PERFORMANCE MANAGEMENT: POISON, PANACEA OR PLAIN HARD WORK?

Performance management systems can create both positive intended and negative unintended consequences for employees and organisations. Constant attention is needed for these systems to be effective.

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In this paper we outline what organisations seek to achieve from performance management (‘panacea’), then examine some empirical research to demonstrate that performance management has adverse consequences for employees and their organisations (‘poison’). Finally, we suggest that performance management is neither poison nor panacea – it is just plain hard work. Organisations need to return to the basics in order for it to be effective.

Performance management as a ‘panacea’

The Concise Macquarie Dictionary (CMD) defines a panacea as ‘a remedy for all diseases; cure all’. Academics and practitioners encourage organisations to use performance management as a cure-all for organisational performance. For organisations, it encourages employees to focus on strategic priorities, facilitate organisational change and promote employee performance through higher levels of accountability. For employees, it provides development opportunities and higher levels of remuneration (Kessler and Purcell, 1992; Shields, 2002). Nankervis and Compton (2006) provide evidence on the widespread use of performance management in Australia—96 per cent of organisations reported having a performance management system.

An emerging body of evidence suggests that performance management is not always a panacea. There is substantial ‘churn’ in the use of performance management systems, suggesting a level of dissatisfaction. Brown and Heywood (2003) demonstrate that approximately one-quarter of firms either dropped (15 per cent) or adopted (11 per cent) their performance management system over a five year period. Studies of employees show that 30 to 50 per cent of employees think performance reviews are ineffective (Gosselin, Werner and Halle, 1997). Almost half (48 per cent) of employees refer to performance reviews as ‘second guessing sessions’ (Gosselin et al., 1997), while Brown, Kraimer and Bratton (2011) reported that 40.1 per cent of employees see the process as ‘not very useful’. Studies of managers reveal that only six per cent of CEOs believe that their organisation’s current performance management process is useful (Elicker, Levy and Hall, 2006). A study by the Australian Human Resources Institute reported that 30 per cent of HR professionals were dissatisfied with the performance management process; 20 per cent reported high or very high satisfaction with the process (Parker, 2003).
Performance management as a ‘poison’

One explanation for dissatisfaction with performance management systems is that they ‘poison’ the workplace. The CMD defines a poison as anything harmful ‘to character, happiness or wellbeing’. There are a number of ways in which performance management may be poisonous in the workplace – we will focus on two of these: the effect on relationships between employees and employee wellbeing.

Poisoning relationships between employees

Performance management systems create a problem with ‘adverse specialisation’ (MacDonald and Marx, 2001). Adverse specialisation occurs when employees concentrate on those tasks that provide the greatest rewards, ignoring unrewarded helping behaviours (which can have a positive impact on the quality of relationships and productivity in the workplace).

Two studies demonstrate adverse specialisation due to performance management systems. Encinosa, Gaynor and Rebitzer (2007) demonstrated that doctors in medical partnerships that share earnings, as opposed to receiving earnings based on their individual patients, are significantly more likely to consult with one another about cases. A study of employees in the finance industry (call centre employees, insurance administrators and financial planners) provided an opportunity to test the effect of pay on helping effort (Brown and Heywood, 2009). Respondents indicated the extent to which ‘I help make other workers more productive’ and ‘my co-workers are helpful to me in getting the job done.’ Figure 1 shows that insurance administrators were more likely to provide (73.9 per cent) and receive help (85.4 per cent). Only 49.1 per cent of the financial planners indicated that they received help from their co-workers. Part of the explanation lies in the performance management system: only six per cent of insurance administrators’ pay was based on performance, while 48 per cent of the financial planners’ pay was performance-based. Further analysis showed that financial planners earned less when they provide help ($30,000 less) but earned $85,000 more when they received help.

