding the organisation's and the supervisor's expectations, and what aspects of work the supervisor believes are most important.

1.5.4 Developmental Purpose

As noted above, feedback is an important component of a well-implemented performance management system. This feedback can be used in a developmental way. Managers can use feedback to coach employees and improve performance on an ongoing basis. This feedback allows for the identification both of strengths and weaknesses and of the causes of performance deficiencies (which could be due to individual, group or contextual factors). Of course, feedback is useful only to the extent that remedial action is taken and concrete steps are implemented to remedy any deficiencies. And feedback is useful only when employees are willing to receive it. Organisations should strive to create a ‘feedback culture’ that reflects support for feedback, including feedback that is non-threatening and is focused on behaviours, and coaching to help interpret the feedback provided.[15]

Another aspect of the developmental purpose is that employees receive information about themselves that can help them tailor their career paths. Thus, the developmental purpose refers to both short-term and long-term development aspects.

1.5.5 Organisational Maintenance Purpose

A fifth purpose of performance management systems is to provide information to be used in workforce planning. Workplace planning is a set of systems that allows organisations to anticipate and respond to needs emerging within and outside the organisation, to determine priorities, and to allocate human resources where they can do the most good.[16] An important component of any workforce planning effort is the talent inventory, which is information on current resources (e.g., skills, abilities, promotional potential and assignment histories of current employees). Performance management systems are the primary means through which accurate talent inventories can be assembled.

Other organisational maintenance purposes served by performance management systems include assessing future training needs, evaluating performance achievements at the organisational level, and evaluating the effectiveness of HR interventions (e.g., whether employees perform at higher levels after participating in a training programme). These activities cannot be conducted effectively in the absence of a good performance management system.

1.5.6 Documentation Purpose

Finally, performance management systems allow organisations to collect useful information that can be used for several documentation purposes. First, performance data can be used to validate newly proposed selection instruments. For example, a newly developed test of typing skills can be administered to all administrative personnel. Then scores on the test can be paired with scores collected through the performance management system. If scores on the test and on the performance measure are correlated, then the test can be used with future applicants for the administrative positions. Second, performance management systems allow for the documentation of important personnel decisions. This information can be especially useful in the case of litigation.

Several companies implement performance management systems that allow them to accomplish the multiple objectives described above. For an example of one such company, consider the case of SELCO Credit Union (http://selco.org/) in Eugene (Oregon, USA), a not-for-profit consumer cooperative that was established in 1936.[17] SELCO services nearly 60 000 members with its eight branches, all located in the state of Oregon. SELCO offers many of the same services as offered by other banks, including personal cheques and savings accounts, loans and credit cards. However, being a member of the credit union allows individual members a say in how the credit union is run, unlike having an account at a traditional bank. Recently, SELCO scrapped an old performance appraisal system for a new multi-purpose and more effective performance management system. First, the timing of the new system is now aligned with the business cycle, instead of the employee's date of hire, to ensure that business needs are aligned with individual goals. This alignment serves the strategic and information purposes. Second, managers are given a pool of money they can work with to award bonuses and increases as needed, which is more effective than the complex set of matrices that was in place to calculate bonuses. This has improved the way the system is used for allocating rewards and therefore serves the administrative purpose. Third, managers are required to sit down and have regular conversations with their employees about their performance, and to make a note of any problems that arise. This gives the employees a sense of where they need to improve, and also provides documentation if disciplinary action is needed. So, this component serves both the information and documentation purposes. Finally, the time previously spent filling out complicated matrices and forms is now spent talking with the employees about how they can improve their performance. So, the new system allows managers and employees to discuss performance-related issues on an ongoing basis, which serves the development purpose.

Now, think about the performance management system implemented in your organisation or the last organisation you worked for. Table 1.4 summarises the various purposes served by a performance management system. Which of these purposes are being served by the system you are considering?

