Corporate Partners Research Programme

What makes for effective performance management?

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**Executive summary**

**Purpose of this report**

Performance management remains a problematic subject for both managers and HR professionals, despite considerable attention from academics, researchers and practitioners alike over the last 10–20 years.

This report looks at the issue of performance management from a broader, more challenging commercial perspective than a purely HR focus. We explore how organisations need to look at performance management and the questions they need to ask.

We have used case study research to identify seven critical elements that organisations must address to ensure performance management makes a contribution to the wider business goals.

In this report, we explore these seven critical elements of performance management, and develop several different conceptual frameworks to help organisations think about performance management in their own context.

**Methodology**

Between June and September 2005, we carried out six organisational case studies, including:

- Abbey Group – a major banking institution
- First Direct – a telephone and internet bank
- Department for Environment, Food and Rural Affairs (DEFRA)
- Suffolk East Primary Care Trust (Suffolk East PCT)
- Mouchel Parkman – a professional support services consultancy
- Zambon Group – an Italian pharmaceutical company.

For most of the organisations, the case studies involved:

- an interview with a senior manager
- an interview with a senior member of HR
- a focus group with a group of managers
- a focus group with a group of employees.

**Findings**

We then synthesised common themes from the case studies into a framework of seven elements that we believe organisations must discuss and, more importantly, get right when looking to maximise the effectiveness of performance management in their organisations.

These seven elements include:

- **Process**: the means by which individual performance is directed, assessed and rewarded
- **People management capability**: the skills, attitude, behaviours and knowledge that line managers need in order to raise the performance standards of those around them
- **Motivation**: the extent to which the organisation’s approach to performance management (PM) unlocks discretionary effort among its employees
- **Measurement and reward**: the indicators or ‘dials on the dashboard’ that are used to assess individual performance and the effectiveness of the whole PM system, and how these are used to allocate rewards
- **Role of HR**: the extent to which HR leaders demonstrate subject matter expertise, draw on relevant theory and research evidence, and influence thought-leaders in organisations to focus energy on the aspects of PM that make the most difference to performance
- **Learning organisations**: the extent to which organisations are able to reflect objectively and learn from their own PM experience, building on what works and refining where necessary
- **Role of culture and clarity of purpose**: the extent to which a PM approach resonates and is congruent with the broader culture of the organisation in which it is being applied.
Conclusions
This report raises some key questions that organisations need to ask when thinking about their performance management. It also highlights that performance management has the potential to improve the performance of organisations and act as a lever to achieve cultural change.
1. What makes for effective performance management?

1.1 The purpose of this report

It is almost universally agreed that how performance is managed in organisations can have far-reaching effects on both the organisation and its employees. Yet, despite considerable attention from academics, researchers and practitioners alike over the last 10–20 years, performance management (PM) retains much of its grail-type quality for many organisations, and is still a problematic subject for both managers and HR professionals. Why?

Our initial paper, Whither Performance Management?, highlighted some possible reasons:

- Performance management is not a single intervention that can be implemented easily. It relies on a range of activities, involving several core HR processes, and requires these to be carefully integrated.
- A sophisticated ‘process’ does not always lead to effective performance management.
- It is difficult to improve management capability in managing performance.
- There is an enduring underlying belief that performance management is a good thing to do. However, there is a reluctance in organisations to evaluate the effectiveness of performance management systems and to harness the results of research.
- There is often a lack of understanding about the nature of the link between performance and organisational culture, and the implications for performance management.

From this starting point, we have used case study research to identify seven critical elements that organisations must address to ensure performance management makes a contribution to the wider business goals. We are not advocating a one-size-fits-all approach or arguing that there is one solution that will enable effective performance management in all organisations. Equally, we suggest that all elements are not of equal value, so we will outline which elements are likely to have more leverage on performance than others.

This report presents and explores these seven critical elements of performance management. Six case studies underpin this paper, illustrating strategies and practices. All the case study organisations have used a range of performance management initiatives, processes and activities. (While providing a useful overview, the examples given in the main text are not a detailed description of what they are doing. For more detail on the case study organisations, please refer to Annex B.)

We will also provide several conceptual frameworks throughout the report that may assist organisations to think about performance management in their own particular contexts.

This report also looks at the issue of performance management from a broader, more challenging commercial perspective than a purely HR focus. We will explore how organisations need to look at performance management and the questions they need to ask. We will not be simply sharing best practice from a set of ‘exemplar’ organisations. Nor will we be providing a checklist for the optimal design of performance management systems. And rather than isolate performance management from the broader issues of business strategy and organisational culture, we will try to look at performance management in a more holistic and interconnected way.
First, we will examine the evolution of performance management and how organisations have arrived at where they are now.

1.2 The evolution of performance management

The nature of performance management has evolved greatly over the course of the last century. Formal performance appraisal began with the work of Frederick Taylor before the First World War. Following this, ratings for officers in the US armed services were introduced in the 1920s. This then spread to the UK, as did some of the factory-based American system.

The appraisal schemes of the 1930s were seen as incentive-linked activities, the incentive being promotion. Giving feedback became more important in the 1950s, when performance appraisals were characterised by the use of ratings and a focus on personality traits. McGregor advocated a switch away from appraising personality towards job performance by assessment against set goals.1 The 1970s saw greater openness in reporting, increased subordinate participation and the rise of trade union interest in appraisal practices.

The term ‘performance management’ was first used in the 1970s by Beer and Ruh2, but did not become a recognised process until the late 1980s. In contrast to performance appraisal, Beer and Ruh describe performance management as a comprehensive, continuous and flexible approach to the management of organisations, teams and individuals that involves the maximum amount of dialogue between all those concerned.3 However, this ideal appears to be difficult for organisations to attain. A 1991 IMS study4 was able to identify only 3 per cent of organisations in its sample that closely matched its textbook model.

Williams argues that the reality of contemporary performance management practice is best seen as no more than a logical progression in the history of appraisal systems.5 While some innovation is evident in terms of procedure in the form of multi-rater appraisal systems, 360-degree assessment, capability/competency profiling and balanced scorecards – and there is considerable diversity in approaches – there is little evidence of a ‘revolution in thinking’ needed to make performance management effective. Indeed, it could be said that the proliferation of alternative approaches (eg continuous assessment, competence assessment, performance-related pay, personal development plans) is evidence of continuous tinkering with the system when the root causes of the problems lie elsewhere.

In Whither Performance Management?, we highlighted some of the key difficulties and issues organisations have with performance management. These included:

• The process is often too complex, time-consuming and bureaucratic. Historically, great debate revolves around appraisal form design, thus avoiding many of the bigger issues.

• Too little identifiable benefit arises from the time the process can consume.

• While many organisations stress the importance of teamwork – and most employees’ performance is dependent to a considerable degree on the work of others – the primary thrust of most organisations’ PM systems is focused on individuals.

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3 Beer R and Ruh R A, 1976 (Ibid)
5 Williams R, Managing Employee Performance: Design and implementation in organisations, Thomson Learning, 2002
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- The problem of gaining line management commitment to PM and of getting them to do it well, or at all.6
- The process is problematic because of the complexities involved in one person attempting to sum up another’s performance: ‘Performance appraisal requires subtle psychological and social skills, which may not be acquired by many managers.’7
- The prevalence of poorly designed and poorly administered PM schemes.8
- The management tendency to adopt a unitary frame of reference (‘we’re all in it together, our interests coincide’) when in reality organisations are more likely to be pluralistic in the sense that there are divergent interests that should be acknowledged.9
- Management indulges in rhetoric about development, but often do not put this into practice.10
- Appraisal is an inconsistent and fundamentally subjective process.11
- PM is focused wrongly on financial rewards.12
- PM is a means of oppression or coercive control.13
- Both line managers and employees tend to be disenchanted with PM.14

Despite all these issues and criticism, recent CIPD survey research indicates both that PM has moved on and that practitioners have heeded some lessons of the past.15 That said, it cautions against being seduced into thinking that such problems have disappeared. CIPD research linking people management practice to organisational performance shows that there is still a significant proportion of organisations not making any real efforts to manage performance. Thus, it cannot be assumed that the very best current practices are eliminating deep-seated and complex barriers across the board.

Although there is considerable survey data16 that paints a picture both of the type of PM approaches used across the UK and of the attitudes of line and HR managers towards them, the PM debate is characterised by a general lack of rigorous evaluation of what makes PM work and how it contributes to bottom-line performance. And where there is, this receives insufficient attention. It seems that there is universal acceptance that performance management is a positive initiative, and consequently there is a lack of questioning about whether it is a good use of resources.

Whither Performance Management? highlighted four areas where there remains considerable scope for organisational improvement, and that we wanted to explore further via our case study research. These are:
- process
- management capability
- evaluation of performance management
- the role of culture.

The first was the preoccupation of many organisations with designing and refining ever-more sophisticated
processes that are often irrelevant when it comes to improving performance. We highlighted the risk of performance management becoming more of an IT deliverable than an enabler of high performance.

Second, we identified the issue of management capability as a critical enabler of high performance and how organisations struggle to develop this capability in their staff. In particular, there appears to be issues around the delivery of feedback, and the use of competencies and behaviours that foster high performance.

Third, we noted the reluctance or inability of many organisations to evaluate the effectiveness of expensive and resource-hungry performance management systems, and to learn from experiences and research. What is preventing HR practitioners from harnessing the potential of the research that is out there and using it to make performance management more effective?

Finally, we emphasised the vital role of the context in which performance management takes place. The culture and the climate of an organisation is a vital aspect of performance that is not often considered.

During the course of this project, we were able to explore these issues in more depth, as well as identify and explore some new ones.
In order to better understand what makes for effective performance management, we wanted to explore in greater depth through the case study research the four themes of:

- process
- management capability
- evaluation of performance management
- the role of culture.

The case studies confirmed that these four elements were indeed critical. Moreover, we were also able to identify three more elements of performance management that seemed to be vital to the success of the PM systems at each of the organisations. This led us to synthesise the common themes from the case studies into a framework of seven elements that we believe organisations must discuss and, more importantly, get right when looking to maximise the effectiveness of performance management in their organisations.

These seven elements include:

- **Process**: the means by which individual performance is directed, assessed and rewarded
- **People management capability**: the skills, attitude, behaviours and knowledge that line managers need in order to raise the performance standards of those around them
- **Motivation**: the extent to which the organisation’s approach to PM unlocks discretionary effort among its employees
- **Measurement and reward**: the indicators or ‘dials on the dashboard’ that are used to assess individual performance and the organisational effectiveness of the whole PM system, and how these are used to allocate rewards
- **Role of HR**: the extent to which HR leaders demonstrate subject matter expertise, draw on relevant theory and research evidence, and influence thought-leaders in organisations to focus on the aspects of PM that make the most difference to performance
- **Learning organisations**: the extent to which organisations are able to reflect objectively and learn from their own PM experience, building on what works and refining where necessary
- **Role of culture and clarity of purpose**: the extent to which an approach to PM resonates and is congruent with the broader culture of the organisation in which it is being applied.

This framework and its elements are presented in Figure 1 below. The seven elements are located in the business context, which is represented by the circle around the seven elements.

Figure 1 The seven key elements of performance management

We now discuss the seven elements in turn below, providing evidence from the case studies where appropriate.
2.1 Process – worth all the effort?

We identified this element in our first issues paper, Whither Performance Management? It highlighted many organisations’ preoccupation with designing and refining ever-more sophisticated PM processes. So, how did our case study organisations approach the ‘process’?

Of our six case study organisations, all of them had or have had relatively sophisticated processes designed to manage performance. Most had annual performance reviews and a system of objective-setting, with different preferences for electronic versus paper forms. Many of the case studies had incorporated competencies and behaviours into the process, but uptake of these was usually less than optimal. In view of this, it was not all that surprising to discover that all six of our case study organisations either had recently or were currently ‘tweaking’ their PM processes.

