Chapter II : Review of Literature

STUDY OF EXISTING LITERATURE IN THE SUBJECT
(LITERATURE REVIEW)

2.0 INTRODUCTION:

HRD is about the development of people within the Organisation. It is a very dynamic and evolving field in the world of business. On the other hand, it is also a very sensitive and delicate area to handle. HRD refers to organized learning activities arranged within an organization in order to improve performance, enhance personal growth and that of the organization. In the entire process of personal growth / individual development in an organization, the Performance Appraisal System plays a vital role. The Performance Appraisal is not to be seen as a pin pointer for the faults of employees, but as an effective instrument for helping employees to grow and develop in organizational setting.

Performance Appraisal is a developing subject and various changes, improvements in the area, are getting evolved. With the introduction of Performance Appraisal, as a Development tool, now-a-days we see the overall shift from the concept of Industrial Relations (IR) to Human Resources (HR) in the organizations. More and more emphasis is being given to HR activities. Training has now become the Employer’s perspective and prime goal of training efforts are achieving higher Performance Management. Training is usually imparted to fill a performance Gap’ as identified during the Performance Management Process or to update the latest technological developments.

There are various books, articles written on the subject of ‘Performance Management’ by Foreign & Indian Authors. Though the conceptualism is more or less same, the practices and systems followed in Multinational Companies (MNCs) and Indian Companies, during recent past are certainly different. Major books and articles are studied and Researcher has tried to review the same, as far as possible. This is an attempt of the thesis to bridge the gap in literature in the subject and also the genesis of Researcher’s study.
2.1 BOOK REVIEW

01. Book: “Manager’s Guide to Performance Reviews”.

a) About the Book:

The above mentioned book is authored by Mr. Robert Bacal, who is CEO of M/s. Bacal & Associates. M/s. Bacal & Associates is a training and consulting firm dedicated to contributing to the work success of both individual and companies. Mr. Bacal holds a Graduate Degree in Applied Psychology and his book is the 4th on performance-related topics. This book is printed in the United States of America, in the year 2004 and published by the McGraw Hill Companies, Inc. This is a CWL Publishing Enterprises Book, developed and produced for McGraw-Hill by CWL Publishing Enterprises, Inc. This book is printed on recycled, acid-free paper containing a minimum of 50% recycled de-inked fiber and has total 12 Chapters spread over 226 pages.

b) Author’s Contribution in the Subject:

Author has written this book in a friendly, person-to-person style for giving the practical information. The Chapters are relatively short and deal with tactical issues and include lots of examples. In 1st Chapter itself, author has given a very effective illustration of two different ways of reviewing performance. He has explicitly stated the usefulness of Performance Review Systems working properly. Performance Reviews are very powerful tools that can contribute to personal success, success of employees and Work Unit and the Company. Performance Reviews are to be viewed as an investment rather than a cost. Unfortunately, most of us have had bad experience with Performance Reviews as employees and we carry that experience with us when we become Managers. Author has distinguished very effectively by illustration, the proper and improper process of reviewing performance. He categorically explains that the usefulness of performance reviews is determined by how people understand the functions, usefulness and process of reviewing performance and how they act on different understandings. Author says that the Performance Review becomes useless, if it is not connected to other steps as under, in the Performance Management System / Process.

a) Performance Planning.

b) Ongoing Performance Communication.

c) Gathering data, Observing and Documenting.
c) Performance Review Meetings.

Performance diagnosis and performance problem solving are the missing link between talking about Performance and improving the same. It’s not uncommon for employees to be low contributors because their jobs and responsibilities have not been carefully planned and „rationalised in terms of the Work Unit’s Goals. The link between the Unit/Company Goals and Performance Management is important. In a well-functioning company, it works. Your Work Unit’s goals should map out what and how the Unit is to contribute towards achieving the Company Goals, then it cascades down. Each Employee’s performance goals and responsibilities are derived from those of the Work Unit. The linkage is forged during the performance-planning phase of Performance Management. By using the information and analysis, you create with each employee during the review meeting to determine how best to improve performance. Once you identify the barriers to performance or opportunities to improve performance, the same could be remedied through training and development. The information collected during the Performance Management Process is to make more effective decisions about training, development, budgeting and spending. Author has also described about Rating and Ranking Systems, Problem Solving to remove barriers, the rewards and punishments dilemma etc. at length, for effective and useful Performance Management Process.

d) How it is useful for current Research:

First and most important aspect, which could be learnt from this book, is that Manager (Reviewer/Appraisor) himself/herself should have strong, positive perceptions of Performance Review Systems followed in his/her Work unit/Company. Performance Reviews are required to be viewed as an investment rather than a cost. Proper periodical training on Performance Management is also required to be given to employees, by Management. The steps in the Performance Management Process, viz. Performance Planning, On-going Performance Communication, Gathering data, Observing and Documenting, Performance Review Meetings are required to be well-connected to Performance Review Activity for more effective and meaningful Performance Management. Employee’s jobs and responsibilities are required to be carefully planned and „rationalised in terms of Company’s Target and
Top Management’s Plans. Departmental Goals should map out what and how the Department is to contribute toward achieving the Company’s goals and cascading down to individual goals.

Each Employee’s performance goals and responsibilities are derived from those of the Department. The linkage is forged during the Performance-Planning phase. The information collected during the Performance Management Process is to make more effective decisions about training, development, budgeting and spending. On identification of barriers to performance or opportunities to improve performance, the same could be remedied through Training and Development. From all the above aspects, Researcher is able to formulate his questionnaire and discuss in brief, the related issues with the Management of Companies to be visited.


a) About the Book:

The author of the Book, Dr. T.V. Rao, is a renowned thinker, teacher and scholar. Dr. Rao is the founder and First President of National HRD Network and was also President of the Indian Society for Applied Behavioural Science. He has over 30 books and publications to his credit in the areas of HRD, Performance Management and Management Training.

b) Author’s Contribution in the Subject:

The Author’s very rich and rewarding experience of 30 years has analysed the performance Management Systems and dealt with the old wine with remarkable refinement in this book. This book is about the structuring of Performance management Systems and their implementation. It also incorporates the most modern 360° feedback systems and also talks about the ways and means of integrating it into PMS. The book consists the detailed PMS systems of very successful companies such as Infosys, Titan, Tisco, Bharat Petroleum, National Stock Exchange, Dr. Ready’s Laboratories and Nocil, as well .The book covers Planning performance for Role Clarity, Accountability and effectiveness, increasing Self-awareness and understanding, Self Appraisal, Performance Analysis, Performance Review Discussion, using PMS data for HR Decisions and Performance Improvements, Performance Management Systems & Appraisal Practices in
India, Performance Management Systems and Appraisal practices in some Asian Countries, making Performance Management Systems and Appraisals Work, Monitoring Performance Planning Analysis and Development Systems, focusing on Team Performance for better results, rating -less Appraisals for the future Performance Management Systems, Potential appraisals etc .The above compelling work by the Author, offers a comprehensive text on Performance Management and Systems with his crisp, clear and inimitable style. The Author insights are very much penetrating.

c) How it is useful for current Research:

After going through the book, it is understood that Organisation which is interested in developing the capabilities of its employees, should know the nature of capabilities required to perform different functions as well as the dynamics underlying the development of these capabilities in an organizational context. Performance Planning is one of the initial steps for appraising performance in which a systematic outlining of the activities is required to undertake and complete by the Manager (Appraisor) during the specified period. The only way to plan one’s performance is to identify KPAs and setting quantifiable targets, wherever possible. It is also clear from the contents of book that Organisation must practise and pay enough attention to performance counselling which is also one of the important components.

03. Book: “Performance Measurement and Management”.

a) About the Book:

Dr. G.K. Suri, the author of the Book is a renowned Trainer and Scholar. This book was basically inspired by a series of workshops conducted by the Author. The book is published by Excel-IMI Publication, New Delhi. The book has total 321 pages. The publication has been facilitated by IMI and sponsored by Airport Authority of India Ltd. (AAIL), Bharat Heavy Electricals (BHEL), Engineers India Ltd. (EIL), Indian Oil Corporation (IOC), National Fertilisers Ltd. (NFL), National Hydroelectric Power Corporation (NHPC), Oil & Natural Gas Corporation (ONGC) and Power Finance Corporation (PFC).
b) Author’s contribution in the subject:

With globalisation and fierce competition, performance improvement and performance management have become very critical and crucial. In this context, the book is published very timely and credit for the same goes to the Author and Publisher. The book was basically inspired by a series of workshops conducted by the Author, the conclusions and recommendations of these workshops have been reported by the Author in his paper on Policy and Strategy of Performance Improvement. As it is always said that what cannot be measured, cannot be improved. Author has specifically brought out the importance to develop measures of performance and data base for that purpose to meet the requirements of specific improvement strategies. With the help of Organisational Experiences, the criticality of Performance improvement and Performance Management and suggested measures to develop Performance and also some improvement strategies. Author has also elaborated several topics which have contemporary relevance and the same can be considered as a very good aid for attempting a benchmarking exercise.

c) How it is useful for current Research:

The Company experiences based on the write-ups given by Senior Managers are very useful for developing measures of performance and data base for that purpose to meet the requirements of specific improvement strategies. Taking into consideration the present scenario of fierce competition due to globalisation, the author has expressed, with the help of Organisational Experiences, the criticality of Performance improvement and Performance Management and suggested measures to develop Performance and also some improvement strategies. Author has also elaborated several topics which have contemporary relevance and the same can be considered as a very good aid for attempting a benchmarking exercise.


a) About the Book:

This book is written by Dr. T.V.Rao, who is the Founder and First President of National HRD Network. He was Professor for over 20 years at the Indian Institute of Management, Ahmedabad. Dr. Rao has over 30 books and
publications to his credit in the area of HRD, Performance and Management Training. This specific book was published in the year 1999 by Excel Books.

b) **Author’s contribution in the subject:**

In this book, topics like planning performance for role clarify, accountability and effectiveness, increasing self-awareness and understanding self-appraisal, performance analysis, rating and counselling have been discussed. The introductory chapter outlines the objectives of the traditional performance appraisals and how appraisal system have changed and evolved over a period of time from evaluation approach to open and development oriented appraisals. The author has suggested a format for the same, the component of which include identification of KPAs, managerial and behavioural qualities, self-appraisal, performance analysis, performance discussion, identification of developmental needs, action planning and final assessment. Subsequent chapters of his book are devoted to detailed explanation of some important components of such as development oriented Performance Appraisal System. Author has categorically stated that Performance Planning is one of the initial steps for appraising performance in which a systematic outlining of the activities, the Manager is expected to undertake during a specified period is done. Identifying KPAs and setting quantifiable targets wherever possible is only one way of planning one’s performance. The next step in performance appraisal is performance analysis, whereby the appraiser tries to know more and more about the circumstances under which his appraise is working, the difficulties he is experiencing and the contribution he is making. The author classifies the factors which are responsible for employees performance as facilitating factors and inhibiting factors. An important component of any performance appraisal system is performance assessment through ratings. The ratings help the appraisee as well as appraiser to know how well the individual is progressing on different KPAs & behavioural and managerial dimensions. The most commonly expressed dissatisfaction about performance appraisals is in relation to the subjectivity in performance ratings. The author talks in detail about the factors affecting ratings in performance appraisals. These performance ratings can be used for developmental and administrative decisions. Any organisation interested in using a good performance appraisal and review system has to
practise and pay enough attention to performance counselling which is also one of its important components. The author describes briefly the conditions for effective counselling, the process and the sequential steps involved in it, such as rapport building, exploration and action planning. Appraisal data can be utilized for variety of purposes that may contribute to organizational health and productivity through human resource development and effectiveness of Performance Appraisal System also very much depends on how well the appraisal data is utilized. In the preceding chapters the author talks about the appraisal systems in some of the companies such as Voltas Ltd., SBI, Compton Greaves Ltd., Steel Authority of India Ltd., L&T etc. and states noteworthy features of appraisal system of all such companies. In the later chapters, the author speaks about the appraisal practices in India and some Asian Companies. In Indian organizations, they vary from „no appraisal to sophisticated multipurpose, multi component based appraisal systems. The author has made an attempt to present some of the major trends that could be observed. In sum, the brief survey of appraisal systems in different countries stressed on the need for paying attention to people and their performance.

