Performance Management: Panacea or Corporate Outcast?

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ABSTRACT

Performance management continues to be one of the most critical and criticised processes within the discipline of human resource management. This paper reports the findings of the most recent and largest Australian study undertaken to date of performance management systems across industry and government organisations of all sizes and types. The study was conducted by the School of Management at Curtin University of Technology, Perth, and the Australian Catholic University (NSW), in association with the Australian Human Resources Institute (AHRI). The findings suggest that the use of performance management systems remain problematic although there are some positive indications, for the first time in this country, of a more strategic approach to performance management.

INTRODUCTION

There has been an enormous amount of research conducted on performance management, making it one of the most praised, criticised, and debated human resource management practices. Despite all the research, countless management texts, relevant articles and associated conference papers, performance review remains a major source of frustration for managers (Lawler 1994, Glover 1996). However, in a world where organisations are struggling to become 'employers of choice', and thereby hoping to attract the brightest talent available, corporations simply cannot afford a flawed or weak performance review system (Joinson 2001). In addition, there exists ample evidence to suggest that companies which utilise performance management systems can strategically perform more effectively, in financial terms than those firms which invest less in this human resource management (HRM) process (Rheem 1996, Glenndinning 2002). In general, companies which manage the performance of their people effectively are more likely to outperform their competitors than those which do not (McDonald & Smith 1995). Surprisingly, despite an abundance of literature expounding the importance of performance management and the likely benefits, this material has not been coupled with a widespread adoption of effective performance management systems.

Uneasiness or resistance to adopting performance management can be linked to management attitudes and knowledge. For example, recent research (TMP Hudson Global Resources 2003), together with considerable anecdotal industry evidence, suggests that many organisations and their senior managers still regard performance management as a mechanistic annual ritual which is a necessary evil, but has little relevance to their 'bottom line'. Overall, there has been minimal

recognition and understanding of the power of performance management practice. This phenomenon is not surprising given the findings of earlier studies indicating that business managers, generally, have less than a full appreciation of the role of HRM in their organisation nor do these managers see HRM as particularly strategic in nature. To reinforce the point, in a relatively recent review only 14 per cent of CEOs saw HRM as deserving of a strategic role in their organisation, or indeed a place at the executive table (Nankervis, Compton & Savery 2000). The review of employee performance, and the management of its collective contribution to organisational effectiveness, has often been perceived as a combination of informal and formal techniques. Nevertheless, there is an emerging consensus that these techniques together have the potential to motivate individual employees and their work groups, to evaluate the efficacy of all HRM functions, and to provide organisations with a strategic advantage in their ongoing pursuit of competitive goals and imperatives.

There is widespread agreement that success or failure in performance management depends on at least four criteria:

- organisational philosophies,
- the attitudes and skills of those responsible for its implementation,
- acceptance, commitment and ownership of appraisers and appraisees (Lawler 1967, Hedge & Teachout 2000), and
- the endorsement of the notions of ʹprocedural fairnessʹ and ʹdistributive justiceʹ (Gabris & Ihrke 2000). ʹProcedural fairnessʹ refers to the employeesʹ perception of the programʹs overall process equity, and where ʹdistributive justiceʹ is linked to perceptions of the fairness of associated rewards and recognition outcomes.

Supporters of performance review and management systems such as Drucker (1954), Herzberg (1959), Cascio (1999), and Wilson (2001), argue that performance review programs are the logical and preferable means to appraise, to develop, and to effectively utilise, employeesʹ knowledge and capabilities. Of course, all of these outcomes will only be possible where the end user, the business manager, is educated in the effective processes of performance review and persuaded of the potential benefits of getting it right (Glendinning 2002).

A less supportive perspective of the merits of performance management has been advanced by some leading social scientists. For instance, Deming (1982) has suggested that performance management and review ʺnourishes short-term performance, annihilating long-term planning, building fear, demolishing teamwork and nourishing rivalry and politicsʺ (p.102). Others, including McGregor (1957), Levinson (1970), Lawler (1994), Glover (1996), and Glendinning (2002) critiqued the practical difficulties of performance management systems whilst supporting their underlying principles. Clearly, there is a lack of universal agreement as to the effectiveness of performance management programs.