For first direct and Abbey, managers tended to spend most of their time on objective-setting and agreeing ratings that affected bonus outcomes for the employee. Behaviours and competencies took a back seat, despite HR providing comprehensive tools. For both of these organisations, agreeing ratings was a primary focus and formulas were used to calculate bonuses based on the individual rating. In interviews and focus groups at these two organisations, discussions often centred around the link between performance and reward, with a notable lack of discussion about how rewards, in and of themselves, are motivating for employees.

Some organisations focus on development more than others. For example, Suffolk East PCT had a strong emphasis on supporting and developing staff when compared to Abbey, where there was a much stronger performance focus. At Mouchel Parkman, there were two formal reviews each year. One was performance-outcome oriented, the other was a freer discussion around personal and career development. It also included 360-degree feedback as part of the process.

Zambon Group has invested heavily in an online system that is designed to ensure consistent and accurate performance measurement. These sophisticated electronic forms use state-of-the-art decision-tree software, and were designed to reduce managers’ workload. As yet, it is still unclear whether this heavy investment in ‘process’ and considerable involvement from the IT function will be rewarded with increased performance. Zambon Group plans to conduct a full evaluation next year. While there is the potential for this system to deliver, it is unlikely to be due to the ‘smart’ forms alone; we would argue that without consideration of the other six elements we explore in this report, this technology may not be a ‘silver bullet’ for Zambon Group.

This is typical of many other organisations, where process can take up the most time and resources, but add only a small amount of value. This can be particularly dangerous where there is little or no attention paid to improving management’s skills in managing performance – where the system itself is hoped to solve all the performance management issues, rather than the managers. As recent research from the Corporate Leadership Council showed, employee understanding of performance standards and objectives was far more influential than the specific features or content of the system itself (e.g., the number of reviews, use of rank ordering, etc.) in driving performance. It is usually up to the individual manager to ensure that an individual understands performance standards and objectives – the content of the system will have no bearing on this at all.

17 For example, see Building the High-Performance Workforce, Corporate Leadership Council
Sometimes, changing the focus and adopting the principle of simplicity over complexity is surprisingly effective. At DEFRA, there has been a recent bold move away from a focus on form-filling towards fostering quality conversations about performance between managers and their employees. The thinking behind this quite dramatic change was to take away the administrative burden for managers and employees. An overseeing manager keeps a record of the conversations that take place over the course of the year.

HR has been providing some support for managers to have quality conversations with their staff. A simple form is provided for managers to complete with the employee’s name, list of objectives and whether they have been achieved. There is also free-text space for comment on particular achievements. The process is meant to be an ongoing review (including competencies) rather than an annual event. The process is owned by the job holder, and the forms are completed electronically via an Oracle-based system.

This move is designed to put more responsibility into managers’ hands and to empower them to manage effectively the performance of their staff rather than depending on HR for this. Managers are now required to use judgement and discretion, and not rely so much on a set of rules and procedures. This is new for many managers, and HR is trying to foster a culture where it is acknowledged that managers need to start taking the initiative and to not be afraid of making mistakes along the way. The new process sends out a clear message about how HR would like to be perceived; that it is there to enable managers to be better people managers rather than hold their hands and be ‘form police’.

2.1.1 Key messages

- Organisations place too much emphasis on revising and ‘tweaking’ the process – this may be at the expense of other activities that may have more impact.
- The process sends a message to the organisation about what is important and valued.
- The message is often highly complex; that the role of objectives, behaviours, development needs and reward mechanisms are all equally important.

2.2 People management capability – helping managers to get it right

*Whither Performance Management?* also identified the importance of management capability. Although considerable research suggests that line managers are a critical enabler of high performance, this is something that organisations really grapple with. It is relatively simple to design and implement a glossy new online system. However, it is infinitely more difficult to ensure that line managers have the know-how, capability and the will to make performance management work. Why are organisations finding this so difficult?

Our case study organisations were all finding it difficult to improve their managers’ capacity to manage performance effectively. A particular issue for all of the organisations was the lack of consistency in capability. Some managers were managing performance well, delivering fair and accurate feedback and setting goals that motivate. Others were doing much less well. A key skill gap was the ability to deliver feedback in a constructive way and having those ‘difficult’ conversations with underperformers.

Another common issue for our case study organisations was that support and training can sometimes be aimed more at senior managers, with the hope it will cascade and filter down to first-line managers. At first direct,
performance management workshops were run for senior and middle managers, rather than for team leaders, who are less experienced and tend to have a larger span of control. Time pressure is also an issue in call-centre environments. first direct is currently carrying out a review of performance management with a view to addressing these issues.

At Abbey, although workshops were conducted at the time of the new system’s launch with all branch managers, the review of the new system revealed that first-line managers were not receiving the support they needed, perhaps due to HR business partners focusing their attention on the senior management teams. Staff reactions to the new system and its impact on them depended very much on the quality of the line manager.

At Mouchel Parkman, line manager capability is recognised as a key critical success factor. The general view is that capability is improving, but is still variable with some managers doing better than others. Skills training was included in the initial launch and is available in frontline manager training programmes. However, recent feedback from both management and employees suggests that more work needs to be done in this area. The competency frameworks and behavioural aspects of the new system were also causing confusion among managers.

For Suffolk East PCT, the ability of managers to use the new system effectively and to deploy basic performance management skills was also mixed. There was some resistance to the new process, especially among clinicians. Recognising this, the organisation invested in a face-to-face, modular leadership and performance management programme for the top 30 senior managers. This involved four days of workshops, spread over a three-month period, during which individuals were encouraged and supported in applying some of the learning in their day-to-day responsibilities. Feedback from the programme was very positive. The vast majority of individuals found the programme not only personally developmental, but also demonstrative of an organisational desire to give managers some tangible and practical support in this area. In addition, extra distance-learning support was available on specific subjects, such as better objective-setting, to support the roll-out of the new knowledge and skills framework.

Talking to managers and employees in our case study organisations confirmed that creating effective performance managers across an organisation is a difficult task. However, this difficult task may also be the most important. The Corporate Leadership Council research showed that the provision of accurate and fair feedback was the single most important driver of performance. So, how are organisations responding to this?

One response to this issue has been for HR practitioners, consultants and even academics to come up with a mind-boggling array of competencies that managers need to be good at. The area of competencies and capability has become overwhelming. We found in our case studies that behavioural aspects of the process are often given less priority and are confusing for managers. There is clearly a need for a simple (rather than simplistic) approach.

As we suggested in our preliminary paper, organisations need to identify the core set of behavioural skills that a line manager needs to bring out the best in those around them, and to work on ways of developing these in a consistent way.
Organisations need to provide high-quality and accessible training or coaching interventions to develop these skills. And there needs to be consideration of whether a ‘training’ programme is always going to be the best way to develop the skills and behaviours that managers need to manage performance effectively.

The issue of management capability in performance management also raises the issue of people management in general, and how much of a priority this is in an organisation. Is this seen as too hard, too? Do managers really accept how critical it is for them to achieve results through other people, rather than being task-focused? Performance management is not an addition to their day job, it is their day job.

2.2.1 Key messages
- Organisations find it difficult to ensure consistent implementation of performance management.
- The capacity to deliver performance management relies on identifying and developing the core people-management skills.
- Performance management training tends to focus on the process.
- The emphasis needs to shift to helping managers change behaviour, rather than helping them to be ‘process’ experts.

2.3 Motivation – the forgotten element
Effective performance management can be a way of motivating employees to go the extra mile. However, as we pointed out in the first paper, the issue of motivation seems to be misunderstood and underused by organisations. Locke and Latham’s work on goal-setting and motivation is some of the most robust research in the area of behavioural science. It shows how performance management really does have the potential to be an instrument of motivation rather than control. However, there is often little thinking and discussion in organisations around how goals can be set to maximise motivation and so increase the discretionary performance of employees.

The AMO model of motivation proposes that performance is a function of ability, motivation and opportunity. If we think about performance management in this way, then for any PM system to increase performance, all three elements need to be considered. PM systems themselves can only have a limited impact on the ability of individuals or on providing opportunities to perform. Nevertheless, these systems can have a significant impact on motivation.

In our case study organisations, there was a notable lack of discussion about the link between performance management and motivation. The core purpose of the systems was not solely to increase motivation. At Suffolk East PCT, there was a focus on personal development plans and learning activities as outcomes of the performance management process. However, improved motivation was not cited as the key purpose of the process. In fact, some feedback has revealed that the excessive bureaucracy involved in the new system can be demotivating. The potential added-value of motivation as an outcome is simply not recognised. Another interesting issue at Suffolk East PCT is the shift of emphasis from developing and nurturing staff to a stronger focus on performance, and development activities needing to be linked to organisational goals. This means that there is a more urgent need for performance management to provide a motivating rather than demotivating influence.

At Mouchel Parkman, increased motivation was not a key driver behind the design of the new system. The system

19 Purcell J, Kinnie N, Hutchinson S, Rayton B and Swart J, Understanding the People and Performance Link: Unlocking the black box, CIPD, 2003
was part of a new HR strategy designed to underpin the growth of the company, and was needed for the recently-merged company. At the heart of the design phase was the objective to move the focus away from the appraisal form and documentation, and instead emphasise the value of ‘quality conversations’ between manager and employee. Increased capability, motivation and achievement were the intended process outcomes, but it was not specified clearly how the changes to the process were to achieve increased motivation. The goal-setting process appeared to be more about creating better alignment with corporate objectives than with unlocking extra effort.

Although First Direct has carried out some recent work on employee engagement, at this stage there are few links between PM and motivation, and how the process of goal-setting can motivate people. However, very clear communication and the cascading down the organisation of company-wide targets appears to be motivating for call-centre staff. They see how what they are doing in the call centre affects the company’s bottom line, and what they need to do to help the company attain its goals and for individuals to receive their bonus.

At DEFRA, the reference to motivation is more implicit. Its focus is on getting managers to take responsibility for performance management, and to make clear the new role for HR as enablers rather than hand-holders. The emphasis is more on empowerment than motivation. And at Abbey in 2004, the new system was more explicitly about accountability and control than motivation, with a new focus on behaviours as well as job-related objectives. Zambon Group focused mainly on process objectivity and transparency, rather than considering the organisational benefits of increased staff motivation.

The case study research demonstrates that organisations need to be having conversations about the role of performance management in improving employee motivation. They should be drawing on research about effective goal-setting and incorporating this into what managers and employees do.

Organisations also need to ensure that managers really are engaged in the PM process and believe that it is all worth the effort, rather than something they have to do to keep HR happy and ensure that their employees receive their bonus. Often, managers and employees are disenchanted with performance management, having seen many systems come and go, and not seeing any of them really deliver. They can often collude to go through the motions without adding any real value. So, not only do managers need to be upskilled, they also need to be convinced that it will be effective in raising performance and helping them to achieve as managers so they can be advocates rather than ‘apologists’ of the system.

Vroom’s expectancy theory of motivation states that for people to be motivated and to want to put in discretionary effort or go the extra mile, individuals must believe that doing something (ie effective performance management) will lead to task success (eg team meeting budget), and that task success will lead to valued personal outcomes (eg a promotion for the manager). To build enthusiasm among managers for performance management, they must also believe that doing so is part of how their contribution is measured, and that doing it well will lead to rewards that they value. There is also the issue of consequences; that managers are rewarded for effective people management, and that there are consequences for managers who do not make people management a priority.
2.3.1 Key messages

• It is easy to lose sight of the role of motivation in performance management.
• The process you use will reveal the assumptions being made in the organisation about the role of motivation on performance.
• Managers need to be advocates of the performance management process.
• The quality of conversations between managers and staff can be a key motivator or demotivator.