c) How it is useful in current Research:

The process of appraising and developing Managerial Performance is well understood, after going through this important book. The following important and crucial aspects pertaining to Performance Appraisal Systems stated by the Author in this book, would be very beneficial for the researcher to draw the questionnaire and also to find grey areas in Performance Appraisal System of short-listed companies and also to suggest measures to improve upon them. Organisation interested in developing the capabilities of its employees, should understand the nature of capabilities required to perform different functions as well as the dynamics underlying the development of these capabilities in an organizational context. Good Performance Appraisal Systems depend to a great degree on how well the data generated by the system are utilized for a variety of purposes and to what extent the employees see the data being utilized. Organisations are slowly avoiding the use of the term „appraisal“ and increasingly emphasizing planning, analysis, review and development. There is also an increasing trend to emphasis performance development much more than performance assessment and peers and internal
customers increasingly use appraisal. People who are shy and introvert even if they are talented. In Business, energetic and extrovert people generally do better, but results speak for themselves loud and clear. Differentiation hears them.”Author further states, “If you want the best people on your Team, you need to face up to Differentiation. There won’t be any People (Performance) Management System that does it better – with more transparency, fairness and speed. But, Differentiation, though it is not perfect, clarifies business like candour and makes it run better in every way”.

05. Book: “Winning”

a) About the Book:


b) Author’s contribution in the subject:

Performance Appraisal at GE is based on the Basic Philosophy and Principle as differentiation among people. Mr. Jack Welch was a huge fan of Differentiation and which he learnt at playground when he was a kid. Jack Welch had a strong feeling that “Companies win when their Managers make a clear and meaningful distinction between top-and bottom performing business and people, when they cultivate the strong and cull the weak”. It took almost 10 years to install this practice in GE and he considered it as a very root of his success at GE. Author defines „Differentiation among people as a process that requires managers to assess their employees and separate them into three categories in terms of Performance : Top-20% Middle-70% Bottom-10%

Top 20% Employees is a creamy group and delivering outstanding results. These Employees are the best and are showered with bonuses, stock of options, praise, love, trainings and a variety of rewards to their pocketbooks and souls. Middle 70% of Employees is the majority of Employees and is the backbone of the Organisation. You simply cannot function without their skills, energy
and commitment. This group is managed differently as this group is enormously valuable to the Company. This group is required to be kept engaged and motivated for their improvement. Bottom 10% of Employees has to go. If you have a candid organization with clear performance expectations and a performance evaluation process, they usually leave before you ask them to go. No one wants to be in an organization where they are not wanted. Author warns that protecting under performers (i.e. bottom 10% employees) always backfires. The worst thing, though, is how protecting people who do not perform, hurts the people themselves. For years, they are carried along with everyone looking the other way. At Appraisals, they are vaguely told they are „great or „doing just fine Author explicitly states that when the down turn occurs and lay-offs are necessary, this so-called „great under-performers are required to go first. They are most surprised, as they were never told the truth about their results. Then they are just hopeless out of a job with no preparation and planning. It is enormously demotivating to the Middle 70% Employees, who end up living in an awful kind of limbo. This is the hardest category to manage in differentiation. Sometimes talented top tier of this Middle -70% people, leave because of frustration developed due to very small gap between Top -20% employees and them. As there is a very narrow gap in between, these 70% group personnel get demoralized because of not getting the red carpet treatment like 20% group Employees. The silver lining to this difficult situation, stated above, is that : i)The existence of a Middle -70%, forces Companies to manage themselves better. ii) It forces leaders to scrutinize people more closely than they would ordinarily, and to provide more consistent, candid feedback.iii)It also pushes companies to build Training Centres that really make a difference.

Getting better is also very energizing for a lot of people from Middle -70% Group. Author further makes it as a point that getting into the Top -20% group, gives them a tangible goal and having that goal makes them work harder, think more creatively, share more ideas. It also makes work more of a challenge and a lot more fun. Their morale is boosted; they are charged and delivering extraordinary results. Jack Welch, the author, lastly says, “Differentiation favours people who are energetic and extrovert and undervalues people who are shy and introvert even if they are talented. In
Business, energetic and extrovert people generally do better, but results speak for themselves loud and clear. Differentiation hears them.” Author further states, “If you want the best people on your Team, you need to face up to Differentiation. There won’t be any People (Performance) Management System that does it better—with more transparency, fairness and speed. But, Differentiation, though it is not perfect, clarifies business like candour and makes it run better in every way”.

c) How it is useful in current research:

Differentiation, 3rd Chapter in the Book „Winning has given altogether different look to the concept of „Performance Appraisal read and learnt through Text and Reference Books.

After going through this Chapter of the Book, the new direction towards Performance Appraisal is found by way of and in form of „ Differentiation. Earlier, the known fact was to assess the Individual’s performance of a job in terms of its requirement and the degree of performance was linked with the reward, pay and the benefits. However, with the help of this book, it is well understood the concept of Differentiation wherein Managers assess their employees and separate them into three categories in terms of performance, for deciding the bonuses, stock options, rewards, praise, training etc, by the Management. It is very much clear through this book that the process of Differentiation among people in terms of their performance, favours people who are energetic and extrovert and undervalues people who are shy and introvert, even if they are talented. This People (Performance) Management System is the better system as there involves the elements of transparency, fairness and speed.

This insight seems to be the value addition to the activity of Performance Appraisal / Management System and would be beneficial while doing the research work.

06. Book: “Geometry of HR”

a) About the Book:

This book is authored by Shri. Sorab Sadri, Jayashree Sadri and Shri. Mihir Ajgaonkar. This book is a Post Graduate Reference Book on Human
Resource Management and a practising facilitator’s Guide to value based on Intervention with Case Studies. Shri Sorab Sadri is an Economist and presently considered to be a leading authority in the field of Human Resources Management as well as in Business and Managerial Ethics. Jayashree Sadri is a qualified Management Trainer, as well as a Well-published author whose research and written works are nationally well known. Shri. Mihir Ajgaonkar is also a certified Human Resource Executive from AH & M (USA). At present, he is Head of Organisational Development at Zensar Technologies in Pune. The book was published in the year 2002, by Himalaya Publishing House. Chapter 11 of the Book is named as „Shooting for the Stars: Performance Management (Page Nos. 347 to 400) focuses on overall Performance Appraisal System.

b) Authors’ contribution in the subject:

Authors point out that the HRM Specialist has to necessarily understand the capabilities of his manpower and the potential of its technology. He must know where his organizational core competence lies and where do the limitations lurk. And, it is only after he has understood these that, he should venture into the arena of performance appraisals. It has been said that through the process of reviewing people’s performance of the whole organization, in turn, is managed.

Authors state that the appraisal of Individual’s performance is an essential component of employee development. The techniques employed within systems of appraisal represent some of the means through which we are able to keep our finger on the pulse of the effectiveness of the training and development plans & strategies.

Authors have reproduced two of the widely accepted definitions of Performance Appraisal given by foreign Management thinkers and stated that the Performance Appraisal System is a scientific system of eliciting feedback, benchmarking it, communicating it to the employee concerned with a view to bring about envelopment. Each step in the Performance Appraisal Process is, therefore, crucial and must be arranged logically. Authors have specifically elaborated on following points, in this chapter : i) The purpose of a Performance Appraisal: Performance Appraisal Systems are basically
designed to help the individual, the group and the organization to convert its core competency into competitive advantage on the one hand and indicate the appropriate HR intervention desired for it, on the other. In addition, other specific purposes are as under:

- Promotion of Employees.
- Other Personnel actions such as transfers, demotions or discharges are required to be taken by the Management.
- Wage and Salary Payment.
- Training and Development Programmes.
- Personnel Research: Data pertaining to human relationship.
- Favourable impact on Employees: It creates a favourable impact on the employees such as confirmation of services, improving communication, constructive criticism and guidance for the purpose of their development.

(ii) The importance of Performance Appraisal:

- Placement of staff and adjustment in the placement where placement can be made scientifically.
- PAS gives and motivates employees for self-development and self-improvement.
- PAS acts as an incentive to employees to improve their performance, develop new qualities.
- Useful for suitable modifications in the training programme and thereby training their utility.

(iii) Essentials of Good Performance Appraisal System:

- Easy to understand and simple to operate.
- Support from Employees.
- Wide Publicity.
- Suitability to the Organisation.
- Reliability.
- Establishing a Standard of Performance.
- Provision of Incentives.
- Periodical Review.
• Proper selection of ratio.
• Frequency of appraisal.

(iv) The benefits of a Successful Appraisal Scheme:

Benefits accrued to the Organisation, Appraisor & Appraisee, if PAS is implemented correctly and in a positive manner.

For Organisation:
• Creates an atmosphere of trust and transparency.
• Management knows the extent of its core competence and where it lies.
• Feedback to be used to improve an employee’s performance.

For Appraisor:
• Identification of ideas for improvements.
• Increased Job Satisfaction.
• Increased sense of personal values.
• The opportunity to link team and individual objectives and targets with departmental and organizational objectives.
• The opportunity to re-prioritise targets.

For Appraisee:
• Increased motivation to better his/her performance.
• Increased job satisfaction because he/she knows that his/her performance is appreciated.
• Increased sense of personal value.
• A clear understanding of what is expected and what needs to be done to meet expectations.
• The opportunity to discuss work problems and how they can be overcome.

(v) The Approval Process:

The thing to bear in mind is that Performance Appraisals are not an end in themselves. They are only a means to attain a goal. This is done by assessing not only the performance and potential of the concerned employee but also how the individual, the group and the organization synchronize.
c) How it is useful in current research:

After going through the chapter of the Book, the aspects such as purpose, importance, essentials, benefits of Performance Appraisal System, along with overall Appraisal Process were understood thoroughly. Based on the same, Introduction about Performance Appraisal System in the thesis has been well described and the questionnaire was also prepared taking into consideration all relevant and useful aspects.


a) About the Book:

Dr. T.V. Rao is the Author of this book and Mr. Udai Pareek has edited this book. Dr. Rao is the Founder and First President of National HRD Network. He has over 30 books and Publications to his credit, in the areas of HRD, Performance management, Education, Management Training etc. Mr. Udai Pareek is the Chairman of the Academy of Human Resource Development, Ahmedabad. He was the only Asian to become Fellow of the National Training Laboratories, USA and the only fellow from India of the Society for the Study of social Issues. Mr. Pareek is or has been the editor for numerous reputed journals. He has authored or edited about 50 books and more than 300 papers. This book was published in the year 1993 by M/s Tata McGraw-Hill.

b) Author’s contribution in the subject:

In the introductory chapter, the author talks about the movement or shift in performance appraisal systems in the Indian Organisations over the years in the later half of 20thCentury. These organizations have enumerated some points, which are indicators for further development in the Performance Appraisal System. The term „Performance Appraisal is now increasingly being replaced by Performance Development, Performance Planning, Development Review, Work Planning & Review, Performance Analysis etc. The book also offers new insights and refreshing ideas into the experiences of reputed companies including Telco, Modi Xerox, Asea Brown Boveri (ABB), CMC Ltd., ICICI, with ideas on Team Building, Creativity and Empowerment. The emphasis of the new development appraisal system at ABB is on six major aspects, which include planning the job for the ensuing
year, counseling for development, team performance, process parameters and training and internal customer focus. The new system at ABB is based on the premise that the organization has people at all levels that are capable of making meaningful contributions to overall team performance. The changes in the performance appraisal system at M/s. Eicher reflect the maturing of the human resource function. The emphasis in recent years has been on Quality, Teamwork and the process of development. Eicher has done away with the term ,,appraisal and is focusing on development review. At Hindalco, Aditya Birla Group Company, the focus of the appraisal system is on rewards as appraisal dissociated from reward is often found to be ineffective. The appraisal system at ICICI highlights a practical development approach and peer appraisal is component and reverse appraisals are one of its noteworthy feature. The appraisal system at Telco is MBO-based and the process is mostly closed. But still the appraisor and the appraisee get a chance to discuss the result portion of the appraisal and also parts of the development plan. The SAIL system of appraisal is fairly elaborative, the main stages of which include self-appraisal, performance review and planning, performance assessment, assessment by reviewing officer, primary grading, performance review committee and development plan.