Table 1.4 **Purposes served by a performance management system**

• **Strategic**:	To help top management achieve strategic business objectives
• **Administrative**:	To furnish valid and useful information for making administrative decisions about employees
• **Information**:	To inform employees about how they are doing and about the organisation's and the supervisor's expectations
• **Developmental**:	To allow managers to provide coaching to their employees
• **Organisational maintenance**:	To provide information to be used in workplace planning and allocation of human resources
• **Documentation**:	To collect useful information that can be used for various purposes (e.g., test development, personnel decisions)

1.6 Characteristics of an Ideal PM System

So far, we have defined performance management, described the advantages of implementing good performance management systems, discussed some of the dangers of not doing a good job with the design and/or implementation of the system, and described the various purposes achieved by a good system. But what does a good system look like? The following is a set of characteristics that is likely to allow a performance management system to be successful. Practical constraints may not allow for the implementation of all these features. However, we should strive to place a check mark next to each of these characteristics, as the more features that are checked, the more likely it is that the system will live up to its promise.

- **Strategic congruence.** The system should be congruent with the unit's and organisation's strategy. In other words, individual goals must be aligned with unit and organisational goals.
- **Thoroughness.** The system should be thorough regarding four dimensions. First, all employees should be evaluated (including managers). Second, all major job responsibilities should be evaluated (including behaviours and results; a detailed discussion of this topic will be presented in Module 5). Third, the evaluation should include performance spanning the entire review period, and not just the few weeks/months before the review. Finally, feedback should be given on positive performance aspects as well as those in need of improvement.
- **Practicality.** Systems that are too expensive, time-consuming, and convoluted will obviously not be effective. On the other hand, good systems are available and easy to use (e.g., performance data are entered using user-friendly software), and are acceptable to those who want to use them for decisions. Finally, the benefits of using the system (e.g., increased performance and job satisfaction) must be seen as outweighing the costs (e.g., time, effort, money).
- **Meaningfulness.** The system must be meaningful in several ways. First, the standards and evaluations conducted for each job function must be considered important and relevant. Second, performance assessment must emphasise only those functions under the control of the employee. For example, there is no point in letting an employee know she needs to increase the speed of service delivery when the supplier does not get the product to her on time. Third, evaluations must take place at regular intervals and at appropriate moments. Usually, just one formal evaluation per year is not sufficient, so informal quarterly reviews are recommended. Fourth, the system should provide for continuing skill development of evaluators. Finally, the results should be used for important personnel decisions. People will not pay attention to a system that has no consequences in terms of outcomes they value.
- **Specificity.** A good system should be specific, meaning that it should provide detailed and concrete guidance to employees about what is expected of them and how they can meet these expectations.
- **Identification of effective and ineffective performance.** The performance management system should provide information allowing for the identification of effective and ineffective performance. That is, the system should allow for distinguishing between effective and ineffective behaviours and results, thereby also allowing for the identification of employees displaying various levels of performance effectiveness. In terms of decision-making, there is no use having a system that classifies or ranks all levels of performance, and all employees, similarly.
- **Reliability.** A good system should include measures of performance that are consistent and free of error. For example, if two supervisors provided ratings of the same employee and performance dimensions, ratings would be similar.