2.4 Measurement and links to reward – why is this still an issue?

Decades of research into performance management has looked at the merits of ranking, rating scales, 360-degree feedback and countless other ways of measuring performance. However, this is an area where a great deal of effort is still being expended and where much staff feedback tends to focus. For example, staff can be concerned about a lack of transparency and fairness. Our case study organisations were still working on developing more meaningful measures of individual contribution. There were issues with quantifying the more qualitative measures of performance. And in other organisations, such as first direct, there were questions around finding ways to deal with the enormous amounts of data available to assess some employees. Despite all the research on performance measurement, measurement is another issue that organisations are still finding difficult and constantly ‘tweaking’.

Our case study organisations use a variety of ways to assess performance, from 360-degree feedback on behaviours to synthesising vast amounts of quantitative data. Often, all this information was synthesised into one rating that is intended to represent an individual’s net contribution and which determines their remuneration. This single rating frequently gives the message that an individual’s performance is ‘satisfactory’ or ‘average’ – not overly motivating messages for an employee.

Ratings can also cause confusion when they are used comparatively to rank employees. For example, an individual’s rating (absolute measure) is forced into a distribution where, say, only 10 per cent of individuals can be rated as excellent. Thus, organisations either need to rate individuals or rank them, not try to do both with the same rating. A rating is the most common way of determining reward. For example, with the allocation of bonuses and pay increases. In fact, there is a lack of alternatives that organisations consider when it comes to reward.

Many organisations are grappling with a number of problems when it comes to translating performance ‘scores’ into individual performance-related pay. For example, one fairly common scenario is for an organisation to have a PM process where an individual’s performance against their objectives is assessed in an annual meeting with their immediate boss. This often involves a mix of self-assessment and boss-subordinate assessment. The employee receives a ‘box marking’ or overall rating on a 1–5 scale, where one is ‘exceptional performance’, three is ‘performance at the required standard’ and five is ‘below the expected standard’. The ratings are translated to performance-pay awards, which represents consolidated pay progression up a salary range.

Recently, an organisation using this particular process has become concerned that some managers are artificially ‘inflating’ the ratings they are giving staff to the point where it judges that far too many staff are receiving box 1
or 2 ratings than merited. This is for a combination of reasons:
• Many managers find it hard to confront poor performers or to disappoint those staff who are ‘only’ box 3 performers.
• Managers are using the performance-pay process to compensate the staff they regard as being poorly paid.
• Managers are distorting their ratings to reward those who are most at risk of leaving.

To combat this problem, the organisation issues guidance to managers that provides a set of ‘indicative’ ranges intended to support them as they engage in the performance review process. The guidance suggests that, across the organisation as a whole, the distribution of ratings might look as follows:

<table>
<thead>
<tr>
<th>Box</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>1</td>
<td>10%</td>
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<td>25%</td>
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<td>3</td>
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<td>4</td>
<td>15%</td>
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<tr>
<td>5</td>
<td>10%</td>
</tr>
</tbody>
</table>

The organisation is careful to stress that these indicative ranges are not quotas, nor do they represent any form of ‘forced distribution’.

There are several interesting points about this scenario:
• A number of aspects of managerial behaviour can severely distort the way such rating schemes are used. It is questionable whether tinkering with the mechanics of the scheme without addressing the more deep-seated behavioural issues among managers will make much real difference.
• Rating people against a set of performance objectives is an ‘absolute’ assessment of their contribution. However, using indicative ranges, quotas or forced distribution systems pushes managers to make ‘relative’ assessments of their staff – often as part of a moderation process with other managers that can often resemble crude ‘horse-trading’. Thus, they are really beginning to make ranking decisions (ie placing staff in rank order) to ensure that the score profile in their team or department broadly fits the indicative ranges.
• The consequence of this can be that an individual may score a box 2 when assessed against their objectives, but be given a box 3 rating because there are already ‘too many’ box 2 performers in the team. This can be confusing for everyone and demotivating for those staff who get ‘moderated’ down to a lower rating. Essentially, they can work earnestly towards their objectives all year in the expectation that if they meet or exceed them, then they will be assessed and rewarded appropriately. However, imposing a ranking mechanism means that two people who are equally effective in meeting their objectives can receive different ratings and performance pay.
• Of course, the impulse to curb rating inflation is understandable. For example, rating inflation tends to disadvantage the best performers. Yet, if there is a fixed amount of performance pay to distribute, a greater number of box 1 scores reduces the value of a box 1 pay award.
• However, imposing a de facto quota system is a messy way of dealing with the problem. If an organisation wishes to influence the distribution of performance pay awards then the purest (and most honest) way of doing this is through a transparent ranking process. Several private sector firms and, in the public sector, the senior civil service have adopted this approach.
• None of these solutions score well on equality of opportunity criteria because relative assessment often relies on different (and more subjective) performance criteria than those used to arrive at the absolute scores.
So, an individual may be judged a box 2 performer against their objectives, but lose out to another box 2 performer because their internal reputation or behaviour may be felt to be inferior.

- The real danger of becoming embroiled in the technical debates about rating, ranking and quotas is that it can drain the capacity of performance management to be a powerful vehicle for feedback, motivation and, yes, performance improvement.

For many managers and employees, these characteristics are all too often the most visible manifestation of the performance management process. If performance management is used as no more than a narrow vehicle for the delivery of variable pay, organisations should be prepared for performance management to struggle in the delivery of its wider objectives.

At first direct, for the majority of employees there is plenty of very specific and quantitative information on their performance. Call-centre employees are measured in many different ways. Managers have an enormous challenge in synthesising all this information for one person and distilling it into one rating. This type of data analysis is not always something a call-centre team leader is particularly equipped to do. Also, sometimes this information does not capture as much about the ‘quality’ of the interactions with customers and sometimes there are errors in the data. In fact, in large teams, there is a risk that data replaces really knowing your people. Feedback from the focus groups and interviews suggested that there is a need for data to be used in a more streamlined way, perhaps via the integration of various IT systems.

In other areas of the business such as HR and IT, there is not this amount of quantitative information and more qualitative information is used to derive the rating. In these areas, objective-setting is more difficult. first direct is currently working on improving the way its rating scale differentiates between average and star performers, and rewarding those employees who do really well.

Abbey faces similar challenges, with managers and employees also agreeing a rating that is distilled from the task-related and behavioural aspects of an individual’s performance. The recent review of performance management revealed that ‘what good looks like’ is not widely understood, and the ranking and rating system is sometimes inconsistent. As with first direct, there is a need to distinguish better between high- and low-performers. HR is planning to make some changes to the rating scale and simplify the pro forma.

Suffolk East PCT’s new knowledge and skills framework allows more accurate measurement of key behaviours than previously possible. However, ratings are not used to categorise performance levels. Similarly, Mouchel Parkman’s new competency framework allows measurement of behavioural inputs as well as performance outcomes. However, ratings are used to categorise different performance levels, and it is undertaking new work to assess future potential as well as current performance to aid workforce planning.

Zambon Group has made measurement consistency and accuracy a key focus. New software has been designed to ensure that measurement of an individual’s contribution is consistent, accurate and transparent. The software requires a rationale for decisions in an attempt to counter subjectivity. Steps have been taken to improve the consistency of ratings to control for individual and cultural differences. Also, the system allows more sophisticated aggregation of data to enable analysis of performance data across the organisation.
All of this activity has made it clear to us that organisations are still trying to deal with the issue of measurement and that many don’t really feel they have cracked it. All of this gets ever-more complicated when there are bonuses at stake – more debate and feedback is likely to centre on measurement when money is involved. Is this really the right focus for performance management? Does money really motivate? If so, how? Is it an incentive for future performance or a reward for what has been achieved?

Although sophisticated software may be able to go some way towards improving transparency and subjectivity, the people using these systems are human. People don’t think like a computer and will naturally make subjective judgements not always based on data. If we want people to do things differently, then they must believe that these new things will be reflected in performance and measured. Good, individual metrics need to provide meaningful information about progress towards goal fulfilment and the measure needs to be something that an individual can influence.

2.4.1 Key messages
• Staff tend to focus on the measurement-side of the process – it is what they see.
• Getting the measure or the measurement process wrong is demotivating, while getting it right is not always motivating.
• The opportunities for getting it wrong are many – lack of transparency, management inconsistency, confusion of ratings and rankings.
• Measurement is a hygiene factor – it won’t have the greatest impact.
• Debates about rating, ranking and quotas can drain PM’s capacity to be a powerful vehicle for feedback, motivation and performance improvement.

2.5 The role of HR – taking the lead?
HR’s role in performance management is crucial. They tend to be the people that are in charge of designing and reviewing systems, convincing boards of a new approach, implementing new processes, running workshops for managers and staff, providing advice and support materials to staff and managers, and ensuring there is compliance with the system. However, they cannot be at every appraisal discussion; they can’t ensure that managers and employees have ‘quality’ conversations; and they have a limited ability to improve the capability and engagement of managers in managing performance.

Often, HR takes a more subservient approach, aiming to keep everyone happy by constantly tweaking the system and process according to staff feedback and senior management direction. It is less common for HR to adopt the role of leader rather than follower, and draw on expert knowledge of what works and what doesn’t according to experience and empirical research, then challenge and educate those around them. HR often has a process rather than strategic focus; it is there to make it all ‘work’ and is further hamstrung by the fact that the organisation often wants a performance management system to perform miracles, for example to create a new culture.

The role of HR varied in our case study organisations. At first direct, HR has a primarily strategic function. Operational HR has been outsourced to HSBC. HR’s role in performance management has historically been to provide tools, support and advice for managers, but it does not ensure compliance or collect performance data centrally. Each manager has the autonomy to choose the approach that suits him or her best. However, each manager must submit a rating for each employee. This is the only information collected centrally. HR business partners are the interface between the business and HR,
and they are very responsive to the needs of the business. Changes to performance management are often driven by staff feedback and also by direction from HSBC; the new behaviours being introduced have come from the parent company. There is little room for HR to really take the lead and come up with an approach that draws on research about what works. However, there is some opportunity to adapt the approach to the needs of the first direct business.

DEFRA has used its new PM system to communicate a strong message about how it would like HR to be perceived. The new ‘one-pager’ process is designed to empower and enable managers to take on the task of managing performance, rather than leaving it up to HR to sort out. There has been an increase in the level of professional expertise in the HR function in a drive to become less like a personnel department and more like a strategic HR function. Time will tell whether managers have been able to manage performance effectively on their own.

At the time of its changes to performance management in 2004, HR at Abbey was in a state of massive change and the impetus to address performance was the bank’s financial position; it was a top-driven approach. Despite this, HR was given the space to come up with a new system and present it to the board. HR considered relevant research in the area of performance management and drew on this to design the new system around behaviours as well as tasks. At this time, there was little opportunity to consult with staff about what would work best for them. So, now a year on there has been work to obtain staff views on the system. Resources have been allocated to make changes to the system and these are being led by the review findings.

At Zambon Group, the HR function was charged with using PM to deliver alignment between company strategy and the business operations. Senior management was to be able to measure productivity at both the company-wide and individual level. The task was also to come up with a process that was less time-consuming and subjective. Standardisation and quality assurance were key objectives.

HR at Suffolk East PCT had a key role in launching and educating managers and staff about the knowledge and skills framework and performance development processes. It emphasises line management ownership of the process and there is resource for HR involvement in particularly difficult situations. However, these frameworks were centrally designed for the PCTs and staff at Suffolk were not involved in the design process. HR at Suffolk East PCT is more strategic and HR is part of the executive team. The climate of major change for the PCT and significant financial pressures means that embedding a new system is going to be difficult as HR will be primarily engaged in a change-management exercise.

The role of HR at Mouchel Parkman has changed from being primarily administrative to a more facilitative and enabling position in influencing management to adopt a more commercial approach to performance management. The new process drew on best practice and incorporated behavioural outcomes as well as results from 360-degree feedback. It is now concentrating on joining-up new competency frameworks with other core HR processes, such as leadership development and recruitment. Changes to the new system are being driven largely by findings from staff consultation.

The challenge for all these HR teams is to become challenging thought-leaders in their organisation who
can draw on current theory and research evidence to improve performance management and deal with some of the big issues, rather than being caught up in time-consuming ‘tweaks’ to the process.