UTI has adopted an appraisal system whose aim is to primarily develop the Boss -Subordinate relationship. Broadly, the performance appraisal system has 3 parts, first focuses on self-appraisal of performance, second focuses on confidential aspect of potential as well as traits and third part is a review of the appraisal. The Vishakhapatnam Steel Plant of Rashtriya Nigam Ltd. has introduced a new development - oriented appraisal system. Its main components are target-setting / task assignment, periodic performance monitoring and feedback, self-appraisal and discussion, identification of training and development needs and performance assessment. Modi Xerox, one of the leading professionally managed companies in India, has its Performance Management System linked to career development, succession planning and management of motivation through rewards. At Modi Xerox, the performance planning and appraisal is based on the RROs (Company’s roles and responsibilities), which are filled for every appraisee. The four goal areas taken are customer satisfaction, employee satisfaction, business results and
quality. The performance planning and appraisal also centers around Development Action Planning (DAP). In the later chapters, issues such as subordinate appraisals, their feasibility, experiences of Indian Organisations so far and suitability of upward appraisals to Indian Organisations is talked about. The main criticism against subordinate appraisals is that they cannot be comprehensive and objective. At the end, an overview of the performance appraisal system in other countries is presented. The international trends indicate that the problems and concerns of Indian Organisations are in no way unique to them.

c) How it is useful in current research:

After going through the book, it is very clear that which change or shift or movement is recently occurring in Performance Appraisal Systems in the Indian Organisations. Based on the details pertaining to PAS followed in various reputed organizations, provided by the Author, Researcher could get new insights and refreshing ideas in the subject. It is also very well understood, on which aspects organizations are emphasizing with the help of Performance Appraisal System. All the organizations covered under these details are focusing on Organisational Performance through team or departmental performance and simultaneously individual performance, by organizing PAS effectively and successfully. The various goals, objectives such as Customer Satisfaction, Employee Satisfaction, Business Results, Quality etc. achieved by the Organisations with the aid of PAS are well learnt through this book. It is pertinent to note that in the areas of performance appraisals, the movement from a top-down approach to a completely employee -centred approach is almost complete with the realization that the appraisee is the most critical component of any Performance Appraisal System.
Conclusion:

In view of the study of existing literature, following vital elements have been brought out.

01. Manager (Reviewer/Appraisor) himself/herself should have strong, positive perceptions of Performance Review Systems followed in the Organisations.

02. Performance Reviews are required to be viewed as an investment rather than a cost.

03. Employees Jobs and Responsibilities are required to be carefully planned and rationalised in terms of Company is target and Top Managements Plans. Departmental Goals should map out what and how the Department is to contribute towards achieving the Company’s Goals and cascading down to Individual Goals.

04. The information collected during the Performance Management Process is to make more effective decisions about training, development, budgeting and spending. On identification of barriers to performance or opportunities to improve performance, the same could be remedied through Training & Development.

05. Appraisals become meaningful only if they create action planning for subsequent employee development, or if they are able to identify potential for future growth.

06. Most of the times, performance is taken as the yardstick of appraisal. However, there is a need to move in direction of developing assessors who can do potential assessment.

07. Employee growth and satisfaction with the job, individual productivity improvement and overall climate in an Organisation are expected to be influenced by Performance Appraisal System in operation.

08. The Performance Appraisal Activity is required to aim for gaining confidence of personnel by making their participation in the appraisal system, providing feedback to them to improve subsequent performance, providing personal and professional growth and competence, giving reward and support to the employees.
Many times, Appraisal Systems also fail as goals and Performance Metrics are often not clearly defined. Goals are also not aligned to all the departments and functions of an Organisation, as a result of which there is no ownership of certain crucial goals in certain departments.

Meaningful process of PMS is having 5 steps of procedure viz. Quarterly Review, Annual Goal Setting, Quarterly Review of Achievement of goals, Annual Performance Review and for taking decisions about Salary and Bonus. The review of literature gave Researcher an insight into the study and also helped him to develop a vision to view into the area of his interest / research.

The current study is inspired by above literature. Researcher would identify the gap viz. most of the literatures concentrate on mechanics of Performance Appraisal while Management aspects are not fully covered. It is also established that objectively speaking nobody is against Performance Appraisal, but in an actual practice, unfortunately in many cases, mechanics dominate the Basics. The credibility of Management is at stake. The effort of Researcher is to partly bridge the gap in the existing literature by studying the cases of 100 selected Organisations from different sectors such as Engineering, Automobiles, Pharmaceuticals, Chemicals, Electronics etc. with respect to Performance Appraisal System, practised therein, pertaining to important factors viz. Performance Planning, Annual Goal Setting, Review of Achievement of Goals, Regular Coaching & Counselling and Review between Assessors and Assesses, Identifying the Developmental Training Needs etc.

The Researcher is highly impressed by the under currents in variety of organisations studied

i) **Subjectivity:**

Many studies have testified to subjectivity as a significant problem. This has been demonstrated at a scientific level: different appraisers do come to different conclusions based on the same data, because they have different values, different likes and dislikes. Appraisees often consider their Manager’s assessment of them to be unfair, even biased, and this may render the whole process ineffective because of the perceived injustice. Subjectivity can be
reduced (but clearly not eliminated) by defining an appraisal process which concentrates on factual achievement rather than on style or character, by basing assessment on agreed objectives, by involving other "referees in the preparation stage, by making the appraisal interview itself an open, two way process and limiting the Appraisee to contribute a Self-Appraisal Subjective Judgement, therefore, should not be regarded as obstacle to Performance Appraisal System.

ii) Central Tendency, Leniency / Severity: -

Particularly when numerical ratings are used, it has been observed that Appraisers avoid giving extreme marks or opinions, leading to "water down their assessment; this is known as "Central Tendency. Its cause seems to lie partly in Appraisers lacking confidence and failing to exercise sufficient discrimination and partly in the Communication process: Appraisors do not like to give extreme signals. Many Appraisors avoid giving a top marks for fear that it will induce complacency, while some admit that a top rated subordinate can constitute a threat to the Appraisor him / herself.-Appraisors are lenient to different degrees, and some (though exceptions) are better described as severe. Different "Norms used by different Managers obviously pose an acute problem when ratings have to be compared (for salary or promotion purposes, for instance).

iii) Halo, Regency and Contrast Effects: -

A persistent problem in all assessment has been called the "halo effect. This is the tendency to rate someone with, say, on particular quality as being generally good –hence the halo. Obviously, the reverse can happen too, so that an unfortunate subordinate with one marked (or even supposed) weakness can get written off as being generally useless or lacking in potential.-Secondly, Appraisors are prone to put too much emphasis on the most recent behaviour or impression –instead of judging the whole period to be covered by the appraisal.

There are also various types of contrast effect in assessment. The one that occurs most markedly in performance appraisal is often allied to regency. If a normally well-rated individual performs slightly less well than would be expected of them, this can come out as an exaggeratedly low performance rating, an utter fall from grace -Conversely, a fairly average bit of performance
from someone who is usually considered weak can get out of proportion. All above points are always at the back of mind of the Researcher, while analyzing data, stating facts and figures, explaining feelings and opinions, so that Performance Appraisal Study is comprehensive in nature, though there could be some obvious limitations in process. All Researchers have to face this situation. Researcher has been impressed by description of Professional Management viz. Systems do not Manage, Managers manage with the help of System. Obviously, Managers are more important than Systems. It is, therefore, role of Managers to manage the System and credibility of Manager largely depends upon the spirit with which Performance Appraisal Systems have been designed, implemented and redesigned.

Researcher has also identified some areas of further research so that research in the field of Performance Appraisal will continue and over a period of time as the experience is gained, employees will appreciate its importance and Management will try to establish credibility at all levels.
2.2 ARTICAL REVIEW

REVIEW OF THE PREVIOUS STUDIES

Human Resource Management as a department or subject has changed drastically over the last century. Many management thinkers contributed to this subject and their contribution helped many private and public sectors entities. Over a period of time it has been observed that the resource utilization is key for success and achieving sustainable competitive advantage in any business. Human resource is one of the important resources who convert other resources into finished goods and services, increases brand value and goodwill of company and finally huge profits.

All functions are dependent on human resource, but the question is how to increase utilization of this resource and for this performance management and performance appraisal is very important. To know more about these topics and to identify gap in literature for further study of this research- the following literature reviews were discussed.

Among these we would find quality circles (Katz, Kochan and Gobeille, 1983), recruitment (Holzer, 1987), worker training (Bartel, 1994), profit-sharing schemes (Weitzman and Kruse, 1990) and information sharing (Morishima, 1991).

Above literature is about recruitment system, training pattern, information sharing and profit sharing schemes and quality circles for performance improvement.

Other investigations have attempted to examine the individual impact of not one but several of these practices. These would include investigations carried out by Kalleberg and Moody (1994), Delaney and Huselid (1996), Black and Lynch (2000; 2001), Cappelli and Neumark (2001), Harel and Tzafrir (1999) and Fey, Björkman and Pavlovskaya (2000).

Finally, there are some studies that take a global perspective on the relationship between personnel management and performance, taking the view that practices are not applied separately but in conjunction with one another. Instead of looking at the impact of one specific practice, they study the total joint effect of the way in which the different aspects of personnel management are dealt with, particularly the adoption of high-performance practices. Huselid (1995) and MacDuffie (1995) are among these. There are several Management, Vol. 5, No. 3, 2002, 175-199 178
Alberto Bayo-Moriones and Javier Merino-Díaz de Cerio


There are many empirical studies and such measurements of HRM performance as the ability to attract and retain employees (Kalleberg and Moody, 1994), management-worker relations (Wood and de Menezes, 1998), turnover (Huselid, 1995; Becker and Huselid, 1998; Wood and de Menezes, 1998; Hoque, 1999), absenteeism (Wood and de Menezes, 1998; Hoque, 1999), workers’ commitment to the company (Hoque, 1999), job satisfaction among workers (Hoque, 1999) and indices that capture several of these outcomes (Liouville and Bayad, 1998).

In addition to these, we also see measurements of financial results, which are an indication of the industry’s overall performance. Among others we might mention productivity (Ichniowski, 1990; Huselid, 1995), profitability (Huselid and Becker, 1996), customer satisfaction (Kalleberg and Moody, 1994), Tobin’s q (Ichniowski, 1990; Huselid, 1995) or the industry’s market value (Becker and Huselid, 1998).