Despite the diversity of these views, effectively implemented performance management programs can benefit both organisations and their employees. Arguably, the systems have the potential to provide individual feedback and collated organisational data, which can be used for the purposes of HRM planning and program evaluation purposes. Moreover, collated data can assist managerial planning, human resource development programs, and remuneration schemes. Individual performance management outputs include opportunities for remedial skills development, retention, career development, training, and upskilling programs.

The increasing complexity and intensity of business competition has elevated the importance of HRM objectives, policies, and strategies. Rapid and discontinuous change within organisations, flatter organisational structures, broader spans of control, and self-managing work groups, combined with network structures and looser business relationships have emphasised the importance of performance management as a crucial link between HRM functions and organisational competitiveness. In particular, there appears to be evidence of a move towards a

more strategic approach to performance review with the use of techniques such as the Balanced Scorecard. However, whilst many researchers have argued the merits of the more contemporary approaches, others warn that more research will be required to ensure their efficiency (McCarthy & Garavan 2001, Green 2002, Pfau, Kay, Nowack & Ghorpade 2002). This paper explores these issues through the findings of a recent Australian survey and specifically seeks to determine, if indeed, there has been a significant change in management's perception of performance management.

OBJECTIVES OF THE STUDY

The prime purposes of the study were to compare the findings of earlier studies, and to ascertain whether performance management processes have evolved to provide a more effective strategic tool in the human resource management repertoire. The findings suggest, as in earlier studies, that the use of performance management systems remains problematic, although for the first time there are some positive indications of a more strategic approach to performance management as espoused by HRM theorists. The study was undertaken in order to:

- update data on the goals, purposes, types, measures, and communication techniques of contemporary performance management systems,
- compare these findings with those obtained in earlier Australian studies, and
- ascertain whether these systems reflect a more strategic HRM perspective.

The findings from the study are compared with data from earlier surveys - Nankervis and Penrose (1990), and Nankervis and Leece (1995).

METHODOLOGY

The study was undertaken jointly by the School of Management at Curtin University of Technology (CUT), the Australian Catholic University (NSW) and the Australian Human Resources Institute (AHRI), and was conducted by means of an e-survey posted on the AHRI website in mid 2003. The study was advertised in the AHRI newsletter, and members were invited to access and complete the survey online. The survey instrument comprised nine sections, covering company detail; the aims of performance management; system type and designers; strategic focus, and use of the Balanced Scorecard (BSC); performance requirements, and communication methods; performance review techniques, associated HRM functions (e.g., salary review, promotions), and disclosure aspects; present and future trends in performance management; and appraisal training.

Sample

The study can be claimed as the largest of its kind in Australia. There were 992 respondents and the study findings are arguably a reliable indicator of the state of performance management practice across Australian industry, especially given the sectoral and organisational coverage. However, these claims are tempered by the unknown number of possible respondents (AHRI members who access the website), and because all respondents are HRM specialists who may not represent the views of other managers or affected employees. Despite this caution, the findings provide a credible picture of the nature and uses of performance management in contemporary Australian organisations.

Measures
Performance Management System

Respondents were given the choice of six alternative descriptors to categorise their performance management type. Respondents' checked a box', which were labelled traitbased, MBO, hybrid

system, performance management, team performance management, or no formal system. Each descriptor was briefly delineated. The responses revealed there was a smorgasbord of performance management systems within the study organisations. Nearly 34 per cent do not use competencies in their appraisals, 46 per cent use formal or informal behaviourally based measures, and 20 per cent employ Behaviourally Anchored Ratings (BARS). A total of 65 per cent of the respondents reported consistent performance management systems for all employees, with the remainder having different systems for managers and other employees.

Strategic Focus

The strategic focus of the performance management systems and in particular the application of the Balanced Scorecard framework to performance management was assessed. In practice the frequency of usage of organisational vision/mission statements, articulated organisational values, critical success factors, and the Balanced Scorecard (BSC) was assessed. Then the relationships between plans, missions, measures, and reviews associated with the BSC were examined. The determination of strategic focus required respondents to endorse a five point, five item Likert scale from ' strongly agree' to ' strongly disagree'.

RESULTS

Table 1 (n=961) shows the organisation type of respondents. Some 36 per cent came from small organisations (under 200 employees), 18 per cent from medium (201-500 employees) and 46 per cent from large organisations (more than 501 employees). The large proportion of ' other' responses (321= 44 per cent) includes public sector, not for profit, education, health and community service, agencies. Almost 53 per cent of respondents (n=873) come from non-unionised organisations.