2.5.1 Key messages
- HR is seen as a guardian of the process rather than as a thought-leader.
- Emphasis and effort is often given to compliance rather than quality.

2.6 Learning organisations – is performance management making a difference?

What is often astonishing when one examines how organisations approach performance management is the lack of reflection on whether performance management is making a difference. There is almost an unthinking acceptance that performance management works and has some kind of impact on the bottom line. When we asked managers and employees in our case studies whether they thought case studies were a good idea, they were unanimous in their agreement that they were. Intuitively, the idea of measuring performance and setting objectives seems like a useful thing to do. A system’s lack of impact is usually blamed on the process or on hapless managers who are not given the skills they need.

There were several good examples in our case study organisations of where organisations undertook an evaluation of a new performance management system and were acting on the results of these evaluations. Abbey has recently completed a comprehensive review of the new performance development process it introduced in 2004. This review was designed to provide an opportunity for staff and managers to have their say about the new system, which they had little say in designing due to the tight timelines in place to get a new system up and running. Over 1,600 employees responded to an online survey and nearly 100 one-to-one interviews were conducted with a broad cross-section of staff. They were asked about a range of aspects of the performance development process, including:
- performance planning and ranking
- setting and reviewing objectives
- developing performance
- using the online system
- the links to reward.

A key finding of the performance development (PD) review process was that the impact on staff depended largely on the quality of the line manager. Line managers were found to be lacking in the support they needed to manage performance effectively. They also experienced difficulty in setting objectives and confusion about the link between reward and performance. There were also some technical issues with the online system.

As a result of the review, changes to the use of behaviours are being discussed, with employees wanting more say in what the behaviours are rather than choosing from a template. The online system is also under review, with sales staff finding it impractical. Changes to the rating scale are also being discussed.

Abbey has also examined its migration data and has been able to demonstrate that Abbey is on the way to developing a high-performance organisation. Close to 25 per cent of those individuals who scored in the bottom 10 per cent at the half-year in 2004 had left the company by December 2004. Poor performers are actively being managed out; 48 per cent of leavers in the first half of the year were poor performers.
Mouchel Parkman also carried out a post-launch review, providing evidence of a desire to learn from experience, adapt and refine the new approach. It involved line managers and key opinion-formers from around the group. The main thrust of the learning from this was that most managers welcomed the new approach, and in particular the closer alignment with organisational priorities and business-planning processes. In terms of further improvement, the main issue was a desire for a simpler approach to competencies and how they were described, and more help for managers in acquiring some of the core skills needed to support a ‘performance through people’ approach.

Zambon Group plans to carry out a comprehensive review of its software-driven method via surveys of managers and employees, and interviews with HR and senior management. First direct is currently carrying out a review of its performance management system, as well as the links to reward and engagement. DEFRA is planning to measure the success of its ‘one-page form’ approach over the next year. Unfortunately, the pace and uncertainty of change at Suffolk East PCT is preventing much work being done on the reflection and evaluation of the knowledge and skills framework.

Although most of our case study organisations had or were in the process of evaluating the success of their performance management systems, there is little being done in any of them on the actual link between all the activities of performance management, and increased motivation and performance of staff. Demonstrating causality between HR initiatives and performance and business outcomes is notoriously difficult, and few organisations attempt it. It is just assumed that it works. Organisations need to start to become ‘learning organisations’, and value their own experience in what has worked before and what hasn’t. They also need to ask why initiatives have succeeded or failed. There needs to be a consideration of the wealth of empirical and theoretical studies out there, used both to challenge the status quo and to determine the most rigorous way of evaluating what has been implemented. HR people need to lift their eyes from day-to-day implementation and give themselves time to read and discuss the latest research. Just asking people whether they ‘like’ the system is not good enough. More organisations need to be looking at whether there is an impact on the bottom line and whether these systems are in fact making a difference.

2.6.1 Key messages
- There is an assumption that performance management has a positive impact on the bottom line.
- Collecting data to check this assumption is rare, so the link between individual performance (or aspects of it) and organisational outcomes is unclear.
- Reviews of how performance management is working need to go deeper than what managers and staff like – although the barriers they identify need to be addressed.

2.7 Clarity and culture – core purpose and the role of culture
Organisations expect a lot from performance management. It can be seen as a way of ensuring more accountability, fostering the development of employees, raising the bar on performance and even changing the culture of the organisation. Performance management can also be used as a vehicle for the delivery of a business strategy. But, is performance management up to the task? Do organisations really know why they have invested so much time and money into performance management?
And are they taking into account how all of this will happen in the current organisational context?

Performance management cannot be implemented or exist in isolation of an organisation’s culture. However, sometimes it is used as a significant element of a programme. DEFRA has tried to use performance management as a way of creating a culture where people feel empowered to take action. DEFRA is known for its tendency towards ‘ready, aim, don’t fire’ rather than ‘ready, aim, fire’, and this may have implications for it being able to deliver continued environmental leadership and to put sustainable development into practice in the UK. If managers felt confident and enabled to take responsibility and ownership for people management, then it is assumed that this would naturally filter to other areas and help the organisation to deliver on its objectives.

To this end, there has been a bold move away from a focus on form-filling, monitoring and hand-holding from HR towards a focus on fostering quality conversations between manager and employee, with the process owned by them both. HR is providing support to managers to help them have ‘quality’ conversations with their staff. The move is designed to put more responsibility into the hands of managers. HR is trying to foster a culture where people take the initiative and are not afraid of making mistakes. This is a big shift in culture and it remains to be seen whether the new approach to performance will achieve this change. Nevertheless, the purpose of the new system is very clear.

In 2003, Abbey faced considerable challenges and there was an urgent need to create a performance culture that would help improve the bank’s poor performance. A new performance management system was seen as a means of improving the way performance was managed and to raise the bar at Abbey. At this point, morale was low and performance management was almost non-existent. Poor performers were not dealt with or managed out; top performers were not rewarded and there was no clear link between performance and reward. HR was tasked with designing a new system that could create a more high-performing culture.

Twelve months on, a review of the new PD process revealed some big changes in how performance was managed. Poor performers were moving on, and the link between effort and reward was now much more transparent. There has undoubtedly been a shift in culture. How much of this shift is down to the performance management system is unclear. This PM system was being implemented alongside a whole raft of other initiatives – non-profitable parts of the business were sold, the brand re-launched and a change in key personnel to drive through this change.

With some evaluation of the new system being carried out, it is less clear now what the purpose of performance management is. Is it to sustain the high-performance culture? Will it be to assist in delivering the new business strategy following the group’s sale to Banco Santander? Is it to embed a new set of Banco Santander values? These are issues that Abbey confronts over the next few months.

first direct’s key focus has always been its people. It has always been clear about how PM can be used to help people perform better and deliver more value to customers, and for first direct to achieve its goal of being the best at personal banking and second-to-none as a place to work. The organisation’s informal culture aligns well with the more advisory role that HR takes in relation
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to performance management. However, at present the real purpose of the performance management system is to provide a rating that can help rewards to be allocated, rather than focusing on the development of its people.

Zambon Group faced the challenge of ensuring that its strategic objectives were not compromised by management subjectivity and personal agendas. Poor performance management was seen to be high risk in the competitive pharmaceuticals sector, and had the potential to compromise internal controls and procedures, which are subject to increasing levels of regulatory scrutiny (eg Sarbanes-Oxley 404 and organisations such as the US Food and Drug Administration). In this context of regulation, ensuring consistency, fairness and accuracy, and reducing the time spent on performance appraisal were thought to be vital ways of helping the organisation to achieve its objectives. However, this was not aimed at changing the culture other than reinforcing a culture of compliance and uniformity.

At Suffolk East PCT, the focus has been clearly on developing employee skills and knowledge – performance outcomes have traditionally been secondary. This is an accurate reflection of the prevailing and historical culture. This culture is going to prove a huge barrier to the urgent need to raise standards and financial accountability in clinical and healthcare performance, particularly in an environment of massive change.

Mouchel Parkman’s new process is primarily oriented around improving performance outcomes rather than the better allocation of rewards. This aligns well with a business strategy that is focused on growth, either organically or through acquisition.

Organisational culture and climate can be make-or-break for performance management. For example, where there is little opportunity for individuals and the organisation to express a voice or where individuals have little autonomy over their jobs, it may be very difficult for effective and useful performance management conversations to take place between managers and their employees.

2.7.1 Key messages

• Performance management reflects the organisational culture and context.
• When the performance management system is not delivering, it is likely to be reflecting a deeper issue such as lack of organisational agreement about clarity of purpose, priorities or standards, or a mismatch between espoused values and actual behaviours.
• Aligning the performance management process with the direction of any desired organisational change is essential.
• It can support organisational change but not be the only, or main driver of it.

2.8 One size does not fit all...
The variety of approaches taken by our case study organisations shows that when it comes to performance management, one size does not fit all. Performance management can be used to achieve a range of aims. It is important for organisations consciously to adopt whatever aim suits the culture and its business strategy. It is also important not to expect performance management to be a panacea for all kinds of organisational ailments.

Organisations need to be clear about the purpose of PM. A framework for thinking about this is represented in Figure 2 overleaf. Each side of the triangle represents a
potential purpose for performance management; to:
• manage the allocation of rewards to individuals
• develop and support employees
• develop a culture of high performance.

Organisations should consider where on the triangle they would locate the purpose of their PM system, and assess how the system needs to be designed and implemented to achieve this objective. We have plotted where we think the case study organisations should be placed on the triangle in terms of what the current purpose of performance management is. This can be different to the original purpose. For Abbey and first direct, the system’s purpose was to drive high performance. However, the reality is that the system’s purpose is primarily to allocate rewards rather than foster learning and development, or to really motivate employees towards high performance.

There are implications for an organisation from focusing only on one side of the triangle. For example, if the desired focus is all about driving up performance with strong financial links and incentives, then this may signal very short-term, task-oriented activity. Learning and development activity and longer-term career development conversations may disappear in the context of a focus on short-term objectives.

There are also implications for an organisation attempting to balance all three sides of the triangle – performance management can sink under the weight of expectation and jeopardise delivery of any of them. The more objectives an organisation has for its performance review process, the less successful it will be in delivering any of them. In the civil service, the Makinson Review all but confirms this view when it recognises the need to separate performance review and performance rewards. A serious consequence of ‘overloading’ can be that staff faith in either the procedural or distributive justice of performance review can be severely (or terminally) undermined. This can result in the worst of both worlds: a time-consuming, costly and cumbersome performance review process that actually reduces employee motivation to perform.

Figure 2 Clarity of purpose framework

Figure 3 below shows how the seven critical elements can be represented according to the ease of implementation and the added value to the organisation. We can see that process is easy to change, but has less impact and value-added, whereas line capability is hard to improve, but can add a great deal of value.

Figure 3 Ease of implementation versus value added

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21 Makinson J, Incentives for Change: Rewarding performance in national government networks, Public Services Productivity Panel, 2000
3. Conclusions

This research looked at performance management in a practical and interconnected way. We used case study research to identify the seven critical elements of performance management that organisations need to consider when thinking about performance management and provided some examples of how other organisations have achieved these.

This has raised some key questions that organisations need to ask when thinking about performance management, including:

- Is putting effort into the process worth it?
- To what extent does everyone understand what is expected of him or her individually and how this will be assessed?
- What are the handful of core skills and behaviours that managers need really to drive individual contribution?
- What data do we have regarding how good they are at these now and what are we doing to help them improve?
- What do we know about the extent to which our PM system motivates or demotivates those who use it? What can we do to change this?
- How effective are our performance metrics in isolating and assessing individual achievements and contributions?
- What value is our overall PM system adding to the core goals of the business, and does this return justify the investment of time and money?
- What have we learnt from our experience, the experience of others and from the world of theory and empirical research regarding how to get the best out of PM?
- Do our aspirations for PM fit with the prevailing culture of the organisation and, if not, what else needs to happen to ensure its success?
- Is HR taking the lead on performance management?
- Are they challenging the status quo and popular opinion?
- Are we clear about what our system is for?