Finally, we find studies which, like ours, are concerned with analyzing the effect of HRM on aspects of operational performance, such as the hours of labour required to manufacture a particular product (Arthur, 1994; MacDuffie, 1995), the percentage of programmed time that the production line is in operation (Ichniowski and Shaw, 1999; Ichniowski, Shaw and Prennushi, 1997), the defects rate (Arthur, 1994; Mac-Duffie, 1995) or the percentage of production that meets the required quality standards (Ichniowski and Shaw, 1999; Ichniowski et al., 1997). There are also works that take as their dependent variable indices that capture the industry’s overall performance in this area. These would include Liouville and Bayad (1998), who incorporate aspects such as defects costs, and Youndt, Snell, Dean and Lepak (1996), who include the degree of utilisation of equipment, minimisation of waste, product quality and in-time delivery. Broadly speaking, all the studies that address this issue, irrespective of the type of operational result on which they are focused, show the introduction of high-commitment HRM practices to have an impact not only on the plant’s productive system performance but also on business performance.

Importance of performance management and appraisal system

Literature reviews above reveals the importance of on performance management and appraisals to
see where there may be useful learning for organisations. It also provides important criteria on which to judge the effectiveness of the implementation of a performance management system.

The main purpose of literature review is to identify and know performance management as a systems, and then the changes organisations (change management) are making to their systems to support a shift (adaptability) from appraisal towards a more rounded performance management approach. Few literatures highlighted the common critiques of performance management systems. Then focus of the literature review turns to the key themes which determine the effectiveness (whether HRM and other functional departments able to develop that competitive advantage or no) of a performance management process. This is followed by a review of the link between performance management and reward; personal development planning and career and talent discussions and the management of poor performance through appraisal.

THE PURPOSE OF PERFORMANCE APPRAISAL

There are many tensions within the multiple agendas and purposes of appraisals. Boswell and Boudreau (2000) make a most useful and clear distinction between two types of functions for appraisal systems: Evaluative functions include use of performance appraisal for salary administration, promotion decisions, and retention/termination decisions, recognition of individual performance and identification of poor performance. To conduct this evaluative function the appraiser takes the role of the ‘judge’. Evaluative functions focus primarily on differentiating between people.

Developmental functions include the identification of individual training needs, providing performance feedback, determining transfers and attachments, identification of individual strengths and weaknesses. For this developmental function the appraiser takes the role of a coach or mentor. Developmental functions focus primarily on within person analysis.

Baron (2004) claims that the focus of performance management is on elements such as recognition, constructive feedback, personal development and career opportunities. However, there will always be an inevitable tension within career management which has to satisfy both the interests of the organisation and those of the
employee. Individuals may demand a career where there is scope for development and progression, ‘whilst organisations will need to ensure they have the right people in the right jobs and are building a talent pool for the future’ (CIPD, 2003).

A CIPD performance management survey showed that in the UK, while there has been a broadening in purpose and the linking of some of these different processes designed to impact on performance, the main purpose of the performance management process largely still revolves around personal objective setting and appraisal against objectives. This is included in the process in 90 per cent of cases (CIPD, 2005). Trends that have continued since the CIPD’s previous survey (in 1997) showed that there is an increasing focus on the development aspects of appraisal, and also devolvement of control and operation of the process from HR to line managers (CIPD, 2005).

A SHIFT IN EMPHASIS IN PERFORMANCE APPRAISALS

Much literature has pointed to the problems with performance appraisals, which has led some commentators to call for abolition of the process or a renewed focus on the core elements of performance appraisal. For example, Coens and Jenkins based on their experience in North America recommended ‘abolishing performance appraisals’ (2000), citing regular failings in development planning, objective setting and 360 degree feedback. They advocate instead broader performance management approaches focused on customer outcomes and decoupling the complex mix of processes often tied up inside performance appraisal. They cite a Police Department in Madison, Wisconsin which replaced traditional appraisals with a system of individual goal setting, leadership training and employee involvement that let officers choose who they wanted to work with and who supervised them. A US Department of Justice comparative study found that Madison had the highest levels of citizen satisfaction following the changes. The above case example is like Hawthorne experiments.

Gratton and Ghoshal (2002) argue that at all levels, the emphasis should be on the core of the appraisal and development process, that is ‘improving the quality of conversations’, rather than going through ‘dehydrated rituals’, with open and honest leaders setting the example for a culture of curious, creative learning organisations.

Cunneen (2006) also highlights the issue of managers and employees simply going through the motions of the process when he stated: ‘Not only do managers dislike carrying out performance appraisals but many admit that it is the most dreaded task in their calendar. Too often it leads to a shallow discussion, with both parties
colluding to meet the organisation's prescribed administrative procedure and, in doing so, avoiding the more fundamental issue of performance improvement.’

These failings of appraisal have led to new approaches to performance management.

Hurst (2009) discerns two strands in the performance management literature: a very structured and controlled backward-looking review approach which is ‘done’ to employees (Grote, 2000), and a much more inclusive, forward-looking approach involving the individual, supporting their development and linking in to the organisation’s needs and values (Spangenberg and Theron, 2001). But as Cannell (2006) points out, there is still the need for a conversation to both reflect on past performance and to look forward.

The latter is what is largely in the mind of those that advocate a more root and branch change to performance appraisal: a switch to a performance management philosophy that engages employees more in the process and drives performance towards key organisation goals. The concurrent simplification of processes that is underway switches the focus on individual scheme details and towards the essence of the performance management process.

In their book on the subject, Armstrong and Baron (2005) note the shift in terminology from performance appraisal to performance management, which they believe indicates a wider shift in the philosophy and content of the process:

‘Performance appraisal has a reputation as a punitive, top-down control device, an unloved system. Performance Management is a holistic, total approach to engaging everyone in the organisation in a continuous process, to improve everyone and their performance, and thereby the performance of the whole organisation.’

Despite the move to adopt an all-encompassing approach, a recent trend towards simplification is also evident from CIPD research, with better support and training being provided as greater focus is being put on how these systems actually work in the reality of the organisation, rather than in respect of the many intended policy intention and outcomes. Just under half of the respondents to the CIPD performance management survey (48 per cent) had proposed to make changes to their performance management arrangements over the forthcoming year, with a similar direction evident (CIPD, 2005).

E-reward’s survey (2005) of performance management provides a clear picture of the changes that organisations are making to support the shift towards a performance management approach, but also to address problems such as over-complexity and
bureaucracy. More than two-thirds of organisations in the E-reward research had either changed their systems in the past three years or were planning to make changes in the future. The commonest changes are shown in below Figure

**PERFORMANCE MANAGEMENT: LITERATURE REVIEW**

Colville & Millner (2011) recognise that ‘a trap that organisations can fall into is not recognising that the implementation of performance management is a change process. Too often, organisations just look over the fence to what others are doing and do the same’ (2011, p.35). They argue that this practice is reasonable but it needs to be coupled with an understanding of how the process will ‘deliver organisation strategy and vision’. In order to achieve this, they argue HR needs to have an awareness of the ‘current state’, the ‘desired state’ of the organisation and its processes.

Figure : External trends : Changes in performance management systems

<table>
<thead>
<tr>
<th>Past Changes</th>
<th>Future Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Competencies inclusion</td>
<td>Enhance link to pay</td>
</tr>
<tr>
<td>2 Enhancing pay link</td>
<td>Streamline the performance management process</td>
</tr>
<tr>
<td>3 More regular meetings feedback</td>
<td>Provide more coaching development for appraisers</td>
</tr>
<tr>
<td>4 Simplification</td>
<td>Review improve ratings process</td>
</tr>
<tr>
<td>5 Link performance management to strategic business goals</td>
<td>More regular feedback</td>
</tr>
</tbody>
</table>

Source : E-Reward Rankings are based on the percentage of organisations with performance management system planning charges.
CRITIQUES OF PERFORMANCE APPRAISAL

Criticisms of performance appraisal type processes are not new. Writing in the Harvard Business Review in 1959, Likert observed that: ‘Performance review interviews as a rule are seriously deflating to employees’ sense of importance and self worth. Not only is the conventional review failing to contribute, in many executives’ opinion it can do irreparable harm’. Grint writing more recently (1993) was even more scathing: ‘Rarely in the history of management can a system have promised so much and delivered so little’.

In addition to Likert and Grint, we find plenty of criticisms in other standard performance management texts, such as Armstrong and Ward (2005), Armstrong and Baron (2005) and Fletcher (2001 and 2004). The key criticisms of these writers and others focus on the process design; the execution of the process; and the managers who conduct the process.

Process design

Appraisals are expected to meet too many and conflicting objectives. In particular the evaluative uses of appraisal drive out real conversation and thereby reduce its potential developmental and motivational impact. IES research (Strebler, 2001) points to the problem with performance appraisals with their multiple objectives of setting targets, giving performance feedback, assessing potential, discussing development needs and determining performance-related pay increases. These schemes, therefore, often require a considerable commitment in terms of organisational resources to be implemented. Murphy (2004) equally recognises that in many organisations appraisals are expected to fulfil numerous functions including: feedback, coaching, goal setting, skill development, pay determination, legal documentation, employee comparison and layoff selection and ‘no performance appraisal system can meet all these ends’(Murphy, 2004).

The process is also considered to be too complex, time consuming and bureaucratic.

Process execution

Appraisal is ‘done to’ employees and therefore does not have the desired impact on them. It has little perceived value or relevance for employees. Roberts (2002) sets out criteria for performance appraisal to be participative from the employee’s point of view. Cawley et al. (1998) showed in a meta-analysis of 27 studies that participation
by the appraisee in performance appraisal is associated with higher levels of acceptance of the appraisal and satisfaction with the process.

**Manager’s role**

Line managers are not committed, partly because of this bureaucracy, but also because the system is not ‘sold’ well enough, or supported by wider management culture. They ‘go through the motions’.

Managers do not have the skills to operate appraisal effectively, either in judging performance or handling difficult conversations, especially with poor performers.

Employees’ relative performance can never be measured objectively or fairly. Even if the manager’s judgement is careful and evidence-based, objectives are not equally hard to achieve and do not cover all aspects of the job. Putting more effort into ‘accurate’ performance measurement is a delusion.

The manager’s perception of an employee’s performance may not be very valid, simply because they do not have enough information and do not see all aspects of their performance. They may also be biased by liking or disliking the individual or by prejudice.

Managers may not always be the best person to support an employee in exploring their own performance and development (Mayo, 1997). Performance appraisals have become increasingly difficult to administer because of management delayering. If a manager has multiple subordinates, it becomes impossible for them to intimately know the performance and development needs of all their direct reports (Ledford et al., 1994).

**IMPROVING THE EFFECTIVENESS OF PERFORMANCE APPRAISALS**

The E-reward survey (2005) highlights a number of conditions for success in performance appraisal, showing that simplification and the use of competencies are among the most common measures applied to improve existing systems. Further conditions for success stem from these, for example, a simplification of systems can be supported by establishing more regular review meetings but to ensure these meetings are valuable and provide a forum for quality discussion managers need to be capable of conducting useful appraisals and be committed to the process. It could be argued this capability and commitment should be driven by the senior leadership. The senior team
should also ensure that performance management is aligned with the corporate strategy, so that individuals understand how what they do contributes to the overall goals of the organisation. In parallel to this, is the need to integrate the performance management process with the culture of an organisation and equally tailor the process to the varying needs of different employees. One way organisations are attempting to engage employees with the performance management process is to use technology to make the process more enjoyable and accessible. All of these elements require co-ordination and the process needs to be monitored to ensure it is capable of responding to changing business circumstances. In the following section we consider each of these conditions for success in more detail.