- **Validity.** The measures of performance should also be valid. In this context, validity refers to the fact that the measures include all relevant performance facets and do not include irrelevant performance facets. In other words, measures are relevant (i.e., include all critical performance facets), are not deficient (i.e., do not leave any important aspects out), and are not contaminated (i.e., do not include factors outside the control of the employee).
- **Acceptability and fairness.** A good system is acceptable to and perceived as fair by all participants. Perceptions of fairness are subjective, and the only way to know whether a system is seen as fair is to ask the participants. We can ask about distributive justice, which includes perceptions of the performance evaluation received relative to the work performed and perceptions of the rewards received relative to the evaluation received. If a discrepancy is perceived between work and evaluation, or between evaluation and rewards, then the system is likely to be seen as unfair. In addition, we can ask about procedural justice, which includes perceptions both of the procedures used to determine the ratings and of the procedures used to link ratings with rewards. Because a good system is inherently discriminatory, some employees will receive ratings lower than those received by other employees. However, we should strive to develop systems seen as fair from both a distributive and procedural perspective. This is because each type of justice perception leads to different outcomes. For example, a perception that the system is not fair from a distributive point of view is likely to lead to a poor relationship and lowered satisfaction with the supervisor. On the other hand, a perception that the system is unfair from a procedural point of view is likely to lead to decreased commitment towards the organisation and intentions to leave.[18]
- **Inclusiveness.** Good systems include input from multiple sources on an ongoing basis. First, the evaluation process must represent the concerns of all the people who will be affected by the outcome. Consequently, employees must participate in the process of creating the system by providing input regarding what behaviours and/or results will be measured and how. Second, employee input about their performance should be gathered from the employees themselves before the appraisal meeting.[19]
- **Openness.** Good systems have no secrets. First, performance is evaluated frequently, and performance feedback is provided on an ongoing basis. So employees are continually informed of their performance. Second, the appraisal meeting consists of a two-way communication process, where information is exchanged and not just delivered from the supervisor to the employee. Third, standards should be clear and communicated on an ongoing basis. Finally, communications are factual, open and honest.
- **Correctability.** The process of assigning ratings should minimise subjective aspects. However, it is virtually impossible to create a completely objective system because human judgment is an important component of the evaluation process. So, when employees perceive an error has been made, there should be a mechanism through which this can be corrected. Establishing an appeals process through which employees can challenge what may be unjust decisions is an important aspect of a good performance management system.

- **Standardisation.** As noted above, good systems are standardised. This means that performance is evaluated consistently across people and time. To achieve this goal, the ongoing training of the individuals in charge of appraisals, usually managers, is a must.
- **Ethicality.** Good systems comply with ethical standards. This means that the supervisor suppresses her personal self-interest in providing evaluations. In addition, the supervisor evaluates only performance dimensions for which she has sufficient information, while respecting the privacy of the employee.[20]

Good Performance Management Implementation Pays Off

Implementing a performance management system including the characteristics just described will pay off. A study conducted for Mercer, a global diversified consulting company, revealed that the 1200 workers surveyed stated that they could improve their productivity by an average of 26 per cent if they were not held back by 'direction, support, training and equipment'. Successfully implementing a performance management system can give workers the direction and support they need to improve their productivity.[5]

Table 1.5 lists the characteristics of an ideal performance management system. Think about the performance management system implemented in your organisation or the last organisation you worked for. Which of the features listed in Table 1.5 are included in the system you are considering? How far is your system from the ideal?

Table 1.5 **Characteristics of an ideal performance management system**

- Strategic congruence
- Thoroughness
- Practicality
- Meaningfulness
- Specificity
- Identification of effective and ineffective performance
- Reliability
- Validity
- Acceptability and fairness
- Inclusiveness
- Openness
- Correctability
- Standardisation
- Ethicality

1.7 Integration with Other Personnel and Development Activities

Performance management systems serve as important 'feeders' to other personnel and development activities. For example, consider the relationship between performance management and **training**. Performance management provides information on developmental needs for employees. In the absence of a good performance management system, it is not clear that organisations will use their training resources in the most efficient way (i.e., to train those who need it and in the areas needed most).

Performance management also provides key information for **workforce planning**. Specifically, an organisation's talent inventory is based on information collected through the performance management system. Development plans then provide information on what skills will be acquired in the near future. This information is also used in making **recruitment and hiring** decisions. Knowledge of an organisation's current and future talent is important to decide what types of skills need to be acquired externally and what types of skills can be found within the organisation.

Finally, there is an obvious relationship between performance management and compensation systems. Compensation and reward decisions are likely to be arbitrary in the absence of a good performance management system.

In short, performance management is a key component of talent management in organisations. It allows for an assessment of the current talent, and makes predictions about future needs at both the individual and organisational levels. Implementing a successful performance management system is a requirement for the successful implementation of other HR functions including training, workforce planning, recruitment and selection, and compensation.