3.1 An untapped resource – the hidden power of performance management

Performance management has the potential to improve the performance of organisations and act as a lever to achieve cultural change. A focus on performance can bring real rewards for organisations. Performance management can be the key space or mechanism for dialogue in an organisation. An organisation's choice of where to focus its attention in relation to performance management may in part determine its future and can certainly guide its culture.

There is also opportunity for performance management to help drive through organisational change. Instead of being a tactical initiative, perhaps performance management has a more strategic role to play. The challenge is for performance management to retain a strategic role rather than tending towards tactical activities, such as the process. Performance management can provide a new way of looking at performance and help to embed new behaviours and facilitate the move to a culture that is both more open and more focused on the achievement of new outputs.

But, where in the change process should performance management be located? Lewin’s three-step model specifies that successful change involves three steps:
1. unfreezing to the present level
2. moving to the new level
3. refreezing the new level.22

‘Unfreezing’ usually involves reducing those forces maintaining the organisation’s behaviour at its present

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level. The essence of this step is convincing everyone of the need for change. ‘Moving’ involves acting on the results of the first step – including developing new behaviours, values and attitudes through changes in organisational structures and processes. ‘Refreezing’ seeks to stabilise the organisation at a new state of equilibrium in order to ensure that the new ways of working are relatively safe from regression. It is frequently achieved through the use of supporting mechanisms that reinforce the new ways of working.

As Figure 4 illustrates, performance management could be used as a potential ‘defroster’ to challenge current behaviours and to signal the unfreeze. Or, it could be used to embed a new change paradigm in the refreezing phase.

3.2 Next steps
Until organisations consider and discuss the questions we have raised in this report, there is every chance that performance management will remain ‘the holy grail’.

There is a role for more collaboration and collegiate discussion both in and between organisations.

There is also a need for research that explores these seven elements further and tests them in a more data-driven way, perhaps through a survey of a large number of organisations. This could lead to the development of diagnostic tools that organisations could use to assess their own approach to performance management. This could provide organisations with valuable guidance on how to ensure their performance management system is truly effective.

What we need is a revolution in thinking and a determination to deal with the difficult issues and the root causes, rather than continually tweaking and applying ‘elegant bureaucracy’.

Figure 4: Lewin’s three-step model

Unfreezing the present level  Moving to the new level  Refreezing the new level
Between June and September 2005, we carried out six organisational case studies, including:

- Abbey Group – a major banking institution
- first direct – a telephone and internet bank
- Department for Environment, Food and Rural Affairs (DEFRA)
- Suffolk East Primary Care Trust (Suffolk East PCT)
- Mouchel Parkman – a professional support services consultancy
- Zambon Group – an Italian pharmaceutical company.

For the majority of the organisations, the case studies involved:

- an interview with a senior manager
- an interview with a senior member of HR
- a focus group with a group of managers
- a focus group with a group of employees.

These elements were typically completed at the organisation over the course of one day. For Abbey and DEFRA, it was not possible to conduct focus groups with employees and managers. Instead, we conducted an in-depth interview with key members of the HR team.

The interviews were based around a set of semi-structured questions, and were 1–2 hours in duration. The focus groups were 1.5–2 hours duration, and involved participants discussing a series of open-ended questions. We used a workbook approach, where participants first wrote down their responses to the questions in their workbook individually, then discussed their responses with the larger group.
CASE STUDY 1: DEFRA

Background
DEFRA was created in 2001, as a joint effort between the Ministry of Agriculture, Fisheries and Food, the Department of Environment, Transport and the Regions, and the Home Office. It employs approximately 6,000 people to protect the 'essentials of life in the UK': air, land, water and food.

Since 2001, DEFRA has:
• established long-term targets and measures for reducing carbon emissions
• delivered real benefits to rural communities through providing access to local services and transport
• completed work to reform the Common Agricultural Policy – allowing DEFRA to secure a new future in farming.

Over the next five years, DEFRA aims to demonstrate continued environmental leadership and to put sustainable development into practice. To help deliver this strategy in an organisation that continues to be in a state of flux, DEFRA has recognised the need for best practice in people management.

A key change has been the increased professional HR expertise in the HR function. Much of this expertise has been sourced from other organisations; not many senior managers at the top of the organisation have a background with the previous Ministry of Agriculture, Fisheries and Food.

A key focus over the next five years will be to develop a leaner corporate function – leaving a core policy unit of 2,000 to 3,000 staff. Many clerical and back-office jobs will no longer exist or be transferred into agencies.

HR has changed from being a traditional ‘personnel department’ that applied rules and encouraged managers to be dependent on HR to ‘sort things out’ to a function that is intending to be more efficient and asking managers to take on more accountability for the management of their people.

The HR function still faces some major challenges. The culture is still in a state of change and there is little workforce planning. A recent staff survey highlighted that poor performance was not being tackled effectively and good performance not being recognised. This was clearly not aligned with the recent government focus on better regulation coming from Gershon’s review of efficiency. The old PM system and processes did not measure up to even the most basic regulation principles.

Better performance management is also seen to be a way of creating a new culture where action is taken, rather than the previous DEFRA stance of ‘ready, aim and not firing’. This culture needed to be one where managers felt empowered to take responsibility for people management.

Managing performance: a focus on quality conversations
To this end, there has been a recent bold move away from a focus on form-filling towards fostering quality conversations about performance between managers and their employees. The thinking behind this quite dramatic change was to take away the administrative burden for managers and their employees. A record of the conversations that take place over the course of the year is still kept and checked by an overseeing manager. HR has been providing some support for managers to have quality conversations with their staff. A simple form is provided for managers to complete with the employee’s
name, list of objectives and whether they have been achieved. There is also space for free text to comment on any particular achievements. The process is meant to be an ongoing review (including competencies) rather than an annual event. The process is owned by the job holder and the forms are completed electronically via an Oracle-based system.

This move is designed to put more autonomy into the hands of managers and to empower them to manage the performance of their staff effectively rather than relying on HR for this. Aligned with this is the decision to allocate funds to managers to distribute among their staff to reward individuals or teams who have done particularly well on a project. Managers are now required to use judgement and discretion, and not rely so much on a set of rules and procedures. This is new for many managers, and HR is trying to foster a culture where it is acknowledged that managers need to start taking the initiative and to not be afraid of making mistakes in the process.

**Measuring performance at DEFRA**

A ‘golden thread’ idea attempts to cascade the goals of departmental business plans down into public service agreement targets and then into an individual’s objectives. The setting of individual objectives for employees is also intended to be informed by efficiency targets for their team or division. However, in practice the application of this ‘golden thread’ concept is often erratic. There is also a need to set more measurable targets.

**Line management capability – progress so far**

The focus on quality conversations requires considerable people skills from managers. So far, managers have been provided with training in generic people-management skills such as delivering feedback effectively and setting objectives. Some managers are taking the opportunity to raise their own self-awareness through the use of 360-degree feedback. However, managers are still finding it difficult to deliver negative feedback effectively.

Staff were informed about the new process via information that was distributed then supported locally. There were fewer face-to-face briefings and workshops, with more of a focus on written information, articles in internal journals and office notices.

**Measuring success of the new approach**

A key measure of the success of the new approach is the number of performance management conversations that occur during the year, rather than being an annual event. As this information will be collected via Oracle software, HR will be able to compile a quantitative measure of completed forms, and the frequency and quality of conversations that have taken place. HR plans to identify areas of best practice and flag these to the rest of the organisation. A key challenge is to change the mindset that the performance management process is not about keeping HR happy, but ensuring that team, divisional and departmental targets are met. The new process sends out a clear message about the way HR would like to be perceived; that it is there to enable managers to be better people managers rather than to hold their hands and be ‘form police’.
CASE STUDY 2: FIRST DIRECT

Background

First Direct recently celebrated its 16th birthday. When it was launched in 1989, it created a revolutionary banking service – a bank designed around the customer with branchless telephone, internet and text message banking. Since 1989, a key focus for First Direct has been people, both its 1.2 million customers across the UK and its employees. There is a belief that a focus on people will lead to better service, more customer recommendations and more customers. As a business, First Direct’s mission is simple: to be the best at personal banking by offering a convenient, hassle-free, telephone and internet bank. First Direct’s values of openness, respect, contribution, responsiveness, right first time and Kaizen (better and better) have been in place and infused the company culture since day one.

First Direct is a division of HSBC Bank plc and employs 3,400 people at its sites in Leeds and Hamilton (near Glasgow). Close to 70 per cent of the employees are female. First Direct’s people are recruited for their natural communication skills, and are empowered and encouraged to make every contact with customers enjoyable and rewarding. The goal is to make First Direct second-to-none as a place to work.

The culture of the organisation is informal. Everyone works in open-plan offices, there is a casual dress policy and people are put first. There is a host of life sorting onsite services to make life easier for the employees such as a concierge service, laundry and ironing service, and MOT testing just to name a few. First Direct is unique in terms of how embedded the values are. There is definitely a ‘first direct’ type of person – these people tend to stay on at the organisation for many years. A significant amount of work is currently being done on employee engagement, with employees seconded out of the business to work on this.

There have been significant attempts to develop a clear line of sight between the objectives of the organisation and how this relates to each individual employee. The CEO, Richard Kimber, holds sessions with employees each year to look back at the previous year and to communicate the plans for the coming year. There are also other opportunities to communicate with employees and for employees to discuss their views, such as the People Forum and the Stourton Chat Shop. The line of sight is clearer for customer-facing roles compared to HR and support services due to the financial nature of the organisation’s targets.

HR focuses mainly on strategic and policy issues; operational HR has been outsourced to HSBC. Specialist advice from HSBC is available for managers. There are business partners for both the customer facing and support functions.

Performance management at First Direct

In the early days, First Direct experienced huge growth and there was little time to develop a formal system of performance management. A first step was to introduce a job evaluation system that included behaviours and skills. Focus groups with managers and employees (people) informed the selection of these behaviours.

These behaviours then informed a framework for the performance management system. The behaviours were adjusted for different skill levels depending on the type of job, then people were measured against these behaviours.
The first iteration of the performance management system was ambitious in its scope. The annual performance review involved using job evaluation to determine how well people demonstrated the requisite behaviours. Objectives were set based on how the person measured up to the behaviours and skills required, and how this related to what the job required. As part of the annual performance review, there was also a discussion around career development to determine whether a change in behaviour and skills was required. A rating for each employee was decided at the end of each session and this rating determined the bonus an employee would receive. The manager and employee file the paper form, and no central records are kept by HR, which just records the overall rating.

However, doing all of this in one conversation was very time-consuming and each meeting could take up to three hours to complete. After the initial launch, managers tended to adopt a time-saving approach and just concentrate on whether employees had met their objectives and then allocating them a rating, rather than going through the whole three-hour process. The behaviours and career development discussion tended to be abandoned in the interests of time. The time taken to conduct the appraisals was a particular issue in the call centre where team leaders could have up to 12 subordinates to appraise.

Moreover, in its current form the performance management process does little to address career development issues. At the half-year mark, there is intended to be a career development and training discussion. However, there are fewer opportunities in first direct than there once was, and there is currently not a great amount of movement of employees between first direct and HSBC.

There was also the challenge of creating a framework that would suit all employees – from call-centre representatives to IT specialists and the HR team itself. In the call centre, there are many complex and quantitative ways to measure performance. Yet, in support areas such as marketing, IT and finance there is very little quantitative information and judgements about performance are more qualitative. In these areas, setting objectives is more difficult. There is also a challenge in customer-facing areas to synthesise effectively the huge amounts of data that are produced for each representative.

