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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

Helping employees perform well is a central role of line managers and people professionals. People are the greatest creators of organisational value, so effectively managing their performance is critical for success. Employees need to understand what's expected of them, and must be managed so that they are motivated, have the skills, resources and support they need to succeed, and are accountable for their work.

This factsheet describes core aspects to get right in performance management and recent shifts in thinking. It summarises the main tools used, including objective setting, performance ratings, appraisals (or reviews), feedback, learning and development, and performance-related pay.

See the **full [A-Z list](#) of all CIPD factsheets**.

What is performance management?

'Performance management' describes the attempt to maximise the value that employees create. It aims to maintain and improve employees' performance in line with an organisation's objectives. It's not a single activity, but rather a group of practices that should be approached holistically.

There's no standard definition of performance management but it describes activities

that:

- **Establish objectives** for individuals and teams to 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.

At its best, performance management centres on two-way discussion and regular, open and supportive feedback on progress towards objectives. It brings together many principles that enable good people management practice, including learning and development, performance measurement and organisational development.

As well as helping people improve performance, a central strand of performance management is setting and reviewing objectives. The basic cycle is straightforward, as illustrated in [Diagram 1](#). However, as shown in [Diagram 2](#), there are other factors that make it more complex. We discuss these factors in the following sections.

Performance management is usually backed up by formal processes, including recording objectives, periodic performance reviews and improvement plans for underperformance, but it is broader than these things. While policies and processes can be important, the main focus should be regular performance discussions that help people perform.

Diagram 1: Links in the performance management chain

(36 KB)

Diagram 2: Factors affecting the performance management cycle

(203 KB)

Defining and measuring performance

Objectives and key performance indicators (KPIs) are usually clear at an organisational level, but it is often less clear what good performance constitutes for individuals or teams. It is vital to identify how organisational KPIs cascade and what the expectations are for employees and teams. It's helpful to think of three main types of performance:

- **Task performance:** how well someone carries out the core activities included in their job. This could include the number of products manufactured to specification,

service quality or (for people managers) their impact on the people in their team.

- **Contextual performance or 'organisational citizenship behaviour'**: voluntary activity that benefits the organisation but sits outside one's core role – for example, helping other teams reach their targets, or contributing to ad hoc initiatives.
- **Adaptive performance**: how well employees respond to changing job demands or support innovation. This includes both how agile employees are to changing objectives and how they help the organisation become more agile in response to market needs.

All three types can all be understood as results (the outcomes of activity) or as behaviour (how that activity was carried out).

Measuring performance is an important step and some industries require very detailed measures. However, targets are not the be-all and end-all. As a general rule, if they are emphasised too much, they become a time-consuming enterprise in their own right and can hinder rather than help effective working. Performance measures must therefore be carefully chosen to be necessary and relevant. They should align with organisational strategy and suit the types of job in question.

Performance measures in some jobs are straightforward, as the outcomes are obvious and objective. But for many professionals – for example, knowledge workers – it is more complicated to measure performance. Subjective assessments can be helpful, but they should be tools that have been tested to be reliable (measures that are stable over time) and valid (an accurate gauge of what is important).

For more information on defining and measuring performance, see our evidence review, [People Performance](#).

Objective setting

Objectives or goals are a powerful motivating tool that helps improve performance. They can be expressed as KPIs, ongoing quality standards or tasks to be completed by specified dates. In either case, they should be based on a full understanding of what constitutes good performance (see above).

Employees must be bought into and committed to their objectives for them to be effective. But contrary to popular opinion, it is not generally better for employees to set their own goals.

Usually, objectives are most effective if they centre on *specific* outcomes and are

stretching. This is often described as ‘SMART’ (typically, Specific, Measurable, Achievable, Relevant, and Time-bound). However, research shows that this is not always the case. For complex tasks – for example, which involve analysing information before making decisions and acting – it’s usually better to focus on *learning* outcomes (how you will improve or develop), or even vaguer objectives to ‘do one’s best’. And for jobs that are heavily reliant on teamwork, it can be more effective to focus objectives on *behaviours*.

Performance can be defined at an individual, a team level, or a mixture of both. Where collaboration is important in carrying out tasks, or responsibility for results is shared, it makes sense to focus on team performance. If striking a balance between individual and team objectives, employers should be careful that they do not undermine each other.

See our evidence review [Could do better?](#) for more information.

Performance reviews

Performance reviews are the process by which managers assess workers’ performance and discuss this with them. Assessing and feeding back on performance is an important way to leverage objectives, as monitoring progress towards objectives is strongly motivational. Performance reviews can also be an important opportunity for learning and improvement.

Having remained stable for several decades, received wisdom on performance reviews has been challenged over recent years, and many employers have adapted their approaches. The main changes are:

- **Less focus on annual appraisals**, or even scrapping them; greater focus on regular performance reviews.
- **Less focus on process**, such as forced ranking or guided distribution ratings and lengthy ratification; **greater focus on high quality conversations**, often aided by a coaching style and sometimes involving a strengths-based approach.
- **Less focus on judging or appraising past performance to inform administrative decisions**; greater focus on understanding current challenges and opportunities to **help people improve**.

There is good evidence that some of the changes are worthwhile and not just a passing fad.

Find out more in our [performance review](#) factsheet.

Also see our evidence review [Could do better? Assessing what works in performance](#)

management.

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.

The relationship between pay and performance is a widely debated aspect of performance management. PRP can demotivate employees or incentivise undesirable workplace behaviour, especially if targets are set narrowly and do not fully reflect what constitutes good performance.

However, pay is clearly a strong motivator, not just a 'hygiene factor' as is often thought, and steps can be taken to avoid unintended consequences and make PRP feel fairer.

Find out more in our [performance-related pay](#) factsheet.

Whose role is performance management

People managers are central to performance management. They should help employees see the connections between organisational and individual objectives, give feedback that motivates employees and helps them improve and hold them to account. Managers need to be suitably skilled to do this and in turn need to be supported by HR practices and processes that are fit for purpose.

And yet, everyone has a responsibility for managing their performance. Employers need to cultivate a climate or culture in which it's normal to discuss performance and seek ways to improve business processes and people capability.

Principles of good performance management

There's no single best approach to performance management, but because it integrates various management activities, an overarching structure or framework for performance management is helpful.

Employers should develop practices that are relevant to their specific context – including strategic and operational priorities and how an organisation is set up. There should also be flexibility within the system so that teams or functions can manage performance in a

way that is relevant for their roles.

Performance management should be a continuous cycle, not an isolated event. Employee objectives should be reviewed and amended in line with changing organisational priorities, and feedback and reviewing performance should be regular occurrences.

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.

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.

Visit the [CIPD and Kogan Page Bookshop](#) to see all our priced publications currently in print.

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.

MURPHY, K. (2019) Performance evaluation will not die, but it should. *Human Resource Management Journal* (online). 16 October. Reviewed in *In a Nutshell*, issue 92.

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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.