Learning Summary

- Performance management is a continuous process of identifying, measuring and developing performance in organisations by linking each individual's performance and objectives to the organisation's overall mission and goals.
- Although many organisations have systems labelled 'performance management' they are usually only performance appraisal systems. Performance appraisal emphasises the assessment of an employee's strengths and weaknesses, and does not include strategic business considerations. Also, performance appraisal systems usually do not include extensive and ongoing feedback that an employee can use to improve her performance in the future. Finally, performance appraisal is a once-a-year event, often driven by the HR department, whereas performance management is a year-round way of managing business, driven by managers.
- Implementing a well-designed performance management system has many advantages. From the perspective of employees, a good system increases motivation and self-esteem, helps improve performance, clarifies job tasks and duties, provides self-insight and development opportunities, and clarifies supervisors'

expectations. From the perspective of managers, good systems allow them to gain insight about employees, allow for more fair and appropriate personnel actions, help them to communicate organisational goals more clearly, let them differentiate good and poor performers, and help drive organisational change. Finally, from the perspective of the HR function, a good system provides protection from litigation.

- Poorly designed and implemented performance management systems can have disastrous consequences for all those involved. For example, employees may quit, those who stay may be less motivated, and relationships (e.g., supervisor–subordinate) can suffer irreparable damage. Also, poorly designed systems can be biased, resulting in costly lawsuits and wasted time and resources. In the end, low-quality and poorly implemented systems can be a source of enormous frustration and cynicism for all those involved.
- Reward systems include all mechanisms for determining and distributing tangible and intangible returns as part of an employment relationship. Tangible returns are collectively referred to as compensation, and include cash compensation and benefits. Intangible returns, also referred to as relational returns, include recognition and status, employment security, challenging work and learning opportunities. Not all types of returns are directly related to performance management systems, because not all types of returns are allocated on the basis of past performance.
- Performance management systems serve multiple purposes. First, they serve a strategic purpose because they help link employee activities with the organisation's mission and goals, they identify results and behaviours needed to carry out strategy, and they maximise the extent to which employees exhibit the desired behaviours and produce the desired results. Second, they serve an administrative purpose in that they produce information used by the reward system and other HR decision-making (e.g., promotions, termination, disciplinary actions). Third, they serve an information purpose because they are the source of information for employees to learn about their performance *vis-à-vis* the expectations. Fourth, they serve a developmental purpose in that performance feedback allows individuals to learn about their strengths and weaknesses, to identify training needs, and to make better decisions regarding job assignments. Fifth, performance management systems serve an organisational maintenance purpose because they provide useful information for workforce planning and for evaluating the effectiveness of other HR systems (e.g., comparing performance before and after an expensive training programme to see whether training made a difference). Finally, performance management systems also serve a documentation purpose – for example to support HR decisions and help meet legal requirements.
- Ideal performance management systems are rare. Such ideal systems are:
  - congruent with strategy (i.e., there is a clear link between individual, unit and organisational goals);
  - thorough (e.g., they include all relevant performance dimensions);
  - practical (e.g., they do not require excessive time and resources);
  - meaningful (e.g., they have important consequences);

  - specific (e.g., they provide a concrete employee improvement agenda);
  - able to identify effective and ineffective performance (e.g., they help to distinguish employees with different performance levels);
  - reliable (e.g., the measurement of performance is consistent);
  - valid (e.g., the measures of performance are not contaminated or deficient);
  - fair (e.g., people participating in the system believe the processes and outcomes are just);
  - inclusive (i.e., they include input from multiple sources on an ongoing basis);
  - open (i.e., they are transparent and there are no secrets);
  - correctable (i.e., they include mechanisms so that errors can be corrected);
  - standardised (i.e., performance is evaluated consistently across people and time);
  - ethical (i.e., they comply with ethical standards).

  Many trade-offs take place in the real-world implementation of performance management systems. However, the closer the system is to the ideal characteristics, the greater the return will be for employees, supervisors, and the organisation as a whole.

- A performance management system is the key factor determining whether an organisation can manage its human resources and talent effectively. Performance management provides information on who should be trained and in what areas, which employees should be rewarded, and what types of skill are lacking at the organisation or unit level. Therefore performance management also provides information on the types of employee who should be hired. When implemented well, performance management systems provide critical information that allows organisations to make sound decisions regarding their people resources.