**Relationship between performance and reward**
The bonus scheme is linked to performance, and the manager and employee agree a personal performance factor (PPF) during the annual performance review. Each person is rated from zero to two on a 20-point scale. A score of one indicates that an individual is meeting objectives. Any individual who receives a score above zero receives a bonus. The PPF is fed into a series of calculations that take into account salary and overall organisational performance. The overall organisational performance scores are made up of both HSBC and first direct performance.

**Management capability – managing performance effectively**
Performance management workshops have been conducted for middle and senior managers in customer-facing areas. However, team leaders and managers in other parts of the business have not received this training. There are people management courses available on the intranet, and many managers talk with other managers and colleagues about the difficulties they face. Employee experience of performance management tends to rely heavily on the quality of the individual manager. As
with any organisation, managers struggle to find time to conduct the performance appraisals and make performance management discussions a priority when urgent operational issues arise.

A challenge at present for first direct is for managers to manage performance effectively across their whole team. Often, it is the poor performers who receive the most management attention and time, with the average and top performers left to their own devices. As there is a strong focus on development and coaching people to be their best, there has been a tendency for a ‘soft’ performance culture to develop, and for everyone to be friendly and nice with each other. There is an environment of support, assistance and ‘comfort’ for employees. Managers find it hard to confront poor performance and to have ‘tough’ conversations with their employees.

However, there are managers who are having honest conversations with their employees, have a genuine desire to develop the individual and are willing to lose their high performers to another area if this is best for the business. Many managers are meeting with their employees regularly to check on their performance and progress, and to provide feedback and acknowledgement. They provide regular updates and recognise the achievements of individuals, the team and the department, and treat their team as adults.

As part of the case study, we conducted focus groups with managers and employees. Many of them were overwhelmingly positive about working for first direct. A typical comment was: ‘I feel very positive about working at first direct. My manager treats me like an adult and as such I feel valued by the company.’ It seems that the quality of the manager is paramount to how people feel about working at first direct.

The future of performance management at first direct

Recently, there has been a renewed focus on behaviours because first direct has now adopted a set of behaviours from HSBC for both managers and employees. These have been introduced to employees via managers and team leaders. Information and resources have also been uploaded to the intranet for employees to access. HR is currently working on embedding these capabilities. They face the challenge of generating enthusiasm for these behaviours among managers and employees so that they can be incorporated into performance management discussions again.

There is also going to be a revision of the first direct values to ensure that they suit where the bank is at, 16 years after it first opened for business. There has been some feedback from employees that the value of ‘get it right first time’ can lead to an unhealthy focus on not making mistakes, rather than learning from mistakes. This work is ongoing.

There is also work being done to improve the bonus scheme (Project Bounty) in an attempt to reward the people performing really well. As an individual’s bonus is currently determined by both organisational performance and their PPF, if the organisation does well as a whole, most people get a bonus. Also, it is rare for people to receive a score of zero. Most people are grouped around the average – a score of 1.8 or 1.7 is rarely given. So, there is little incentive for some employees to perform really highly. There has also been work done in an attempt to make sales roles more desirable and to reward sales people, without creating a two-tier organisation of sales versus non-sales employees.
CASE STUDY 3: MOUCHEL PARKMAN PLC

Background
Mouchel Parkman was formed following the merger of two smaller consulting groups in 2003. It is a professional support services group that aims to help clients in the public sector and regulated industry provide better everyday services to customers and communities. It achieves this by improving client strategy, services, people and asset management through the provision of professional commercial and technical expertise.

Mouchel Parkman operates in the following markets:
- **Highways**: Managing, maintaining and improving thousands of miles of strategic (motorways) and local road networks.
- **Property**: Managing public buildings on behalf of local authorities and public agencies.
- **Education**: Working in partnership with government, schools, local authorities and public agencies to improve education services.
- **Gas**: Delivering an efficient and affordable supply of gas to homes and businesses.
- **Rail**: Improving and maintaining rail infrastructure.
- **Housing**: Long-term managed services, strategic planning, project management and day-to-day management in support of local authority housing departments.
- **Water**: Providing strategic, operational and management expertise to the water industry.
- **Waste**: Creating cost-efficient and environmentally responsible strategies to improve waste-management infrastructure.

Listed on the London Stock Exchange, the company aims to:
- double turnover to more than £500 million by 2007
- increase profit margins for the group to 8 per cent
- be a FTSE 350 company by 2007.

These goals are to be achieved through a strategy that deploys consultancy services to develop relationships with clients, leading to the acquisition and retention of long-term managed service contracts. Such contracts are important to the company as a source of regular work and make up about two-thirds of the business. Consultancy contracts tend to be short-term, but are higher value in nature.

The highways, rail, property and water markets are the core sectors where long-term managed service contracts are already in place. Education, gas, housing and waste are regarded as ‘incubators’ with the potential to develop into more profitable core markets. The vast majority of current turnover is generated in the UK.

The company employs approximately 5,500 mainly white-collar staff. This number will need to increase to at least 7,500 by 2007 if the company is to achieve its financial objectives. This growth will be facilitated through a combination of transfers from clients/others, acquisitions, recruitment campaigns, partnering initiatives and the development of existing talent.

A new performance management process
The company appointed a new HR director, Ruth Mundy, in September 2004 shortly after the merger, inheriting an HR function that was well organised in terms of its process and systems, and that was operationally rather than strategically focused. Performance management processes were in place across the organisation, but the emphasis was more on administration and task completion than on improving capability and achievement.
As part of an HR strategy designed to underpin the growth of the company into a FTSE 350 business by 2007, a new performance management process was needed for the newly merged company. Following the completion of a desktop review, line managers were involved in shaping how the new approach would work. As well as giving a more commercial orientation, this also ensured that senior business managers were more inclined to own and stand up behind the new process. At the heart of the design phase was a focus away from the appraisal form and documentation, and instead towards the quality of performance conversations between two people.

The new process emphasised behavioural outcomes as well as results. There are two prescribed reviews during each performance year – one of which is achievement against objectives oriented towards performance, the other is a freer discussion about personal and career development. Three hundred and sixty-degree feedback is in place for everyone across the group. Such feedback is used to generate a more meaningful discussion around behaviours and only made anonymous if the donor specifies.

The new process was launched in spring 2005. Members of the executive team hosted ‘Performance Through People’ events across the country, ensuring a high degree of top management visibility and sponsorship. The primary focus of these events was not the new documentation, but the emphasis on the desired outcomes of the new approach – capability, motivation and achievement. Cascade material in the form of DVDs and management guides were provided to ensure that the key messages could reach beyond those able to attend the face-to-face launch events.

Feedback from senior managers from across the company was generally very positive about the new approach. In particular, the:

• greater onus on the individual to take more ownership of their own development
• introduction of performance ratings
• use of 360-degree input to give another perspective on performance and behaviour
• use of competencies to achieve greater consistency in behavioural measurement
• assessment of individuals against the corporate values
• greater alignment of individual objective-setting with other business planning and budgetary processes
• introduction of moderation meetings at local level with managers collectively reviewing ratings they have given. Ratings can be amended following the meeting, but only by exception; the meeting is purely to ensure consistency and fairness of approach to performance assessment across the organisation.

In terms of constructive criticism, the following themes emerged:

• a desire for more frequent discussions to be enshrined in the formal process
• reducing the number of competencies and simplifying the language that describes them
• a clearer distinction between different competency levels
• some managers reported that the moderation meetings were about enforcing a standard ratings distribution, thereby giving undue influence to anecdotal evidence from those not close to an individual’s performance.

Line management capability
The HR team identifies line management capability as the key critical success factor in determining whether the new process will generate the desired outcomes. While
standards are improving, the main skill gaps are seen as being in the areas of:
• feedback (language and delivery)
• having the difficult discussions
• assessing competence levels accurately and consistently.

Skills training is available in the form of a frontline manager programme and a variety of training/manager toolkit or ‘bite-size’ learning interventions. The team is also keen to make greater use of line management ‘champions’ – opinion-formers in the business skilled in the component parts of good performance management.

Senior manager feedback generally endorses the importance of the capability issue, and identifies the following as being the most challenging aspects of performance management:
• delivering tough messages
• fear of confrontation
• not diluting constructive criticism with empty positives
• finding the time to do it all properly.

There is also a perception among senior managers that more could be done to support managers in this respect, with many managers feeling that they would benefit from further training in these areas.

**Challenges ahead**

In response to this feedback, work is underway to simplify both the number and content of competencies. Once completed, the aim is to join-up other HR processes (eg recruitment and leadership development) using the same simple competency framework.

Getting a better handle on the impact of performance management on bottom-line performance is another development area. Currently, the company tracks basic data such as HIPOs’ (high-potential individuals) retention and the number of 0 per cent pay awards being made through the PM process.

A new 3x3 performance/potential matrix has just been established as part of a talent management and leadership development programme. Improving line managers’ capability in assessing both dimensions of this matrix is another priority for the future.
CASE STUDY 4: SUFFOLK EAST PCT

Background
Primary care in the NHS is the care provided at the first point of contact (e.g., doctors, dentists, opticians, or NHS walk-in centres) for the public with health problems. Primary care trusts (PCTs) are now at the centre of the NHS and receive around 75 per cent of the NHS budget. As local organisations, they are in the best position to understand the needs of the community and to work with local authorities and other agencies to ensure such needs are met. While PCTs nationally (and there are around 300) receive their budgets directly from the Department of Health, their standards and performance are monitored by a smaller number (28) of Strategic Health Authorities.

Within Suffolk, the management teams of three PCTs (Central Suffolk, Ipswich, and Suffolk Coastal) were integrated in 2004 to create a single team able to meet the health needs of East Suffolk more efficiently. The broad aims of the organisations, working together as ‘Suffolk East PCTs’, are to:
- improve the health and wellbeing of the community and to reduce inequalities in health
- integrate and effectively coordinate the development of primary and community services
- commission and provide high-quality, patient-centred services by working in partnership with other public and private bodies, users, carers, and clinicians
- achieve and maintain financial balance as well as meeting national targets in healthcare provision.

The three PCTs serve a total population of nearly 400,000 with approximately 1,300 staff, principally nurses and other healthcare professionals. The merged management team is facing up to a particularly challenging financial situation, and the 2003–04 annual report shows amalgamated year-end losses in excess of £10 million. A demand-led service, free at the point of care makes for an extremely challenging and complex business model. Unlike local government, which can raise additional taxes to increase its income, the health budget is capped at a level that is nationally calculated on the deemed health needs of the local population. If these needs are exceeded (and there is only so much that a PCT can do to influence demand for its services), then efficiencies have to be made elsewhere. With the financial situation having deteriorated further since 2003–04, local management are having to face up to some unpalatable and publicly controversial choices in order to restore financial balance.

The history of performance management
The effectiveness of the PM process has varied significantly across the three trusts. In some areas, there was an established and well-rehearsed link between PCT goals and individual objectives. Relationships between line managers and their staff were well defined, and regular dialogue existed in terms of making sure that individuals were equipped with what they needed to deliver. However, in many other areas this was less evident, with the quality of performance conversations generally being quite poor.

The prevailing culture in the PCTs was historically highly supportive, with a strong emphasis on encouraging and developing employee knowledge and skills. With an insufficient focus on financial discipline and alignment with corporate priorities, this culture gave rise to a lack of personal accountability, increasing financial deficits and a poor return on training and development investment.

The implementation of an austere financial recovery plan has created a number of people management challenges.
Frequent restructuring has led to job insecurity, while the drive to create a greater sense of personal and financial accountability has increased uncertainty and lowered commitment/morale among all levels of staff and management. The performance management system is but one process that has been a casualty of such a challenging cultural context.

The knowledge and skills framework

Performance management in the NHS, or the ‘development review’ process as it is known internally, is being completely re-engineered by the introduction of the knowledge and skills framework (KSF). The KSF is in itself part of Agenda for Change, a major people change programme in the NHS, which has three main strands:

• the KSF and associated development review process (see below)
• job evaluation (creation of a new integrated pay system and compliance with EPEV legislation)
• terms and conditions (harmonisation of working hours, overtime rates and holiday entitlement).

