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Performance management: an introduction

Understand how to build an effective approach to performance management, including the tools that can support it

Introduction

If people are the greatest creators of value in organisations, then good performance management is critical for an organisation's success. Employees need to understand what's expected of them, and to achieve those goals they must be managed so that they're motivated, have the necessary skills, resources and support, and are accountable. Performance management is the activities and processes that focus on these areas to maintain and improve employee performance in line with an organisation's objectives. Ideally, performance should be managed holistically, throughout the range of HR activities and processes.

This factsheet explores critical aspects to get right in performance management, as well as recent changes in thinking. It summarises some of the main tools used in performance management, including objective setting, performance ratings, performance appraisals and feedback, learning and development, and performance-related pay.

What is performance management?

For professions involved in ensuring organisational performance, such as HR, a big challenge is to lever the relationship between the people working in the enterprise and the value they deliver. Performance management is the attempt to maximise this value creation and ensure that employees contribute to business objectives. It should align with organisational strategy and suit the type of jobs in question.

There's no definitive definition of performance management but it describes activities that:

- **establish objectives** through which individuals and teams can see their part in the organisation's mission and strategy
- **improve performance** among employees, teams and, ultimately, organisations
- **hold people to account** for their performance by linking it to reward, career progression and termination of contracts.

Good performance management should be based on regular, frank, yet supportive feedback on and discussion of progress towards objectives. Occasional processes, such as annual performance reviews and pay setting, can be useful, but shouldn't be the main focus.

At its best, performance management is a holistic set of processes. It brings together many principles that enable good people management practice, including learning and development, performance measurement and organisational development. For this reason, it's complex and often misunderstood.

Effective performance management relies on both formal and informal processes. It's about planning; for example, defining and reviewing objectives, linking ways of achieving those objectives to business plans, and setting measures of success. These are often discussed in meetings between the line manager and employees, known as performance reviews or appraisals. But performance management is also about establishing a culture in which individuals and groups take responsibility for the continuous improvement of business processes and their own skills, behaviours and contributions.

People managers are central to performance management. Ideally, they reinforce the links between organisational and individual objectives and give feedback that motivates employees, helps them improve, and holds them to account. Managers need to be suitably skilled and supported by processes that are fit for purpose. But much of how performance is discussed is shaped by cultural norms: senior leaders will set the precedent and line management relationships will shape how colleagues discuss performance more widely.

Listen to our podcast [Strength in numbers: what's new in performance management](#).

How does performance management work?

Performance management is a continuous cycle, not an isolated event. Because performance management integrates various HR activities, an overarching structure or framework is needed for the different parts to work together.

The elements of performance management may be similar across different organisations, but there's no single best approach. Each organisation should develop practices that are relevant to their specific context and their actual (or desired) organisational culture. There should also be flexibility within the system to account for the different ways teams or functions operate within a single organisation.

An organisation's strategic goals should be the starting point for departmental goals, followed by agreement on individual performance and development priorities. Individuals and managers can then draw up plans and monitor performance continuously. Feedback should be regular, and could be supported by formal performance reviews at agreed points over the the year. The plans can also highlight organisation-wide processes that are required to support performance; for example, leadership, internal communications, and others.

Video: Changing trends in performance management

In this video, Jonny Gifford, Senior Adviser for Organisational Behaviour at the CIPD, explores the changing trends in performance management over recent years.

[Play Video](#)

Please scroll to the bottom of the factsheet to view the transcript of this video.

Challenges to traditional performance management practices

Having remained fairly stable for two or three decades, common performance management practices have started to change over the last few years in response to a proliferation of articles challenging received wisdom. The broad thrust is that traditional practices – in particular, the dreaded annual appraisal – are outdated, if indeed they ever worked. However, most popular articles on new practices present little, if any, evidence on what's actually effective in improving performance.

In our research report [Could do better? Assessing what works in performance management](#), we presented evidence to help employers cut through the hearsay on trends, and instead make grounded decisions on what is most likely to be effective in improving performance.

At a fundamental level, the established performance management chain still holds, as in [Diagram 1](#) below.

However, there are a number of important factors that employers should be careful not to take for granted. Based on the best available evidence, a fuller model of target-setting and performance appraisal should consider the following:

- Objectives can be outcomes-focused: They can be specific and challenging, focused on doing one's best, or focused on behaviour or learning.
- Performance ratings can be used for administrative purposes (for example, to inform pay decisions) or to support people development after the judgements managers make.
- There are a number of sources and forms of bias that can unduly influence performance ratings, but there are things we can do to reduce them.

Employees' reactions to feedback are a vital factor. Reactions are influenced by an individual's personality (for example, their self-esteem and openness) and how they perceive the appraisal (for example, as fair and involving).

We expand on these points in [Diagram 2](#) below, while our [Could do better?](#) report provides further details.

Diagram 1: Links in the performance management chain

(36 KB)

Diagram 2: Factors affecting the performance management cycle

(203 KB)

Objectives and performance standards

Setting performance objectives for individuals, departments and the organisation is an important aspect of managing performance. These objectives can be expressed as targets to be met (such as sales levels), ad hoc tasks to be completed by specified dates, or ongoing standards to be met. They may be directly related to team or organisational key performance indicators or personal; for example, taking the form of developmental objectives for individuals.