Table 1
Industry Sectors % (N=961)

Services		Non Services	
Financial	10.8	Manufacturing	8.5
Management	7.1	Food and beverages	3.3
Information	8.4	Chemicals	2.7
Retail	4.6	Shipping	1.9
Tourism	4.1	Property	1.7
Engineering	2.9		
Other	44.0		

The majority of respondents' organisations are Australian owned. The other constituents were 11.5 per cent U.S., and eight per cent European, owned. Of the foreign owned companies, 42 per cent use the same performance management system, 33 per cent use a modified form, and only 25.6 per cent use a totally different system. In summary, the sample represents the views of HRM specialists within a broad cross section of industry sectors and organisation types in primarily Australian owned organisations.

There were two major types of performance management systems. They were performance management (64%) and hybrid (21%), which were combinations (or customised forms) of more traditional appraisal techniques such as MBO and competencies. Performance management was described as directly linking individual goals and the organisation' s ' strategic direction and key measures'. Trait based and team appraisals received little support, and interestingly, MBO by itself only attracted 7 per cent of the responses.

A majority of all current systems (75%) have been designed by internal organisational HRM specialists or project teams, with the remainder imposed by multinational headquarters, or designed by external consultants. In summary, the main types of performance management systems reported in this study are tailored combinations of traditional techniques, largely designed

by the organisations themselves and incorporating all employees, and often consciously linking employee and organisational goals and imperatives.

Table 2 shows the main purposes of performance management as perceived by the respondents. Most of the respondents (96%) reported their organisation used a performance management system. A lesser number (64%) stated their organisation had a formal performance management manual. Whilst approximately 68 per cent are contemplating changes to their present system, only 24 per cent are currently making changes. It is shown in Table 2 the determination of training and development needs and the appraisal of past performance, together with the alignment of individual and organisational objective (75.5%) attracted a high priority of the responses. To a lesser extent of importance are: the development of individual competencies, career planning, salary increase, and the assessment of future promotional prospects. Discipline and dismissal, organisational change, and the retention of ' high calibre' staff, are espoused to be of least importance.

Table 2
Main Purposes of Performance Management
% (N=992)

Aims of Performance Management	
Determine training and development need	89.2
Appraise past performance	88.9
Align objectives	75.5
Develop individual competencies	56.6
Assist career planning decisions	56.0
Link pay to performance	50.7
Assess future potential/promotion prospects	47.9
Discipline/dismiss non performing staff	28.9
Change organisational culture	28.0
Retain high calibre staff	27.5
Other	4.2

A variety of performance appraisal systems were employed. Only 25.5 per cent of the total respondents (n=253) reported using the BSC. Nearly 88 per cent of all respondents reported their organisation possess a vision or mission statement, more than 80 per cent have expressed organisational values, but only 36 per cent use critical success factors in their performance management systems. These findings represent a significant departure from earlier studies conducted prior to the development of the BSC.

Most respondents using the BSC felt that their performance measures were generally consistent with organisational goals and strategies. There was a broader spread of opinion with respect to the linkages at all levels of management with more than 78 per cent of respondents reporting in the range of strongly-somewhat agree that there are such links. Also more than 88 per cent were confident that their performance measures are ' well balanced' with respect to the BSC categories (namely, financial and operational performance, customer and employee satisfaction). A great number of respondents reported their organisations use components of strategic management as visions or missions, and expressed organisational values. They also stated fewer numbers of companies use critical success factors, and only a quarter of firms are presently using the BSC as the basis for their performance management systems (although later data indicate that this proportion is expected to grow in the future). Of the respondents who are members of institutions that use the BSC, most agreed that key performance measures are linked with a conscious plan, consistent with organisational missions, and include ' well balanced' measures reflective of the key BSC categories, but are not quite as effective in cascading these to all management levels.

Table 3 details the extent of requirements for a performance appraisal system across managerial groups. Clearly, organisations use performance appraisal systems for a variety of criteria. Although most organisations employ objectives/targets, broad responsibilities and roles, and written job descriptions, for most positions, these are variable across management and non management roles.