The KSF defines and describes the knowledge and skills that PCT staff need to apply in their work in order to deliver quality services. It provides a single, consistent and explicit framework on which to base the review and development of all staff. The drivers behind its creation and implementation are primarily:

• a need for individuals to be clear about what is expected from them in their role and what development is available to support their ability to deliver
• the facilitation of improved health service delivery through the development of all who work in PCTs and the NHS
• promotion of equality and diversity, with everyone using the same framework, having the same opportunities to learn and develop, and having the same structured approach to performance review and assessment.

An important feature of the KSF is that it is about the application of knowledge and skills – not about the specific knowledge and skills that individuals need to possess. The KSF does not seek to describe what people are like or the particular attributes they have (eg courage, humour etc). Rather, it focuses on how people need to apply their knowledge and skills to meet the demands of work in the NHS. It is therefore behavioural, but only in the sense of what people actually do, rather than in relation to any underlying characteristics that individuals have.

The KSF is made up of 30 dimensions that identify broad functions that are required by the NHS to enable it to provide a good-quality service to the public. Six of these dimensions are core (including communication; personal and people development; health, safety and security; service improvement; quality, equality and diversity) while the remaining 24 are more specific to certain but not all NHS jobs (eg health and wellbeing, estates and facilities). Each dimension has four levels and each level has indicators that describe how knowledge and skills need to be applied at that level. To meet a defined level, individuals have to be able to show that they can apply knowledge and skills to meet all of the indicators at that level. An example of how the four levels work alongside the core dimensions and one particular extract of a level and its indicators is set out overleaf.
### Box 1 An example of KSF dimensions and level descriptors

<table>
<thead>
<tr>
<th>DIMENSIONS</th>
<th>LEVEL DESCRIPTORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core</td>
<td>Level 1 indicators</td>
</tr>
<tr>
<td>1. Communication</td>
<td>Communicate with a limited range of people on day-to-day matters</td>
</tr>
<tr>
<td>2. Personal and people development</td>
<td>Contribute to own personal development</td>
</tr>
<tr>
<td></td>
<td>Develop own skills and knowledge, and provide information to others to help their development</td>
</tr>
<tr>
<td></td>
<td>Develop oneself and contribute to the development of others</td>
</tr>
<tr>
<td></td>
<td>Develop oneself and others in areas of practice</td>
</tr>
</tbody>
</table>

### CORE DIMENSION 1: COMMUNICATION

**LEVEL 1: Communicate with a limited range of people on day-to-day matters**

**Indicators**

The worker:

a) communicates with a limited range of people on day-to-day matters in a form that is appropriate to them and the situation

b) reduces barriers to effective communication
c) presents a positive image of her/himself and the service
d) accurately reports and/or records work activities according to organisational procedures
e) communicates information only to those people who have the right and need to know it consistent with legislation, policies and procedures
To make the KSF a useful tool for individual review and development, the dimensions and levels most relevant to the jobholder’s post have to be selected, which is done by creating post outlines that set out the actual requirements in terms of knowledge and skills that need to be applied when that post is being undertaken effectively. In line with good evaluation practice, post outlines reflect the post requirements, not the abilities or preferences of the person employed in that post.

**The KSF and the development review process**

The KSF forms the basis of the development review process, set out below in Figure 5:

*Figure 5 KSF and the development review process*

The emphasis in this process is on the extent to which the individual is applying their knowledge and skills to meet the demands of the post as described in the KSF outline. Compared to many other organisational approaches to PM, therefore, the NHS development review system is oriented more around inputs (skills and knowledge) than outputs (specific targets and performance outcomes).

The development review is linked to pay progression only at two specific points, or gateways, within the pay band for the individual’s post. The first point is the foundation gateway, which takes place after an individual has been on a pay band for a year. During this year, the individual will have at least two review discussions against the full KSF outline for the post. Only if the individual is applying the basic knowledge and skills needed for the post can they pass through the foundation gateway and start to progress up their pay band. The second gateway takes place near the top of a pay band, and is based on the full KSF outline for the post and on all the previous annual development review, and the decisions reached in them. This second gateway ensures that individuals can only progress to the top of their pay band if they are continuing to apply all the knowledge and skills required of them by their KSF outline.

As highlighted by the development process diagram opposite, personal development plans (PDPs) are outcomes of the joint review. Initially, PDPs are intended to focus on enabling individuals to develop the skills and knowledge demanded of them in this post. Over time, probably, but not essentially, after the second gateway review, the emphasis of PDPs is likely to shift towards career development. The KSF therefore should be used to inform both career development planning as well as development in a post. Career progression and development may take place by moving up levels in the same dimension or by adding on different dimensions as individuals move into new areas of work.

Learning and development interventions comprise a mixture of on- and off-the-job activities. In the NHS generally, there is a desire to challenge the historical perception that KSF is simply about attending a set number of hours or courses. Some individuals might find
that they attend fewer courses, but are helped to apply their knowledge and skills more effectively in the workplace. The evaluation stage is not intended to be the end of learning and development – it should take the individual member of staff and their reviewer back round the cycle to the start of the development review process. The outcomes of this evaluation form the starting point for the next year’s annual development review and lead into updating the individual’s PDP. This means that each year an individual’s development review builds on previous years’ experience of what has worked in the past.

Benefits of the new KSF and development review process
Replacing myriad approaches to performance assessment and knowledge/skill development with a single, consistent and structured process will enable Suffolk East PCTs, and the wider NHS, to:
- audit the level of skills and knowledge that exist in the organisation using a common framework
- identify skill and knowledge gaps, and plan how to address them more effectively
- organise learning and development activity across staff groups more efficiently
- improve the quality of recruitment and selection processes by being clearer as to the specific knowledge and skills required.

The Suffolk East PCTs started rolling out the KSF and new development review process across its approximately 1,300 staff in November 2004, and anticipate that it will be completed by March next year. At the end of October 2005, all PCT staff had a KSF outline for their post. The HR team believe not only that it will bring more structure to development reviews, but also that it will enable both a better prioritisation and alignment of training needs with organisational priorities.

Management capability both to execute the KSF effectively and to improve individual contribution on an ongoing basis varies significantly across the organisation. Improving this is a key priority. Apart from the process implementation material that is available, there are specific distance-learning interventions around issues such as objective setting, development planning and so on. Additionally, approximately 30 of the PCT’s most senior managers participated in a modular, face-to-face training programme from February to May 2005 where the emphasis was on improving leadership behaviour and performance management skills, such as feedback and coaching, in order to underpin the cultural changes required in the PCTs.

With a very volatile financial climate and further PCT re-organisation inevitable in 2006 as a result of the government’s ‘Commissioning a Patient-Led NHS’ initiative, it is hard for the HR team to plan with any certainty many people management issues. Nonetheless, priorities for the future include continuing the drive around management capability once the KSF/development review process has bedded in, and simultaneously improving the alignment between organisational and individual planning, goal setting and budgeting processes.
CASE STUDY 5: ZAMBON GROUP

This case study describes how a multinational company re-engineered its performance appraisal system with the latest procedural knowledge-management approaches and decision-software tools. The aim was to deliver precise instructional know-how to employees at the point of need, while ensuring agility and compliance. By embedding contextual instructions in the appraisal forms, the company streamlined and improved the accuracy, objectivity and auditability of the performance evaluation processes, while saving senior managers hours of valuable time.

The company

Founded in Vicenza, Italy in 1906, Zambon Group produces chemicals and finished pharmaceutical products. With a reputation for innovative thinking, flexibility and customer focus, Zambon Group has grown into a multinational company with 2,300 employees spread over 16 countries in Europe, South America and Asia. The human resources function for all of Europe is coordinated and managed by Fernando Ferri in the Zambon Group corporate headquarters in Milan, Italy.

The PM system is based on the following instruments: management by objectives (MBO) and performance appraisal (PA). The MBO system is applicable to managers and middle managers. It involves the annual assignment of objectives cascaded from top management’s strategic and budgetary directives (called the ‘budget letter’), together with the annual evaluation process. The PA system is applicable to the rest of the company’s employees. It consists of an annual evaluation of competencies useful for achieving company objectives.

MBO is directly linked to the financial reward system (variable pay), while PA is not. Both systems contain a section for objectives, which are linked to the development of competencies and behaviours, and aimed at planning professional development training and bridging gaps identified in the evaluation phase.

Both systems are also guided by forms and guidelines embedded into ‘smart’ forms developed with Microsoft InfoPath.

The executives agree on and set annual objectives for the group that guide the day-to-day work of everyone. Each country and business unit is responsible for its contributions to the goals. The company awards cash bonuses at the end of the year to each person to the degree that they meet the objectives – at the group, country or region, departmental and individual levels.

The business challenge

As with any other organisation, Zambon Group faced the classic challenge of ensuring that the strategic objectives were not compromised by management subjectivity or even personal agendas. This is no easy feat for a knowledge-intensive and complex organisation comprised of many diverse cultures. Failure to align human capital to strategic objectives invariably constrains growth and squeezes economic margins in this competitive industry. In addition, human capital fractures compromise internal controls and procedures, which are subject to increasing levels of regulatory scrutiny, such as Sarbanes Oxley 404 or from organisations like the US FDA (Food and Drug Administration).

Performance management previously

Every year, the senior managers at Zambon Group would complete a performance appraisal form for each of the
employees directly reporting to them in order to assign, review and evaluate group, area/business unit, and individual objectives and related performance levels. Achievement of the various types of objectives was evaluated according to predefined quantitative or qualitative criteria. For example, if the achievement was about developing a set of competencies (i.e., integration, initiative, communication, team working, risk-taking), then the outcomes were quantitatively expressed with a number from one to five (one meaning ‘falling below expected performance’ and five being ‘exceptional performance beyond all requirements’). On the other hand, letters were used at the end of the form for the overall assessment rating (A = exceptional; B = better than expected; C = corresponding to expectations; D = partial; E = not applicable).

The HR manager then used pre-determined mathematical formulas to calculate the total score for the MBO and the PA.

In practice, the performance ratings depended on the interpretation of procedures, which covered 20 pages of instruction in a separate document. This was a clear operational barrier for many managers since the process was very time-consuming and difficult to follow. Several weaknesses were evident in this way of doing things:

- **Productivity was impeded**
  As it was the responsibility of managers to compile the forms and the process was lengthy, valuable executive time was unnecessarily absorbed by non-productive interactions (e.g., reading the documents containing the instructional guidelines, asking colleagues for the right form and/or latest procedure, enquiring of HR staff for clarifications on the guidelines and/or the process, etc.)

- **Version management was compromised**
  Every procedure written in documents like Word or PowerPoint created problems regarding ‘version management’—there is no guarantee that everyone is using the latest version. For example, when the percentages of the MBO weights were modified, the change was not easy to deploy on a group-wide (or even company-wide) basis because the users were basing their evaluations on memory of past processes, often not referring to the new written guidelines in their working practice.

- **Rationale for procedural decisions were too subjective**
  Given that the process was too time-consuming, in many cases evaluating managers didn’t assign objectives properly. They also evaluated them in a subjective or generic way and often not in line with MBO/PA guidelines. Furthermore, the results only showed the number or letter given for each aspect of the evaluation, not the rationale behind it. For example, for the goal ‘improve communication skills’, the result may be three, but there would be no explanation of how or why this level of performance was achieved. This caused confusion, especially with the reviewee who would want to know the reasons for the result.

- **Procedural rating inconsistencies compromised results**
  Individual and cultural differences made for widely varying interpretation. Some groups were consistently under- or overperforming, often as a direct consequence of a poor-quality assignment phase (with generic objectives and a lack of clear performance indicators), or a poor evaluation phase (subjectivity in performance judgements and a lack of coherent expectations). Also, the use of numbers for the evaluation of single objectives or competencies and letters for the overall assessment rating caused further inconsistencies.
Deep transparency and analysis for comparison was not possible
The use of aggregated quantitative statistics derived at the end of the evaluation process, along with the lack of audit trail and decisioning metrics, prevented sound qualitative comparisons. This impeded developments in measuring and improving human capital performance.