As should be evident by now, implementing an ideal performance management system requires a substantial amount of work. But this does not start when the system is put into place. The process starts much earlier, because unless specific conditions are present before the system is implemented, the system will not achieve its multiple purposes. Module 2 provides a description of the entire performance management process.

Review Questions

True/False Questions

1.1 A performance management system is the systematic description of an employee's strengths and weaknesses. T or F?

1.2 Linking each individual's performance to the organisation's mission involves explaining to each employee how the employee's activities are helping the organisation gain a competitive advantage. T or F?

1.3 Feedback often decreases motivation to perform because it points out what an employee does wrong. T or F?

1.4 Dangers of a poorly implemented performance management system include wasted time and money, lack of standardised employee ratings and confusion on how ratings are obtained. T or F?

1.5 Intangible returns include benefits and work/life programmes. T or F?

1.6 Exempt employees are often employees in managerial or professional roles on a salary and they are not eligible for overtime pay. T or F?

1.7 Short-term incentives are one-time payments typically given quarterly or annually.
T or F?

1.8 The strategic purpose of PM systems involves constructing the strategic vision for the organisation. T or F?

1.9 A reliable performance management system includes all relevant performance facets and does not include irrelevant performance facets. T or F?

1.10 Distributive justice is the perception that the performance evaluation received is fair relative to the work performed. T or F?

Multiple-Choice Questions

1.11 _____ is a continuous process of identifying, measuring and developing performance in organisations by linking each individual's performance and objectives to the organisation's overall mission and goals.

A. Strategic planning
B. Performance management
C. Reward system
D. Performance appraisal

1.12 Dangers of a poorly implemented performance management system include all of the following *except*:

A. increased employee motivation.
B. lawsuits.
C. biased performance ratings.
D. decreased employee motivation.

1.13 One of the consequences of a poorly implemented PM system is _____, which occurs when an employee does not see the system as fair or valid and becomes dissatisfied with his/her job.

A. job burnout
B. lowered self-esteem
C. damaged relationships
D. lawsuits

1.14 Income protection programmes include:

A. pension plans.
B. medical insurance
C. social security.
D. all of the above.

1.15 _____ is given to employees in exchange for work performed, and it focuses on positions and duties, rather than on an individual's contribution.

A. Contingent pay
B. Base pay
C. Cost-of-living adjustments
D. Short-term incentives

1.16 The _____ purpose of PM systems is to furnish valid and useful information for making employment decisions, including salary adjustments, promotions and terminations.

A. strategic
B. information
C. administrative
D. developmental

1.17 Information gained from the organisational maintenance purpose of a PM system is used for all of the following *except*:

A. workforce planning.
B. evaluating the effectiveness of job descriptions.
C. evaluating the effectiveness of HR programmes.
D. creating talent inventories.

1.18 Performance management systems should be thorough, meaning that:

A. All employees should be evaluated.
B. An employee's flaws should be discussed at length.
C. The review should cover the entire review period.
D. A and C.

1.19 An ideal PM system is _____, which means that performance is evaluated and feedback is given on an ongoing basis, the appraisal meeting consists of two-way communication, and performance standards are clear.

A. open
B. standardised
C. ethical
D. specific

1.20 PM system information is necessary for the implementation of which of the following HR function(s)?

A. Workforce planning.
B. Training.
C. Recruitment and selection.
D. All of the above.

Short Essay Questions

1.21 You want to change your organisation's performance appraisal system to a performance management system. Write a one-page memo to your supervisor describing the advantages of having a well-designed, properly implemented performance management system.

1.22 Organisations can reward employees in several ways. Please list and describe five possible rewards that employees can receive, and describe when an organisation should use that reward.

1.23 There are several characteristics of an ideal performance management system. Please discuss each characteristic of an ideal system, and explain how an organisation can achieve each characteristic. For example, one characteristic of an ideal PM system is that it is reliable. An organisation can make its system reliable by ensuring that performance measures are consistent and free of error.