Table 3
Managerial Expectation for Performance Appraisal systems % (N=992)

Performance Requirements	Senior Management	Middle Managers	Supervisors	Other staff
objectives/targets	84.7	79.8	64.2	55.4
broad responsibilities and role	68.6	69.9	57.0	47.7
main job descriptions	41.8	56.0	65.6	67.6
written job descriptions	58.2	71.1	69.4	70.9
a set of competencies (linked to values)	39.4	41.2	36.5	35.0
a set of competencies (not linked to values)	20.0	24.7	24.6	25.9

Note. Percentages total greater than 100 as a variety of held expectations.

DISCUSSION

The sample size and organisational coverage of this study suggest that its findings may represent the dominant views of HR professionals throughout Australian industry. The proportion of organisations (involved in the study) which employ formal performance management systems appears to have increased during the period, rising from 85-86 percent in 1990 and 1995 (Nankervis & Penrose 1990, Nankervis & Leece 1997) compared with 96 per cent in this study. Possible reasons for this increase in usage include the need for organisations to improve employee productivity, a consequent rise in performance based employment contracts facilitated by more flexible industrial relations conditions, and/or a more ' strategic' approach to performance management by HR professionals and their senior managers.

Further support for the notion of a more strategic perspective of performance management is provided by responses to questions concerning the purposes and types of systems utilised. Whilst earlier studies (Nankervis & Penrose 1990, Nankervis & Leece 1997) found the most common purposes were the appraisal of past employee performance (99% and 94%, respectively), and the identification of training and development needs (85%), this study confirms a broader repertoire of aims. These objectives include the alignment of individual and organisational objectives (75.5%), the development of individual competencies (56.5%), and the assessment of future employee potential (48%). In addition, conscious links between performance appraisal and career planning (56%) and with salary review (51%) were detected. Nevertheless, the limited proportion of organisations using performance management as a cultural change agent (28%) or as a device to retain high calibre staff (27.5%) suggests that progress towards strategic performance management may be patchy.

The primary types of systems reported in this study suggest that more serious attention is being given to the customisation of performance management schemes than in earlier studies. For example, MBO alone was by far the most dominant type of performance appraisal system in both the 1990 and the 1995 studies (70% and 68%, respectively), which is contrasted with only 7 per cent in this study. Also, ranking and rating systems were used by half of the respondents in the previous studies, contrasted with around 12 per cent in this study. Moreover, self assessment as a component of performance appraisal appears to have increased over the period, from 25 per cent in 1990, to around 33 per cent of all staff in 2003. These findings may merely reflect broad industry and occupational changes, or they may also suggest that these developments have encouraged HR professionals to refine their appraisal systems in order to be more inclusive through greater employee involvement, and to more closely link individual and organisational

performance. Certainly, the increased and growing application of the Balanced Scorecard to performance management seems to imply a more strategic approach. But, this trend is not uniform, as indicated by the comparatively low usage of team/workgroup input (12%) or multi-rater feedback (14%).

Unlike earlier research studies, the survey reported in this paper specifically addressed the growing use of the Balanced Scorecard (BSC). The respondents who claimed their organisations used the BSC (25.5%) reported significantly higher levels of strategic alignment between individual and organisational performance objectives than other respondents. This dimension is reflected in the incorporation of vision/mission statements (88%), and organisational ' values' (80%) in performance management systems.

CONCLUSION

This study was conducted to ascertain whether there have been any significant changes in the design, implementation, and effectiveness of Australian performance management systems. The detection of such changes might reflect and reinforce contemporary strategic HRM theory. There was some expectation that the pressures of globalisation, increased regional competition, industry rationalisation, and a significantly more cooperative industrial relations environment, would have encouraged employers to redesign their performance management systems in order to reflect their competitive imperatives, and to enable closer links between individual, group, and organisational objectives and outcomes.

Overall, the findings of the study can best be described as mixed. The evidence confirms with that substantial changes have been made with respect to the use, purposes, and nature of performance management systems, and hopefully, that more customised and integrated systems are proposed for the future. There are signs that some organisations, especially those utilising the Balanced Scorecard, as the bridge between organisational and individual employee goals, are serious attempts to implement the strategic HRM agenda in their organisations through performance management, and it appears likely that these imperatives are likely to grow in the future.

AUTHOR

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