A new approach to performance management
Consultants developed a blueprint for integrating the performance appraisal form with the procedures to ensure a greater level of objectivity and transparency. Crucial to the success was the selection of technology. The overall approach was to separate development of the infrastructure from the business application, so each could be developed by IT and HR respectively. In other words, IT wanted to maintain control of the services and databases in order to guarantee full compatibility with existing IT systems, both at a central and user level. HR wanted to maintain the procedural software without the need for costly software development.

The two technologies chosen were Decisionality DecisionFlows and Microsoft InfoPath. Microsoft InfoPath is an application that enables information workers to create dynamic forms that can help to share and manage data easily from different sources.

DecisionFlows, in the form of web services, is designed to let business people create decisioning components without the need for software programmers. The tool is underpinned by decision-tree science, ensuring logical completeness (must join-up the dots) and logic compliance (prevents recursive logic).

This combination of Decision Flows and InfoPath enabled the rapid conversion of the existing performance appraisal forms and associated procedures into one integrated ‘smart’ form. This application development approach saves considerable time and costs, because the current systems become a ‘black box’ and InfoPath provides a state-of-the-art composite application.

HR used DecisionFlows to develop procedural instructions and automatically generate web services. This means that HR is able to change its procedures at any time and deployment by IT ensures consistency. The result is that the rating outcomes are derived from a simplified series of questions and answers, thus enabling accurate, contextualised performance appraisal.

HR supports the performance management process by providing training and coaching for managers and employees. Formal process training was conducted with all line management, and subsequently passed, to identify and evaluate 12 Zambon Group reference competencies. Fernando Ferri says of the new system: ‘The redesign and automation of the performance appraisal system embedded objectivity into this critical process, which leads to improved trust. It is also transformative in that it allows us to transfer contextual know-how to senior managers without training, which improves compliance.’

Looking forward
Zambon Group plans to evaluate the success of the new system through a survey of managers and staff, and via interviews with senior managers and the HR team.

Table 1 (overleaf) illustrates the organisational benefits of the new approach, both from a strategic and operational perspective.
Figure 6 Example of the electronic form
Table 1 Organisational benefits of new approach to performance management

<table>
<thead>
<tr>
<th>Strategic perspective</th>
<th>Operational perspective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Talent management aligned with business strategy</td>
<td>Accuracy:</td>
</tr>
<tr>
<td></td>
<td>- perceived accuracy of appraisal results by reviewer and reviewee</td>
</tr>
<tr>
<td>Governance with deep transparency of procedural decisioning</td>
<td>- perceived level of ‘meaningfulness’ of evaluation</td>
</tr>
<tr>
<td>Real-time verification of process – due to the audit function of the software, the</td>
<td>Standardisation and quality assurance – improvement of output accuracy:</td>
</tr>
<tr>
<td>user and reader can see an audit trail of all decisions taken along the process</td>
<td>- fewer exceptions and fewer errors by users</td>
</tr>
<tr>
<td>Improvement in comparative statistical analysis</td>
<td>- fewer HR staff interventions needed to fix exceptions and inconsistencies</td>
</tr>
<tr>
<td>Overall appraisal process – monitoring performance and comparison company-wide, by</td>
<td>- version management of appraisal decision rules and procedures</td>
</tr>
<tr>
<td>department etc</td>
<td>Guaranteed use of correct version because of web services</td>
</tr>
<tr>
<td>Improved control of procedures, reducing the operational risks of non-compliance and</td>
<td>Replicability of the process:</td>
</tr>
<tr>
<td>version management integrity with a complete audit trail of every procedural decision</td>
<td>- replicability in other countries (vertical replicability)</td>
</tr>
<tr>
<td></td>
<td>- replicability in other business functions in the company (horizontal replicability)</td>
</tr>
<tr>
<td>Improve the margins as the costs and times are reduced – in particular, the reduced</td>
<td>Time savings by employee, by manager, by HR department</td>
</tr>
<tr>
<td>costs of training, coordination, errors and exceptions</td>
<td>Reduced cost of software development with maintenance mostly being undertaken by the</td>
</tr>
<tr>
<td></td>
<td>company</td>
</tr>
<tr>
<td></td>
<td>Accelerate strategic growth by improved alignment and objectivity</td>
</tr>
<tr>
<td></td>
<td>Intangibility to tangibility</td>
</tr>
</tbody>
</table>
Table 1 Organisational benefits of new approach to performance management (continued)

<table>
<thead>
<tr>
<th>Strategic perspective</th>
<th>Operational perspective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stronger ethical framework improving cultural sense of fair play</td>
<td>Usability – easier to:</td>
</tr>
<tr>
<td>Greater objectivity in the appraisal</td>
<td>- fill out the forms</td>
</tr>
<tr>
<td>- employee is empowered actively to contribute to his or her evaluation as part of the workload shift from boss to employee, with guided self-assessment and Just-in-Time learning</td>
<td>- understand the alternatives in the decision process calculate the weights and the weighted achievements</td>
</tr>
<tr>
<td>- higher perceived quality and value of face-to-face interactions between employer and manager, based on the common language developed in self-assessment</td>
<td>Overall user productivity – higher capability of doing more for less time and money</td>
</tr>
<tr>
<td></td>
<td>Fewer non-productive interactions</td>
</tr>
<tr>
<td></td>
<td>Fewer exceptions, requests for support, re-work, errors by employee</td>
</tr>
</tbody>
</table>
CASE STUDY 6: ABBEY GROUP

Background
Abbey is the UK’s largest personal financial services company and employs approximately 21,000 people throughout the UK. Abbey’s roots date back to 1849, with the establishment of the National Freehold Land and Building Society. In 1944, it merged with the Abbey Road Building Society to form Abbey National. In July 1989, it was the first building society to convert to plc status and to be floated on the London Stock Exchange.

In September 2003, Abbey National re-launched its business and brand, with plans to ‘turn banking on its head.’ This was a period of intense change in the bank, with a real urgency to create a performance culture that could help to improve the bank’s poor performance generally. A new CEO, Luqman Arnold, was brought in to turn things around, and a new HR director, Priscilla Vacassin, was tasked with transforming the performance of the people. So, along with a relaunch of the brand and the selling off of non-profitable parts of the business, there was a concerted effort to improve the way performance was managed, and to ‘raise the bar’ for performance at Abbey.

At this point, morale was low in some areas and performance was not managed consistently: poor performance was not dealt with, and top performers were not rewarded. In general there was no clear link between performance and reward. Available data about good and poor performance was imprecise. Performance ratings were very positively skewed and people were not consistently measured on their behaviour.

A new approach to performance management
HR had a very short period of time to create a new system that could create a more high performing culture – the new approach had to be launched in February 2004. The HR team based the new system around research conducted by the Corporate Leadership Council on high-performance organisations. It was predicated on the idea that people should be rated on how people do their jobs, not just on what they do. There was a decision to go for a totally new and innovative approach, rather than tweaking and refining the old system. It was also important that the new system was transparent and ensured fairness and equitability. There was no time to present a range of options to the board – only this option was presented. Unfortunately, there was also little time to consult with staff during the process design.

The crux of the new performance development process was the ‘DO’ and ‘BE’ matrix. This was designed as a way of ensuring that performance was managed both in terms of what is done (DO) and how it is done (BE). The performance development plan (PDP) also encouraged people to think about their development (DEVELOP) as well as their ‘DO’s’ and ‘BE’s’. The format of the performance development plan is shown in Figure 7 overleaf.

To counteract the tendency of managers to rate employees in the middle or at the high end of the scale, an eight-point scale was introduced. Employees are rated out of eight for both DO and BE. Development discussions tend to focus on how an employee can do their job better now, as opposed to thinking about very long-term career path issues. This focus was decided on because at the time, the company was thinking mainly about short-term financial recovery. A talent management process was put in place to deal with long-term career planning for high-performers. The performance development plan was designed to be a tool that managers could use every day to manage performance in their team.
It is intended that there is a clear line of sight between company-wide objectives and an individual’s own objectives. This assists in the setting of objectives as part of the PDP discussion. After the annual meeting with a manager and the employee, ratings are then discussed and calibrated at meetings with other managers.

The launch of the performance development plan
For sales staff, there was a ‘big bang’ launch and conferences that all branch managers attended. The performance development (PD) process was explained and managers were provided with generic PD plans for some of the more common roles. There was a particular focus on the BE framework and how it aligned with the Abbey values.

HR business partners were responsible for communicating the new system to the rest of the organisation. The 70 or so HR business partners attended 1–2 day workshops to brief them on the new system. Then they went out to talk to senior management teams in each area of the business. The senior management team then cascaded the message down the line. In addition, there was information on the intranet, articles in the in-house magazine and a weekly update from the CEO for several weeks about the new PD system.

It was a challenging time to be introducing such a different approach. At that time, HR was in a state of flux. A shared-services model was being introduced, with the key role of HR changing to a more strategic focus.
Success of the new approach

Migration data demonstrate that Abbey is well on the way to developing a high-performance organisation. A quarter of those who scored in the bottom 10 per cent at the half-year in 2004 had left the company by December 2004. Poor performers are actively being managed out; 48 per cent of leavers in the first half of the year were poor performers.

In addition to this work on staff migration, a PD review was carried out in the middle of 2005. This was designed to provide an opportunity for staff and managers to have their say about the new system, which they had had little input in designing in 2003–04 due to the tight timelines to get a new system up and running. Over 1,600 employees responded to an online survey. Approximately 100 one-to-one interviews were conducted with a wide cross-section of staff. They were asked up to 38 questions covering all aspects of the PD process, including:

- performance planning and ranking
- setting and reviewing objectives/developing performance
- using the online system
- the links to reward.

A key finding of the PD review was that staff reactions to the new system and the impact of the new system on them depended very much on the quality of the line manager. First-line managers were found not to always be receiving the support they need. Most of the HR business partner activity centred on the senior management team rather than first-line managers.

However, managers found the new system more helpful than staff did. The DO and BE framework has been embedded and is understood, and most managers use the PD process to guide performance-related discussions with staff. Both staff and managers are struggling to set objectives, and managers don’t feel that they have enough training in managing performance. There were mixed messages around the link between reward and performance, with only half of managers saying there is a direct link between end-of-year pay and performance. There were also technical issues with the online system, with system speed and counterintuitive systems and processes a problem.

Next steps

The results of the PD review have been used to table discussions with senior management groups to gain further feedback on the system and to obtain suggestions for ways forward. A process of extensive consultation is currently underway. This consultation has revealed a desire for the staff to be able to nominate what behaviours they think would be important to achieve their DO objectives, rather than choosing the behaviours from a framework. Instead of DO and BE, the new approach will be DO and HOW. More guidance will be provided on how to set objectives, and ensuring that the DO and HOW elements are more aligned. It is proposed to move towards having a single rating made up of both DO and HOW elements. Managers will arrive at this rating with their employees.

Changes to the rating scales are also under discussion, including the use of a forced distribution rating scale, and perhaps changing the eight-point scale to a five-point scale. There is also discussion as to whether the system will continue to be administered online, as sales staff in the branches find it impractical.

Performance management in the face of a takeover

All of this work is occurring in the context of Abbey being bought by Banco Santander Central Hispano S.A. Banco
Santander is Spain’s largest financial group and the ninth largest worldwide by market capitalisation. It has a presence in 40 countries, with 130,000 employees serving more than 35 million customers through a network of 10,000 branches.

Since the sale, a new strategy for the business has been developed. It is now important that this new strategy is communicated to staff to assist with developing a clear line of sight, and to assist in the setting of individual objectives. There is also the question of whether Abbey will adopt the Santander values and what this could mean for the BE aspect of the PD process. Abbey faces some considerable challenges ahead in the area of performance management.
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