**Simplification**

As described earlier, performance appraisal within organisations can attempt to fulfil many different purposes. Whilst there has been greater use of input measures, such as competencies (Armstrong and Baron, 1998) and more adoption of personal development, there is still more progress to be made with respect to process simplification. The CIPD’s 2005 survey of performance management found that over a quarter of respondents thought performance management continued to be bureaucratic and time consuming. Indeed, one could argue that the very extension of the purpose of performance appraisal to include a broader-based assessment has added to its complexity.

Effective appraisal systems are inextricably linked to the control over the complexity of the scheme. Strebler (2001) states the ‘increasing complexity of some of the systems might be a barrier. To make the process work, managers themselves have to be motivated to want to use it’. The report suggests that an important element of effective performance management is ‘user friendliness’, stating ‘users satisfied with their performance review system believed it did not cover too many purposes to be effective, irrespective of how many objectives it was trying to achieve and whether it was separated from assessment for pay or not. While overloading appeared a useful concept, it is perception of overloading that matters’ (Strebler, 2001, p.xi).

Good practice in performance appraisal systems, she suggests, is that they should have clear aims and be simple to understand and operate. They should also have their ‘effective use core to all managers’ performance goals and be closely allied to a clear and resourced training and development infrastructure’ (Strebler, 2001). Strebler
also sensibly recommends that designing a system that satisfies users may encourage them to use it effectively.

**Coens and Jenkins (2000)** thought that de-cluttering performance appraisal could best be achieved by going further still by focusing on final customer outcomes. In their work for the Police Department in Madison, Wisconsin, this means the citizen.

**Muras et al. (2008)** advice around the implementation of performance management is straightforward ‘keep it as simple as you can—only go for increased complexity and precision where the effort warrants’. They argue that complex performance management systems will often ‘confuse rather than enlighten managers and employees’ due to the blend of ‘complex processes, competing IT systems, and multiple dashboards’ which often don’t provide the information that is valuable and therefore makes the measures of performance irrelevant. **Finn (2007, cited in Wikina, 2008)** also state that defining and understanding the performance management process as well as establishing the foundations of performance management are key steps in the foundations for successful performance management.

**Simplification of the competency link**

Competencies are described by **Whiddett and Hollyforde (1999)** as the descriptors of skills, knowledge and behaviours that employees are expected to have to perform their roles effectively in an employer. A survey of 100 of the UK’s largest employers showed that appraisal systems are widely used, with seven in ten organisations appraising employees once a year, and competencies were a common component (IRS, 2003). Performance and development needs were found to be measured against competencies in 56 per cent of these organisations and in the vast majority of organisations surveyed a job description was provided for the jobs being appraised.

**Plachy (1993)** defines a job as a common definition of tasks that are the same whoever carries them out, while a role is a broader definition of requirements covering the contribution people make in achieving objectives, reflecting the different contribution individuals make, as well as the purpose of what they are doing. This move has supported the inclusion of competencies in appraisal and development processes. It has also encouraged some employers to link job tasks and competency development in a single role profile document.
A simplified example of this integrated role profile format from a multinational PLC is shown in Figure 5.1 below. The single document is used for job description and job evaluation purposes, as well as to identify competency requirements and skills development planning. An appraisal form is bolted onto it focusing on annual objectives and performance against them. The spread of more effective HR information systems has meant that these different systems – of appraisal, development, pay, recruitment etc. - are easier to link up and often can enable managers and employees to administer them more effectively.

Figure 2.5.1.1: Example role profile format from large UK PLC

<table>
<thead>
<tr>
<th>Role indicators</th>
<th>‘Need to do’</th>
</tr>
</thead>
<tbody>
<tr>
<td>■ Key purpose</td>
<td>■ Primary accountabilities</td>
</tr>
<tr>
<td>■ Key performance measures</td>
<td></td>
</tr>
<tr>
<td>■ Reporting structure</td>
<td></td>
</tr>
<tr>
<td>■ Financial impact</td>
<td></td>
</tr>
<tr>
<td>■ Decision making</td>
<td></td>
</tr>
</tbody>
</table>

‘Need to know’

■ Specific experience/knowledge in your area
■ in other areas across functions
■ Qualifications/work experience

‘Need to be’

■ Competencies
■ Level of competencies

A study by Incomes Data Services comments that competency frameworks should not become ‘unwieldy and consequently fall out of use. Competency frameworks need to be flexible so they can be adapted easily in line with organisational changes and remain fit for purpose’ (IDS, 2008, p.1) and ‘whatever form competencies take, their overriding purpose is to add business benefit’ (IDS, 2008, p.2). Competencies and behaviours have become key to performance management to
establish how goals should be achieved and to contribute to development planning (IDS, 2008).

The IDS study recommends that when an organisation is revisiting or replacing a competency framework, a first step should be to identify the strengths and weaknesses of the current system. It looks to the large retailer B&Q as an example of this, where consultations with key stakeholders have helped identify what are the elements of the existing competency framework that are working and what should be included in the new model. IDS recommend that employers review and adapt their competency frameworks on a regular basis.

The IDS study found there are six to ten core competencies in a typical framework, with an equal number that are optional. Each core competency is usually supported by a brief definition, which ‘provides clarity for employees and line managers’ (IDS, 2008, p.3). The study also found that the most useful competency frameworks were not completely comprehensive ‘which risks over-complication, but are short, simple in structure and, above all, understandable’ (ibid., p. 4). The behavioural indicators at different levels also contribute to personal development planning through benchmarking and assessing the gaps in an employee’s abilities.

The number of competencies contained within frameworks have reduced in recent years. Whiddett and Hollyforde (1999) comments that whereas it was once common to find frameworks that contained 30 or more competencies, it is now more usual for frameworks to contain no more than ten. Many users find between six and 12 competencies to be the most useful range for a framework. Larger frameworks were often developed because organisations attempted to include all the information required for all applications and all roles, including information on job tasks, outputs and behaviours.

But experience has shown that it is often more effective to produce generic frameworks, with guidelines on how to apply it to a range of applications. The more competencies that a framework contains, the more difficult it can be to implement (Whiddett and Hollyforde, 1999, p.11). Among the most common competencies included in these six to 12 core competencies are communications and other interpersonal skills, problem analysis and challenge, innovation and creativity, and management, leadership and supervision.

And a simplification in the levels and descriptions of each competency or dimension also seems to have also been occurring. So for example, rather than multiple
levels described on each competency from the highest to the lowest degree of application, now it is relatively common to simply have lists of indicators and contra-indicators for each competency, and to leave managers and employees more flexibility and discretion in applying these to specific jobs.

The guidance needed to advise on the application of larger frameworks also becomes very lengthy and ‘off-putting to users’. Whiddett and Hollyforde (ibid) state that the ‘thickness of a document is usually inversely related to the number of people who read it’. They provide the example of a government agency that had a framework with over 60 competencies, each with five levels of complexity. Users found it impossible to apply, and the 200 page reference document ‘undermined any confidence they might have that they could make the framework work’. The agency addressed this problem by identifying the behaviours common to all roles in the organisation and produced a second framework with 12 competencies, accompanied by a 12 page guidance document. This was found to meet users’ needs adequately (Whiddett and Hollyforde, 1999).

Splitting competency frameworks into a core set of common, often behavioural competencies such as communications and management skills, alongside of an additional set of technical or professional competencies, which are generally now tailored by the occupational group, rather than attempted to fit within a common corporate framework, is also now very common in large organisations. It seems to be a means of getting some consistency in definitions without restricting occupations to specify some of their specific requirements.

**Effectiveness of competencies**

Ensuring the success of competency frameworks requires them to: be sufficiently flexible to adapt to organisational change; have support from the top of the organisation and from the stakeholders who will influence it the most; have a high profile champion who promotes the use of the framework; keep it simple, rather than overly comprehensive; descriptors that are understood by employees; the use of relevant behaviours; the setting of clear boundaries between the different competency levels and a framework that has a clear purpose that is understood and welcomed by employees and managers (IDS, 2008).
Regular and quality discussions

Following the simplification theme, simpler process and paperwork may be supported by more regular meetings, although each meeting is often more focused and shorter than using the one meeting per annum model. At a major charity there are now a minimum of four meetings a year, with each having a distinct focus.

The first is for objective setting, the second for development planning, the third for ongoing coaching and the fourth to review performance and pay.

Sillup et al. (2010) discuss that traditionally appraisals are completed once a year and usually include a mid-year discussion, but they argue research has indicated that this is too infrequent because raters face problems with remembering what employees did over the previous months (Campbell et al., 1970, cited in Sillup et al., 2010). Juran (2004, cited in Sillup et al., 2010) found that organisations with monthly or quarterly performance appraisals ‘outperformed competitors on every financial and productivity measure and got positive feedback from employees about the fairness of the PA system’ (p.42).

At Standard Chartered Bank the appraisal process is called ‘Conversations that Count’. The aims are to increase staff engagement, develop staff and deliver better results. Managers have four conversations with their staff during the year: perform (the appraisal against personal objectives; learn and develop (planning learning required to perform their job); careers (building the potential to take on larger roles); and engagement (where managers ask staff how well the organisation knows them, cares about them, helps them to focus and develops their strengths).

A later study by the Institute for Employment Studies (Hirsh et al., 2004) interviewed employees who said they had experienced a manager who had ‘developed’ them. Again conversations lay at the heart of this process, as did managers being close to employees and their work and giving them focused coaching and access to work experiences. This kind of attention improved performance via its impact on confidence and motivation. These psychological effects were as important as skill acquisition in the impact of developmental management styles. Effective developers also created a climate of openness within their teams and encouraged informal discussions about work issues.

A survey by the Career Innovation Group (Winter and Jackson, 2004) asked over 700 high performers in a small sample of large, mostly global, organisations to
comment on the conversations they had at work which had high impact on them. Not surprisingly, these high performing employees are the kinds of people who receive a lot of attention, and they had regular conversations about their work, especially with their managers. However, they were not always getting the types of conversations they most needed.

About half of the conversations having the greatest impact were performance related, and about half of these took place in appraisals.

By contrast, only about a quarter of high impact conversations were development related, and less than a quarter of these took place in appraisals. Lack of development conversations was a major source of dissatisfaction which also correlated with intention to leave. The big conversation gap in relation to development was about career development rather than skills and training for the current job.

Issues related to work-life balance were not being well addressed.

Forty per cent of respondents had an issue about work which they wanted to discuss but were not doing so. These respondents were nearly three times more likely than other respondents to be planning to leave the organisation in the next twelve months.

The study concluded that good dialogue rests on trust and can in turn lead to engagement and so improve performance. Conversations about performance which do not also address development for the future do not engage high performing employees. In other words ‘the best leaders are those who address performance and development together.’ (ibid.)

These studies suggest that semi-formal discussions may be helpful ie the conversation itself is planned, but its structure and agenda are not over-prescribed.

**Wider input into the discussion**

There is also a trend towards more people inputting into the end-of-year review to try to improve the quality of assessments. Surveys suggest that between a quarter and a third of employers are using some aspect of 360 degree appraisal, collecting input from colleagues and reports, and sometimes from customers. Some of this is formal moderated/managed ‘multi-rater’ feedback; in other cases it is informal comment. **Finn (2007, cited in Wikina, 2008)** states that a strong emphasis should be placed on regular and consistent feedback, especially informal feedback and research about 360 performance appraisal systems suggest that it is an effective way to increase the flow of information within an organisation (Garavan and Morley, 1997, cited in...
Sillup, 2010). The CIPD found that fewer than half of employees state that their line manager usually or always provides feedback on their performance, but those that could claim they always received feedback were more satisfied with their job (CIPD, 2009).