Case Study 1.1: Reality Check: Ideal versus Actual Performance Management System

1 The table below summarises the key characteristics of an ideal performance management system as discussed in Module 1. Think about a performance management system you know. This could be the one implemented at your current (or most recent) job. If you don't have information about such a system, talk to a friend/acquaintance who is currently working, and gather information about the system used in his or her organisation. Use the Y/N column in the table to indicate whether each of the features is present (Y: yes) or not (N: no) in the system you are considering. In some cases, some elements may be present to a matter of degree and may require that you include some additional information in the 'comments' column.

Then, prepare a brief report addressing the following issues.

1. How many of the 14 characteristics of an ideal system are present in the system you are evaluating?
2. Identify two characteristics that are not present at all, or barely present, in your system. Discuss the implications of the absence of these characteristics on the effectiveness of the system.
3. Identify one characteristic that is clearly present in your system. Discuss the implications of the presence of this characteristic on the effectiveness of the system.
4. Identify the characteristic in your system that is furthest from the ideal. What can be done to produce a better alignment between your system and the ideal one? Who should be responsible for what actions so that your system becomes 'ideal' regarding this characteristic?

Characteristics	**Y/N**	**Definition**	**Comments**
Strategic congruence		Individual goals are aligned with unit and organisational goals	
Thoroughness		All employees are evaluated Evaluations include performance spanning the entire review period All major job responsibilities are evaluated Feedback provided on both positive and negative performance	
Practicality		Readily available for use Easy to use Acceptable to those who use it for decisions Benefits of the system outweigh the costs	
Meaningfulness		Standards and evaluations for each job function are important and relevant Only the functions that are under the control of the employee are measured Evaluations take place at regular intervals and at appropriate moments System provides for continuing skill development of evaluators Results are used for important personnel decisions	
Specificity		Detailed guidance is provided to employees about what is expected of them and how they can meet these expectations	
Identification of effective and ineffective performance		The system distinguishes between effective and ineffective behaviours and results, thereby also identifying employees displaying various levels of performance effectiveness	
Reliability		Measures of performance are consistent Measures of performance are free of error	
		Measures include all critical performance facets	

Characteristics	Y/N	Definition	Comments
Validity		Measures do not leave out any important performance facets Measures do not include factors outside employee control	
Acceptability and fairness		Employees perceive the performance evaluation and rewards received relative to the work performed as fair (distributive justice) Employees perceive the procedures used to determine the ratings and subsequent rewards as fair (procedural justice)	
Inclusiveness		Employee input about their performance is gathered from the employees before the appraisal meeting Employees participate in the process of creating the system by providing input on how performance should be measured	
Openness		Performance is evaluated frequently and feedback is provided on an ongoing basis Appraisal meeting is a two-way communication process and not one-way communication delivered from the supervisor to the employee Standards are clear and communicated on an ongoing basis Communications are factual, open, and honest	
Correctability		There is an appeals process, through which employees can challenge unjust and/or incorrect decisions	
Standardisation		Performance is evaluated consistently across people and time	
Ethicality		Supervisors suppress their personal self-interest in providing evaluations Supervisors evaluate performance dimensions for which they have sufficient information only Employee privacy is respected	

Case Study 1.2: Performance Management at Network Solutions, Inc.[1]

Network Solutions, Inc., is a worldwide leader in hardware, software and services essential to computer networking. Until recently, Network Solutions, Inc., had over 50 different systems to measure performance within the company, many employees did not receive a review, fewer than 5 per cent of all employees received the lowest category of rating, and there was not a recognition programme in place to reward high achievers. Overall, there was recognition that performance problems were not being addressed, and tough pressure from competitors increased the costs of not managing human performance effectively. In addition, quality initiatives (Six Sigma) were driving change in several areas of the business, and Network Solutions decided that these initiatives should also apply to 'people quality'. Finally, Network Solutions wanted to improve its ability to meet its organisational goals, and one way of doing this would be to ensure they were linked to each employee's goals.