Today, many employers do not solely rely on measurements of employees' outputs. Rather, they balance these with learning and development objectives and assessments of employees' behaviour, such as how supportive they are of colleagues. These can be of longer-term importance to the organisation. For example, there's good evidence that [social cohesion is an important factor driving performance in knowledge organisations](#), so it's important for such employers to promote collegiate and collaborative behaviour.

Performance management is one way of doing this.

It's often said that objectives should be SMART – typically, Specific, Measurable, Achievable (yet stretching), Relevant, and Time-bound. As we argue in our [Could do better?](#) report, the best evidence supports this in some contexts but not others. In straightforward tasks, goals that are specific and stretching do increase performance, but in 'complex' jobs (such as those which involve making analysis-based decisions or adapting to unfamiliar cues), they do not. Here, vaguer outcome objectives focused on 'doing one's best' work better, and best of all are objectives focused on learning or behaviour.

Whatever their nature, objectives should be clearly relevant to the overall purpose of the job, team and organisation. Our research found that employees do need to be committed to them, but they do not need to set their own objectives – indeed, targets tend to be more powerful when they are set by one's manager.

Employers can also opt for objectives on team-level performance rather than individual level. Both types can work well; the important thing is to match objectives to the nature of the work. In one job, good performance may purely be a factor of individual application; in another job it may rely much more on teamwork. If striking a balance between individual and team objectives, employers should be careful that they do not undermine each other.

Learning and development

Performance management often focuses almost purely on assessing employees' past performance and linking it to administrative decisions (for example, on pay). This is a mistake. If the ultimate aim is to improve performance, there should also be a strong focus on how employees need to develop. Performance conversations should thus help employees to learn from their experiences and identify other relevant learning and development opportunities.

A number of organisations use personal development plans (PDPs) to set out actions they propose to take in this regard. Sometimes, a review of employees' potential and development needs is grouped with the performance appraisal and called a performance development review (PDR).

You can explore more on how learning supports workplace performance in our [learning and development strategy factsheet](#).

Performance reviews

Performance reviews are a process by which managers assess workers' performance and discuss this with them. Assessing and feeding back on performance is a critical factor in making targets effective, as monitoring our progress towards objectives is strongly motivational. Traditionally, reviewing performance has often been an annual process, but this should not be the case. It should be a regular occurrence; for example, happening at the end of a piece of work or every few months, depending on the nature of a person's job. Reviews can involve face-to-face conversations between managers and their staff, 360-degree feedback, and assessments against performance targets. They can also benefit from a strengths-based approach.

Performance-related pay

Linking levels of pay to individual, team and organisational performance is a traditional, and still common, approach. In organisations that have performance-related pay (PRP), performance management is an inseparable aspect of pay reviews. However, the relationship between pay and performance is a widely debated aspect of performance management. Find out more in our performance-related pay factsheet.

Useful contacts and further reading

Contacts

Acas – Performance management

Center for Evidence-Based Management provides a database of evidence summaries on effective management

Books and reports

ACAS. (2018) 'Improvement required'? A mixed-methods study of employers' use of performance management systems. London: Acas.

ARMSTRONG, M. (2017) *Armstrong's handbook of performance management: an evidence-based guide to delivering high performance*. 6th ed. London: Kogan Page.

ASHDOWN, L. (2018) *Performance management: a practical introduction*. 2nd ed. HR Fundamentals. London: CIPD and Kogan Page.

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Journal articles

ARMSTRONG, M. (2017) How can we fix performance management? *People Management* (online). 17 November.

CAPPELLI, P. and TAVIS, A. (2016) The performance management revolution. *Harvard Business Review*. Vol 94, No 10, October. pp58-67. Reviewed in *In a Nutshell*, issue 62.

FARAGHER, J. (2018) How to get managers on board with performance management. *People Management* (online). 24 May.

GROEN, B.A.C., WILDEROM, C.P.M. and WOUTERS, M.J.F. (2017) High job performance through co-developing performance measures with employees. *Human Resource Management*. Vol 56, No 1, January-February. pp111-132. Reviewed in *In a Nutshell*.

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This factsheet was last updated by Jonny Gifford.

Video transcript

There have been a lot of changes to performance management over recent years, or at least some organisations have made massive changes. Our own research shows that a lot of these trends are really helpful. So we find the research backs up the view that performance management should be done more continually. Appraisal is not just something that happens once or twice a year, but it's more ongoing performance conversations that we need to be cultivating.

But there were also some ideas that we challenge when we look at the research. So for example, the idea that employees need to be involved in setting their own targets. It may sound counterintuitive, but this is not something which is backed up by research.

There are a range of factors in performance management to try and get right - performance management is not a single technique. One of the examples that I think is very positive is bringing in a strengths-based approach when you're looking at helping people to learn and improve their performance. The idea of this comes from appreciative inquiry. It's the idea that your opportunities for growth and improvement don't come so much from fixing your weaknesses or correcting what you're not good at. It comes more

from understanding what it is you've been doing that's worked well. What was it that you did that contributed to that, and how can you expand on, build on, replicate that in other areas of your work.