Within 360 feedback there is always a possible friendship bias but this can be reduced by training what colleagues need to evaluate (Reilly, Smither & Vasibopoulos, 1996, cited in Sillup, 2010). Evaluation of managers from their direct reports is seen as empowering for employees and to protect against retribution, ratings can be combined into overall ratings (Sillup, 2010) and employees given an opportunity to perform self appraisal are also found to be motivated and have fewer concerns about ‘unethical treatment’ (ibid.). Research shows that collecting feedback from multiple sources is desirable because they give a complete perspective about employees’ performance and reduce the chance of ethical concerns (Longenecker et al., 1987, cited in Sillup, 2010).

Sillup et al (2010) found through research with five US-based organisations that all were using annual 360-degree feedback. Within each organisation, the majority of performance evaluators and employees (87 per cent) had received training about their performance appraisal system and 85 per cent of evaluators helped their employees set objectives. However, only 20 per cent of the evaluators with greater responsibility within the organisation were seeking feedback about an employee’s performance from peers, which was inconsistent with the 360 appraisal system.

Committed and capable managers

In order for regular and quality discussions to take place, the commitment and capability of managers needs to be developed and this should be an important consideration in the design and implementation of a performance management system. Purcell’s research at the University of Bath identified this as key in ‘bringing HR policies to life’. Purcell et al. (2003) included appraisal as one of eleven HR practices investigated for their potential links to performance. This report found that employees were more likely to ‘go the extra mile if managers stimulate and encourage positive attitudes’. Purcell concluded that appraisal is an HR practice worth paying attention to because it offers line managers the opportunity to bring about ‘commitment, job satisfaction, and motivation… which in turn lead to discretionary behaviour.’

Research by Baron also supports the widely held view that performance management needs to be ‘owned’ by line managers (Baron, 2004). Rees and Porter
(2004) state that for a scheme to ‘have any prospect of success it needs to be owned and driven by line management’ (Rees & Porter, 2004, p.31) and senior management commitment has to be maintained (Wolff, 2005). Sillup et al. (2010) state that ‘many performance appraisal systems fail because organisations do not direct enough effort into gaining support for the process from those managers who will implement the system and Lewy and Du Mee (1998, cited in De Waal, 2003) argue that successful implementation and use of a performance management system will be achieved when managers have an ‘intensified awareness of the importance of the performance management system’ (p.694). De Waal (2003) also states that ‘managers’ understanding of the nature of performance management is a key behavioural factor for the successful implementation of performance management and that a positive attitude of managers towards performance management is vital’. A good alignment between managers' responsibilities and the performance management system is also considered necessary. Martínez (2005) also found through research at an electricity company that at a tactical level, the performance review process can become ‘monotonous’, which means that managers have to ‘continuously refresh the way in which performance is reviewed to keep it interesting and attractive’. This meant that the leadership of managers played an important part in the success of the system.

A study by IRS (2005) on the use of appraisals found a common concern was that if managers are not adequately trained and committed to the appraisal system, the performance review becomes ‘just a paperwork exercise’. While this illustrates the need for managers to be committed, it is equally as important for managers to possess the skills needed to conduct effective appraisals. While it is acknowledged that individual managers must have the skills required to conduct appraisals effectively, only just over half (57 per cent) of respondents to the CIPD’s survey of performance management reported that they train appraisers. Some 34 per cent train all staff, however, a greater proportion of all staff in the public sector (49 per cent) are likely to receive training (CIPD, 2005).

In the IRS study (Wolff, 2005) Virgin Mobile reported good training of appraisers and appraisees was key to making its appraisal system succeed, along with positive communication to ‘pitch it as a benefit’. The Student Loans Company also commented that ‘training of managers in carrying out appraisals is essential to the success of appraisal systems’. Thornton and Zorich, 1980 (cited in Silip, 2010) also note that to increase employees’ awareness about how a performance appraisal system
is intended to operate, employees should also receive training.

Colville and Millner (2011) state that HR need to do a ‘robust training needs analysis prior to implementing performance management’ and capability needs to be analysed in two areas:

1. The skills to manage the process; objective setting, gathering evidence and objective rating.
2. The behavioural skills required to have regular conversations about performance, personal development and career progression.

Building the capability of managers seems to be even more important where competencies are used. The most comprehensive competency framework, ‘no matter how well designed and appropriate, will not make a bad process good, nor will it compensate for poor training, poor techniques or unskilled users’ (Whiddett and Hollyforde, 1999, p.18). Sillup et al. (2010) argue that those who evaluate performance must accept the importance of performance appraisal as an ‘organisational objective and integral part of their job, rather than a ‘make-work’ hassle’ (p.41).

**Strong leadership**

Baron (2004) commented that organisations are winning support from line managers through ensuring there is strong leadership from the top of the organisation; involving line managers in the development of performance management processes and including performance management as a criterion in assessing line managers’ own performance. It is important for leaders to be fully involved in the performance management process (Karuhanga, 2010) and as Buchner, 2007 states in regard to successful implementation of performance appraisal systems ‘success begins with top-down support but requires bottom-up support for it to work’ (cited in Sillip et al., 2010, p.40) and Finn (2007, cited in Wikina, 2008) states that gaining stakeholder commitment is the first step in the foundations for successful performance management. Equally, Franco & Bourne (2003, 2005, cited in Elzinga et al., 2009) found that top management agreement and commitment was a crucial factor related to the effective implementation of performance management. Alongside this, they also identify the ‘three E’s as crucial to implementation, being Empowering, Enabling and Encouraging behaviours from senior management.

Wikina (2008) adds that senior management needs to show leadership and set the tone for performance management, ‘building the right culture based on efficient delivery of service, organised and multidisciplinary teamwork, and effective
communication at all levels’. Wikina also states that the leadership needs to provide and allocate tools for performance management and improvement.

**Align with organisational goals**

Senior leaders should also play a role in ensuring performance management aligns corporate strategy and objectives to individuals, so that employees know how what they do fits with the organisation’s overall strategy. This is known as the ‘golden thread’ of performance management (IDeA, 2004).

Stiffler (2006, cited in Wikina, 2008) recommends that a ‘unified approach to performance management’ is achieved through aligning the objectives, resources and activities of the organisation to the goals and opportunities of individuals within the organisation (Karuhanga, 2010). Lawson et al. (2003, cited in Elzinga et al., 2009) found through research in 150 organisations, that two-thirds agreed that implementing performance management systems increased employees’ awareness of company strategy and business plan goals, and helped to align operational improvements with overall strategy. Wikina (2008) found that the need to align performance and goals with organisational strategy is causing organisations to examine the performance management structures they have in place and devise ways to make them more effective and outcome-based.

Cascio (1991, cited in Sillup et al, 2010) states that a performance appraisal system should ‘help managers groom their employees to accomplish objectives that will help the corporation gain competitive advantage’ (p.41) and Borman (1991, cited in Sillup, 2010) equally argues that an effective performance appraisal requires relevance; through which there are clear links between the tasks for a job and organisational objectives.

Murphy (2004) criticises that organisational goals for performance appraisal systems are not considered carefully enough and this results in systems attempting to achieve too much. Moreover, Murphy and Cleveland (1995) make the point that the organisational goals for the appraisal system need to be compatible with what the appraiser and appraisee want to get out of it. If not, they will not use it effectively. The implication here is that many of the organisational purposes of appraisal are not of great value to the manager or the employee, so their compliance will at best be half-hearted and they may well consciously distort the process to achieve their own desired ends.
Locke and Latham (1990) in a series of studies have shown strong evidence for the effectiveness of individual goal setting, although the majority of such work has not been done in the context of appraisal. They advocate the use of goals that are specific, moderately difficult, and accepted by the individual for whom they are set. The recurring theme here is about goals which the employee really agrees with, not goals which are imposed.

Alongside the importance of aligning employee’s efforts with company objectives is the need to clearly communicate the organisation’s expectation of its employees. The Corporate Leadership Council (2002) concluded that employee understanding of performance standards and objectives is more influential than specific features of the performance management system itself in driving performance.

The Acas Model Workplace also indicates that employees require clarity around expectations of them in terms of standards of performance and behaviour and they need consistency in the application of processes. Acas state that at an individual level appraisal systems are the ‘ideal way of clarifying objectives’ and that appraisals provide the opportunity for managers to check that employees understand what is expected of them (Acas, 2005, p.8). Finn (2007, cited in Wikina, 2008) also states that in designing a performance management system, expectations for employees need to be stated with clear, measurable performance goals.

Integration with the culture

A further key to the success of embedding effective performance appraisal appears to be its integration into the culture of the organisation; building a culture of continuous performance appraisal, not as Martin and Bartol (1998) state ‘a periodic ritual that proves unpleasant for employees and supervisors’. Organisations may choose to accept the dominant culture or alternatively change it through performance management. In the 1980s a number of organisations moved towards a more reward based performance assessment to shift the culture to one with more of a performance orientation. Generating a more performance oriented culture was a key feature of the interest in early individual performance-related pay schemes (Kessler, 2000). Other organisations aim for a greater customer focus and signal their approbation of customer-friendly behaviours through competence or contribution-based pay (Brown and Armstrong, 1999).

De Waal (2003) found that an organisational culture focused on using the performance management process to improve the business is a key behavioural factor
in the effective implementation of PM processes. De Waal found that open communication and trust in performance information is critical. Research by Martinez (2005) also found through a case study of a European Electricity Supplier that a benefit of implementing a performance management system was the change in employees' behaviour; it encouraged a ‘tolerance to failure’, improved transparency of information and improved vertical and horizontal cooperation. As a result, the culture at the company was perceived to ‘move from a reactive and command-and-control culture to an open and proactive one’. Holloway et al. (1995, cited in De Waal, 2005) provide a useful summary statement that ‘the successful implementation of a performance management system depends on understanding and accommodating the behavioural factors of performance management’ (p.61).

**Tailored to employees**

Alongside the need to integrate performance management into the culture of the organisation is the recognition that systems should be adapted to accommodate the different requirements of the varied employees within an organisation (Rees and Porter, 2003). Rees and Porter suggest that systems should take into account differing organisational needs and priorities, levels of managerial expertise, styles of management and the sophistication of employees. Cederblom (1982) equally proposes that different employees in different circumstances need essentially different appraisal dialogues, which he describes as the ‘contingency model’. In this model he distinguishes between:

- High performers in non-routine jobs: needing a development focus to appraisal, at flexible time intervals.
- Longer tenure, satisfactory performers in routine jobs: needing discussions of deviations from prior acceptable performance, held at infrequent intervals or when exceptions occur.
- Newer or lower performing employees: needing frequent developmental and evaluative reviews of performance.

Dychtwald et al. (2006, cited in Colville and Milner, 2011) also notes that organisations are increasingly seeing differences in the way that different generations respond to performance management. An example is provided of ‘baby boomers’ expecting recognition of their contribution to longer-term success, with younger generations seeking recognition for shorter-term achievements. This presents opportunities for dissatisfaction if a performance management system is biased towards
either short-term or long-term benefits.