Given the situation described above, in 2001 Network Solutions' CEO announced he wanted to implement a forced distribution performance management system in which a set percentage of employees are classified in each of several categories (e.g., rating of 1 to the top 20 per cent performers, rating of 2 to the middle 70 per cent performers, and rating of 3 to the bottom 10 per cent performers). A global cross-divisional HR team was put in place to design and implement the new system. The first task for the design team was to build a business case of the new system by showing that, if organisational strategy was carried down to team contributions and team contributions were translated into individual goals, then business goals would be met. Initially the programme was rolled out as a 'year round people management system that raises the bar on performance management at Network Solutions by aligning individual performance objectives with organisational goals by focusing on development of all employees'. The desired outcomes of the new system included raising the performance level of all employees, identifying and retaining top talent, and identifying low performers and improving their performance. Network Solutions also wanted the performance expectations for all employees to be clear.

Before rolling out the programme, the design team received the support of senior leadership. They did this by communicating that the performance management system is the future of Network Solutions, and by encouraging all senior leaders to ensure that their direct reports understood the process and also bought into it. In addition, they encouraged senior leaders actually to use the system with all of their direct reports, and to demand and utilise output from the new system. Next, the design team encouraged the senior leaders to stop the development and use of any other performance management systems, and pushed for standardisation of performance management across all divisions. Finally, they had senior leaders call attention to the new programme by involving employees in training about talent management and assessing any needs in their divisions that the new system would not address.

The Network Solutions global performance management cycle consists of the following process:

1. Goal cascading and team building
2. Performance planning
3. Development planning
4. Ongoing discussions and updates between managers and employees
5. Annual performance summary

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[1] This case study is based, in part, on actual information. The name Network Solutions, Inc. was created to protect the identity of the actual company in question.

There are training resources available on Network Solutions' intranet for managers and individual contributors, including access to all necessary forms. In addition to the training available on the intranet, 1–2 hour conference calls took place before each phase of the programme was rolled out.

Part of the training associated with the performance management system revolves around the idea that the development planning phase of the system is the joint year-round responsibility of managers and employees. Managers are responsible for scheduling meetings, guiding employees on preparing for meetings, and finalising all development plans. Individual contributors are responsible for documenting the developmental plans. Both managers and employees are responsible for preparing for the meeting, filling out the development planning preparation forms, and attending the meeting.

With forced distribution systems, a set number of employees must fall into set rating classifications. As noted above, in the Network Solutions system employees are given a rating of a 1 (given to the top 20 per cent of employees in the performance distribution), 2 (given to the middle 70 per cent of employees in the performance distribution), or 3 (given to the bottom 10 per cent of employees in the performance distribution). Individual ratings are determined by the execution of annual objectives and job requirements as well as a comparison rating of others at a similar level at Network Solutions. Employees receiving a 3, the lowest rating, have a specified time period to improve their performance. If their performance does improve then they are released from the plan, but they are not eligible for stock options or salary increases. If performance does not improve, they can take a severance package and leave the company, or they can start on a performance improvement plan that has more rigorous expectations and timelines than the original action plan. If performance does not improve after the second period, their employment is terminated without a severance package. Individuals with a rating of 2 receive average to high salary increases, stock options and bonuses. Individuals receiving the highest rating, 1, receive the highest salary increases, stock options and bonuses. These individuals are also treated as 'high potential' employees and given extra development opportunities by their managers. The company also makes significant efforts to retain all individuals receiving this rating.

Going forward, there is a plan to continue reinforcing the needed cultural change to support forced distribution ratings. HR centres of expertise continue to educate employees on the system to ensure that they understand that Network Solutions still rewards good performance; they are just measuring it differently. There is also a plan to monitor for and correct any unproductive practices and implement correcting policies and practices. To do this they plan on continued checks with all stakeholders to ensure that the performance management system is serving its intended purpose.

Consider Network Solutions' performance management system in light of what we discussed as an ideal system. Then, answer the following questions:

1. Overall, what is the overlap between Network Solutions' system and an ideal system?

2. What are the features of the system implemented at Network Solutions that correspond to what the module described as ideal characteristics? Which of the ideal characteristics are missing? For which of the ideal characteristics do we need additional information to evaluate whether they are part of the system at Network Solutions?

3 Based on the description of the system at Network Solutions, what do you anticipate will be some advantages and positive outcomes resulting from the implementation of the system?

4 Based on the description of the system at Network Solutions, what do you anticipate will be some disadvantages and negative outcomes resulting from the implementation of the system?

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