Sillup (2010) state that organisations need to consider which performance appraisal system will meet its objectives and motivate employees, with a ‘fundamental issue’ for organisations being whether the system rewards employees for generating short-term results (e.g., sales during business quarter) or for completing long-term results (Beatty, 1989 cited in Sillup, 2010). Sillup et al. (2010) also presents another perspective using the example of drug development within the pharmaceutical industry, in which efforts will not always result in a new drug being achieved during the one-year performance appraisal period. They state ‘to be successful, it is pertinent to customise performance appraisal for each environment’ (p.41). Fletcher (2001) similarly argues that the range of factors which might influence the appraisal needs of different employees are job types, tenure in organisation or job, career stage, personality and motivation, performance level.

Igvarson and Chadbourne (1997) argue, based on the ineffectual experiences of implementing appraisal for teachers in Australia that the active support of staff, and adapting systems to meet local needs, are both essential requirements for success. Chandra (2004) reinforces the importance of employee involvement, while O’Conner and Lee (2007) document how when home care workers are involved in tailoring an appraisal system to suit their own needs, it became a success. Research by De Waal (2003) emphasises the importance of behavioural factors in implementing a successful performance management system, which relates to the involvement of staff in the development, implementation and use of performance management processes. Karuhanga (2010) also recognises that a committed and supportive workforce is necessary for effective implementation of performance management systems. The natural conclusion here is that a ‘one size fits all’ appraisal governed by the need to document a complex agenda is not appropriate.

Use of technology

Technology is also being used to help to try to engage employees more to trust and even enjoy the process. McGregor, (2009) reports that ‘employers are trying out social networking-style systems that aim to improve – and take the dread – out of annual reviews’. Accenture has developed a Facebook-style program called Performance Multiplier that lets employees post status updates and personal weekly goals. Rypple lets people post Twitter length questions about their performance in return for anonymous feedback, and has software to replace the standard annual review
with quick monthly surveys and discussions. By prompting people to document and adjust their goals and learning constantly Accenture hopes that the formal process discussions will also improve.

This is a step beyond earlier automation of the performance appraisal process. E-performance management often simply made electronic what was previously a paper process. Whilst generating better management information (on say performance by grade, gender, division, etc.), there was little additional functionality offered (eg to segment the process by say work area). Indeed, it permitted the easier management of remote workers, yet risked a de-humanisation of the process.

Bourne et al. (2000) state that implementation of performance management concerns the systems established for collecting and processing data that enable regular measurement. They suggest this can involve computer programming to capture data already within a system or implementing new procedures, so that information currently not recorded is captured or it can involve new initiatives such as the introduction of an employee survey. Bourne et al. however also identify computer system issues as an obstacle to the full implementation of performance management within organisations.

Monitored systems

The literature shows that performance management and appraisal schemes need to be adequately co-ordinated and monitored. ‘In addition to evaluating employees on a regular basis, organisations should assess the effectiveness of the appraisal system periodically’ (Schraeder, 2007, p.23). Rees and Porter (2004) argue that the role of HR needs to be emphasised in co-ordinating and facilitating the process. The Civil Aviation Authority recommends that the appraisal process should be regularly reviewed and adjusted if necessary, but warns against continually changing the scheme (Wolff, 2005). Cocca et al. (2010) also state that for effective performance management, the system needs to be dynamic and fluid to respond to changing business circumstances so that performance measures always remain relevant. They note, however, that few organisations often have the processes in place for monitoring their systems. Performance management systems consist of a collection of five elements: people, procedures, data, software, and hardware (Wettstein and Kueng 2002 , cited in Cocca, 2010) and all of these elements need to be monitored to assess the effectiveness of a system (Cocca, 2010, p.188).

IES has conducted numerous evaluations of performance management systems as managers are often still quite poor at evaluating performance-with-evidence, so they
often fall back on the tried and tested methods of which individuals they consider to be
the most reliable, the most visible or, perhaps subconsciously, whom they feel most
comfortable dealing with. IES has found that the outcome of this is that People who
work in non-standard patterns in the organisation can get poorer performance outcomes
(eg part-times workers, the majority of whom are women). People from black and
minority ethnic groups tend to get poorer performance outcomes. Women in more
senior positions tend to get poorer performance outcomes. People with disabilities tend
to get poorer performance outcomes. Senior staff tend to get better performance
outcomes (IES, 2011). Organisations need to think carefully about how they manage
and measure performance as the implications can be serious for the real performance of
an organisation as well as for the people employed within it.

Performance Management and Reward

The CIPD survey (2005) of performance management found that one in three
respondents, 31 per cent, reported that they operated a link between the appraisal
process and pay progression. There are three main ways this link is made: assessing
performance inputs (usually competencies, but sometimes skills); assessing
performance against objectives (ie outputs); or a combination of the two. While
competencies have become a foundation for many HR processes in virtually all large
employers, their use for pay determination has been limited and more controversial.
O’Neal (1993/1994) describes competency-related pay as ‘the way tomorrow’s
organisations will pay’, supporting a shift from paying for the ‘what’ to rewarding the
‘how’. But Sparrow (1996) feels that ‘pay determination requires a precision that
could stretch the theory of competencies to breaking point’ and damages the
development objectives in their use.

Several researchers have also investigated whether the pay link will always
reduce the quality of debate and agree that this will not necessarily happen. Prince and
Lawler (1986) found that salary discussion does not affect the employee’s satisfaction
with the appraisal process one way or the other but the Strebler et al (2001) study on
the appraisal dialogue found an increasing disillusionment with the link to pay.
Ducharme et al. (2005) in a large-scale Canadian workforce survey showed that
performance feedback (not linked to pay) was a more important influence on pay
satisfaction than performance related pay unaccompanied by feedback.
**Competency-related pay**

The CIPD’s reward management survey (CIPD, 2008) finds that fewer than one in five employers link pay progression directly to competencies, although half of those which link performance and pay include considerations of skills and competence, as well as other factors such as affordability and results achieved. Brown’s (1998) review of links between competencies and pay found that two main methods were being employed. First, competency criteria were being used to help to evaluate and grade jobs in banding structures, often through descriptions of the common characteristics of the jobs in each band. Second, competencies and skills were being linked directly to pay progression within a band or pay range. His review of research on the links found that:

- Linking skills and competencies to pay is often popular with staff.
- It generally ‘works’ in terms of supporting and promoting the up-skilling of employees.

However, this can create problems in that staff may progress more quickly than was planned and so budgets to fund this may be stretched, while issues of how higher skills can be fully utilised may also emerge.

There also appears to be a ‘peaking out’ effect after a few years once employees have developed the required skills and have reached their pay ceiling. Brown’s advice on making links between competencies and pay effective includes the following points:

- Develop, test and use competencies for purposes such as recruitment and training and development before the link to pay is made, as the definitions and measures need to be robust once pay is being influenced.

- ‘Do it properly or don’t do it at all’, that is, if there is a fear that development may be compromised or pay progression limited then the pay link should not be attempted; correspondingly if the links are made, there should be robust assessment in place that genuinely tests whether or not individuals have obtained and are using the defined skills in their workplace.

- Generally, competency frameworks are simplified further for pay purposes, so that often only a limited set or selection of the full competency framework or menu is used.

**Results driven performance related pay**

Performance-related pay (PRP) rewards employees with a financial payment, either consolidated or non-consolidated, following an assessment of their performance and, typically, the achievement of objectives. It was first introduced in the UK on a
wide scale in the 1980s and many organisations had high hopes that PRP would bring about cultural change and encourage higher levels of individual and organisational performance. But since its early introduction, reward specialists, organisational psychologists and academics have disputed whether or not PRP is an effective motivational tool. Some of the potential advantages of PRP are that it can provide a direct incentive, is a tangible means of recognising individuals’ achievements, and provides the flexibility to retain key staff. On the downside, critics of paying for performance in this way say that it can be discriminatory, de-motivate the majority of employees at the expense of a few high performers, and undermine ‘felt fair’ perceptions of equity. PRP is built on the premise that reward can foster the right behaviour and money is a potentially powerful incentive to influence the amount of effort that employees will exert on behalf of the organisation. Some theorists believe that money can act as a goal in itself and can be valued by employees as a symbol of external status and internal recognition. But others contend that early proponents of PRP failed to appreciate the complexity of the wider employment relationship and the extent to which financial reward can act as a long-term satisfier. ‘Needs’ theories such as those developed by Maslow and Herzberg place a great deal of emphasis on the intrinsic aspects of the job, and argue that people can gain the greatest satisfaction from work factors such as responsibility, achievement and recognition. Other critics of PRP caution that such pay schemes are coercive and can encourage the wrong type of behaviour, for example, by focusing on individual effort at the expense of team working.

Initially hailed as the solution to motivating staff and encouraging higher levels of productivity, PRP subsequently suffered a reaction a decade later when it became apparent that it may not live up to expectations. A number of research studies failed to demonstrate any causal link between merit pay and performance and productivity. But, say Brown and Armstrong (1999), performance-related pay is neither dead nor dying; the spread in incidence has undoubtedly slowed, but it is continuing to be applied and grow. Furthermore, the practical problems in implementation and operation are increasingly well recognised and documented.

Indeed, more up-to-date survey evidence shows that the premise on which IPRP is based – that is, rewarding people according to their level of performance – remains a fundamental principle of many organisations’ reward strategies. The CIPD (2010) annual reward survey indicates that, when it comes to pay progression, though the
The majority of employers use multiple factors in determining reward, with individual performance (68 per cent) being the most important and senior managers more likely to be assessed solely on their performance than other employees.

Gratton (2000) finds that performance-related pay only works if individual or team-based pay is high enough to reward effort, and if the basis of allocation is clear, fair and accepted. She goes on to say that in practice the money is not enough to achieve this and the system is usually not clear enough.

**Contribution based pay**

The 2010 CIPD survey found that three-quarters of those which link performance and pay use a combination of factors to determine pay progression, including considerations of skills and competence, as well as other factors such as the market and individual performance results achieved. This is what Brown and Armstrong (1999) called ‘contribution-related pay’, i.e. the term they used to describe approaches that combine recognition for both inputs and outputs — how results are achieved as well as the results themselves. This approach is a formal combination of competency and performance-related pay. Brown and Armstrong believe that contribution-based pay is a desirable approach precisely because it covers both inputs and outputs in a way that is reflective of most jobs. Using the term contribution-based pay is also a recognition that a number of organisations, though describing their pay system as either competency-based or performance-related, are actually a combination of both.

Overall, given the massive effort which goes into managing performance-related pay systems, the evidence that they improve performance is very weak indeed. As Armstrong and Baron (2005) write ‘the problem with contingent pay is not that the principle is faulty, but that the practice is flawed’.

**PERSONAL DEVELOPMENT PLANNING**

The CIPD survey of performance management (2005) found that about two-thirds of respondents (62 per cent) reported that they used personal development planning in their formal performance management processes. Performance appraisal is considered to be a key tool for the identifying training and development needs of an individual (Wilson et al., 2000). All of the organisations in the IDS study (2008) were using competencies to assess and plan the development needs of employees, with
development planning generally following directly on from the appraisal process. The CIPD found that some 71 per cent of respondents to its performance management survey agreed that the focus of performance management is developmental (CIPD, 2005). The assessments of competency gaps inform the learning requirements for the employee’s development plan. For ambitious employees or those wishing to make lateral moves across the organisation, being aware of the competencies and levels of performance required to perform another role facilitates the creation of development plans to gain those competencies required (IDS, 2008).

As development goals are typically informed by the gaps in competencies or behaviours there must be a fundamental link between development planning and the performance management process. IDS reported that some organisations separate the performance assessment and development planning processes to place greater emphasis on each. However, IDS states that this can ‘create a more complicated or unwieldy structure and blur the link between development activities and the achievement of performance goals’ (IDS, 2009, p.6).

Personal development plans are a well established feature of performance management. Fletcher (1995) said that ‘appraisal has a valuable function in developing people and that this is where its motivational value lies.’ The research of Tamkin et al. (1995, p.5) shows that personal development plans are most commonly focused on job or career development or a mix of both. They state that ‘personal development plans which focus solely on skill development for the current job will not be welcome by many employees. Those which take a broader view of the individual and their future may be more effective for encouraging flexibility and have a higher impact on employees’.

The CIPD survey of performance management found that over two-thirds (67 per cent) of respondents agreed that the most important aspect of performance management is that of setting challenging and stretching developmental goals.

The use of personal development planning and the need to revisit performance management systems was highlighted by comments made by First Direct, which stated that personal development planning ‘details the skills required for different roles based on core competencies. It’s an in-house system so it needs constant refreshing, and we need to make sure that that is up to date and reflecting skills required in the business now and in the next five years’ (Armstrong & Baron, 2005, p.97). Armstrong and Baron (2005) also found that most organisations indicate that they expect employees covered
by the development planning process to prepare and implement plans. However, in some organisations PDP is encouraged but it is not obligatory ‘on the grounds that to insist too strongly on the completion of forms seems to be inconsistent with the principle of self-managed learning’ (ibid., p.99). Not all employees are interested in career progression, but steps are often taken to encourage these employees to look at what development is available to them, whatever their level. And a number of research studies have shown links between career and skills development and flexible working and levels of customer service delivery.

As with appraisal, some organisations have different approaches to PDP as well as to appraisal for different types and levels of staff. It is relatively common for example to have distinct development arrangements and competency frameworks for senior managers and leaders, although management and supervisory skills would still be a very common component in generic competency frameworks. Approaches will often be simpler too, at lower levels in an organisation. But although surveys do show that levels of PDP coverage decline for lower paid and skilled jobs, generally employers with these types of process endeavour to apply them to all of their employees.

Wilson et al. (2000) recognises that the individual is the ‘most knowledgeable person about the work performance and should be the most important source of information about their achievements and areas for development (Murphy and Cleveland, 1995). They suggested by increasing responsibility for appraisal, greater commitment to the process and motivation could be fostered. Wilson et al. (2000) research provides recommendations for conducting appraisals including:

Training and development discussions should be held separately from assessment, promotion or pay discussions.

Advance warning of an appraisal should be given to staff to allow sufficient time for preparation by both appraiser and appraisee.

The appraisal report should be completed as soon as possible following the discussion.

Development plans should be flexible to allow for changing roles.

Organisation and department business plans should be consulted when identifying training and development needs and plans should be reviewed regularly.

Appraisal checklists should be provided and followed by appraiser and appraisee to ensure no areas of the appraisal are neglected.
Training should be provided to the appraisers and appraisees in the purpose and process of the appraisal and to ensure the value of the process is adequately communicated within the organisation.

The developmental aspect of performance management is described by Boswell and Boudreau (2000) as covering feedback as well as the identification of individual training needs. They also see determining transfers and attachments as part of this aspect of PM. Their research showed that the perceived use of appraisal for development was positively related to employee satisfaction with both the appraisal and the appraiser.

CAREER AND TALENT MANAGEMENT

Literature review and research shows that effective conversations about career issues are an important part of employee development. Hirsh et al. (2001) examined the nature of discussions about career development which employees in large UK organisations found useful. Only a very small proportion of effective career discussions took place in appraisal (about seven per cent). At least half were informal ie not a part of any HR or management process. The key to an effective career discussion was a high level of trust between the people combined with challenge and information-giving. Effective discussions gave employees a better sense of direction, increased self-awareness and more confidence, which led to concrete actions.

A later study by the Institute for Employment Studies (Hirsh et al., 2004) interviewed employees who said they had experienced a manager who had ‘developed’ them. Again conversations lay at the heart of this process, as did managers being close to employees and their work and giving them focused coaching and access to work experiences. This kind of attention improved performance via its impact on confidence and motivation. These psychological effects were as important as skill acquisition in the impact of developmental management styles. Effective developers also created a climate of openness within their teams and encouraged informal discussions about work issues.

Discussions about career development and the assessment of potential fell out of favour during the 1980s but have come back into appraisal again with increasing interest in talent management.

The CIPD study of talent management (Tansley et al. 2007) highlights a
number of ways in which talent management is linked with performance management. The performance management process is often used to identify ‘high potential’, for example by rating potential as well as performance and looking for those scoring high on both in the now widely used ‘nine-box grid’. Tansley raises questions about where and by whom potential should be assessed. The appraisal process is also identified as especially important to the effective management and development of high potential people – so without managers who are capable at having good discussions about performance, talent management is quite problematic.

Also Yarnall (2008) in her book on strategic career management identifies performance appraisal as the process used as a basis for dialogue about feedback, career aspirations and development. But she is not optimistic about the effectiveness of the appraisal process at meeting this purpose. In addition to the normal list of concerns (lack of time, lack of manager training etc.) she adds the difficulty of being honest about potential and future expectations.

MANAGING POOR PERFORMANCE

Poor performance is a concern to senior managers because it is a measure of how effectively the organisation is led and is almost certainly a restriction on organisational productivity. To line managers it can be a time consuming and stressful experience. For employees it can result in extra work to cover those ‘not pulling their weight’.

However, despite its importance, Strebler (2004) found no clear or common definition applied in the organisations she studied. Instead, ‘interpretation seemed to be influenced by what was going on in their business at the time and this was what had prompted a review of their approach’. Managers could identify it at individual level but applied the label to a variety of behaviours and attitudes. Poor performance is legally defined as ‘when an employee’s behaviour or performance might fall below the required standard’. Some aspects of poor performance as organisationally defined, however, seem to be more concerned with poor management (in its broadest sense), eg from role overload or unclear objectives or unrealistic targets. Absence, which can again be seen as a sign of poor performance, can be due to a un-disclosed medical, personal or a domestic problem. When poor performance is associated with misconduct (and sometimes negligence) it probably is a disciplinary issue not ‘poor’ performance.
So the first question for organisations is to clarify when poor performance should be tackled at the employee (as opposed to work environment or job design) level. Taking the legal definition, this probably means concentrating on where the individual is failing to meet the necessary standards. This is an ‘absolute’ approach to assessment to be contrasted with ‘relative’ approaches made famous by GE where ‘poor’ performers are those that contribute the least, even if in an absolute sense they are reaching an acceptable performance level.

Strebler (2004) argues that employees therefore need to know what constitutes an acceptable level of performance, below which their organisation will consider their performance wanting. This is not as simple as it seems due to the ‘variety of messages that they may receive from their employers about performance requirements’. Strebler found in her research that some organisations adopted a developmental approach, believing that employees’ performance could be improved. Their intervention therefore included a sharper focus on training and development, and also, influenced by positive psychology, fitting people to roles that would allow them to perform better. This positive psychology view generally considers that a system should reward good performance and encourage and motivate poor performers to improve, as ‘the system is not a punishment tool but an improvement tool’ Karuhanga (2010, p. 11). In contrast, other organisations may wish to adopt a more punitive method of identifying and weeding out those who are seen as not properly contributing.

CONCLUSION

This chapter has the covered literature reviews and their analysis to find out the gap for my studies in area of profiling the trends in performance appraisal, competency and skills development and considering how appraisal systems can be more effectively implemented.

There is powerful evidence that performance appraisal and related staff development can have a major impact on service outcomes, and large employers almost universally have some type of performance management process. A significant proportion of large UK employers have changed their process in recent years and many plan further changes. But, although some American writers may herald the death of performance appraisal, some type of process with similar objectives typically remains in place, if in a different form and guise. Change is apparently almost inevitable amidst
the realities, speed and pressure of organisational life today, and is a route to improved impact, rather than an admission of failure.

Common changes and apparent keys to improvement in appraisal and development processes externally, highlighted in research, include:

Simultaneously focusing more broadly on organisational performance and on initiatives required to support that, whilst also simplifying and speeding the core processes.

Providing more support and training in the use of the system to line managers and ensuring senior management commitment and example-setting. Giving employees higher levels of understanding and involvement and allowing them to drive and shape the process to a much greater extent.

Focusing on development and performance outcomes and measuring and demonstrating them.

Allowing for greater adaptation and flexibility to tailor a simpler common framework to suit diverse local needs and cultures.

In respect of competency frameworks, we have profiled similar trends towards simplification and more user-friendly and user-driven approaches, with for example, only common core competencies often now being specified. Again, support from the top and through excellent training and communications are critical enablers. Personal development and a future focus on development, rather than on past performance rating and reward, are also commonly apparent.

There are also many arguments when considering the link between performance management and reward. We have seen that a pay link may connect the actions of employees to organisational goals and this link can foster the right behaviours in employees, but in order to achieve a genuine link the practice of performance, competency or contribution related pay must be transparent and the link between pay and performance must not be compromised. Reward in this context can act as a direct incentive to some employees and can offer the flexibility to recognise individual achievements or contributions, however reward must not undermine the ‘felt fair’ perception of equity for employees.

Good practice in performance management is summarised by Armstrong and Baron (2005) through comments made by case study organisations that they visited. These provided some interesting insights into developments in performance management. For example:
‘We expect line managers to recognise it [performance management] as a useful contribution to the management of their teams rather than a chore.’

**Centrica**

‘The principles behind performance management are career management and better performance.’

**Cranfield University**

‘Making the management of performance an organic part of everyday life, not a series of mechanical tasks and processes.’

**Halifax**

And adding to the good practice picture in quantitative terms, the CIPD survey (2005) found that management buy-in alongside the communication of objectives were considered to be the most critical factors in the introduction, maintenance and improvement of a performance management system (CIPD, 2005).
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Workers are key elements in the running of an industry and as such play an important part in the industry’s success in reaching its objectives.

- Human resources, taken to be «the pool of human capital under the industry’s control in a direct employment relationship» (Wright, McMahan and M@n@gement, Vol. 5, No. 3, 2002, 175-199177

Competitive Advantage

*Human Resource Management, Strategy, and Operational Performance* McWilliams, 1994: 304), can provide the industry with a source of competitive advantage with respect to its rivals. This is possible because of the series of requirements that the workers fulfil (Wright and McMahan, 1992; Wright et al., 1994).

The first of these is the value added to the company’s production processes, the contribution made by each individual having its effect on the results obtained by the organization as a whole. Also, since individuals are not all the same, their characteristics are in limited supply in the market. In addition, these resources are difficult to imitate, since it is not easy to identify the exact source of the competitive advantage and reproduce the basic conditions necessary for it to occur. Finally, this type of resource is not easily replaced; though short-term substitutes may be found, it is unlikely that they result in a sustainable competitive advantage anything like that provided by human resources. For an industry to find the human capital to provide it with a sustained competitive advantage is not just a matter of luck. It depends rather on the action the industry is prepared to undertake towards that end. It is through personnel management practices that industry to obtain the human resources that will give them the advantage when it comes to holding their own against other companies. It is the human resources themselves, however, and not the practices, that make up the source of competitive advantage. Personnel management practices do not qualify as sources of sustainable competitive advantage, since they are perfectly replaceable and quite likely to be copied by other industry. They are, nevertheless, necessary, not only for the industry’s human capital to develop but also to enable it to be employed in such a way as to ensure improvements in the company’s performance. If HRM practices help to create better human capital in the industry and, thereby, a sustained
competitive advantage, it is reasonable to assume some sort of connection between the way in which personnel is managed and the results obtained by the industry. There are numerous empirical studies that deal with the influence of individual personnel management practices on different performance measurements.