Poisoning employee wellbeing: ‘working harder for less’

Performance management systems are intended to promote employee performance (Aguinis, 2009). There is, however, evidence that employees experience performance management as work intensification: doing more for less (Green, 2004). Green (2001, p. 69) has shown that there has been an increase in work pressures on employees from ‘reports and appraisals’ between 1986 and 1997. Case studies of mining industry employees (Iverson and Maguire, 2000), medical scientists (Weekes, Peterson and Stanton, 2001) and public sector workers (Brown and Benson, 2005) demonstrate that performance management has been associated with increasing the workload of employees.

Employees also report suffering from emotional exhaustion as a consequence of performance management. Wright and Cropanzano (1998, p. 486) define emotional exhaustion as ‘a chronic state of physical and emotional depletion that results from excessive job demands and continuous emotional effort.’

Figure 1: Providing and receiving help

Source: Brown and Heywood (2009)
How are we performing in Australia? In our recent multi-industry survey of employees, managers did not rate all that well in terms of managing poor performance. Managers did a poor job in matching employees to jobs and organisations were poor at providing performance feedback. Managers were not effective at recognising good performance and rewarding employees. Australian management needs to do better.

Our research at hranywhere has demonstrated that a large number of employees (about half across all industries) did not have a performance review in 2013. Managers typically put forward four reasons for not conducting reviews. First, they claim to have no time to conduct reviews; they are far too busy. Second, they claim a lack of performance-management skills; they feel they do not know how to give developmental feedback. Third, they have insufficient data on which to base their feedback and identify areas for improvement. Finally, they avoid undertaking performance reviews with difficult employees, preferring to focus on the employees they like to deal with.

At hranywhere, we encourage organisations to start setting objectives for employees which will deliver role clarity. This, in turn, creates a level of objectivity which has been missing, and managers start to be fair and equitable in the management of their people. Correct objective-setting will deliver good data, which in turn can provide a basis for performance feedback and can also assist managers to identify the areas for improvement. Once managers feel more confident that good data does exist and have had some input from employees, they gain a level of skill and confidence in giving developmental feedback because it is fact-based. Once managers gain a genuine understanding and confidence in providing developmental feedback, they find the time. They know it is an essential element in achieving solid business performance.

We have just turned all the reasons not to undertake performance management upside down. We said it was lack of time, lack of skill, lack of good data, lack of objectivity and lack of clarity in objective-setting. Well, if we can actually reverse that, and set objectives, be objective, find data and...
help managers feel much more confident about giving feedback, then managers find the time and more employees will have their performance management review. This is plain hard work.

**Setting objectives**

A tried and true method of objective-setting is SMART (specific, measurable, achievable, relevant and time-bound). Where we are able to write objectives for individuals and customise those to the needs of the business, we really can make a difference. When managers adopt the SMART methodology, the key performance indicators (KPIs) will ‘drop out’ of those objectives. These KPIs are simplified as business or performance metrics, ratios or performance indicators. They are where managers look to see that the objective is being performed; they provide the benchmark to determine if performance objectives have been achieved. We encourage managers to involve their employees in setting SMART objectives and reviewing those objectives. The KPIs, then, can become the agenda for each monthly meeting – to assist organisations in giving feedback to their employees.

One of the interesting processes is where managers set the performance processes or the standards themselves and then impose these on their employees. Ownership is dubious as they have been imposed. If managers engage their people
to write the objectives themselves – or at least have input into them – then the individuals are more likely to own the objectives, be empowered to achieve the actions and contribute to the organisation’s performance. Authorship builds ownership. If employees initially craft objectives and have them approved by managers, there is a greater likelihood that those objectives will be owned by the employees – the employees. Ownership of objectives means fewer surprises for employees when it comes to reviewing performance.

**Managers and performance feedback**

Great managers notice performance and gather good data. We know that they learn how to be comfortable giving feedback. They have great listening skills. They know what is going on and are open to new information. They demonstrate patience, fairness, honesty and clarity. They also have regular discussions about performance and development with their employees. They provided balanced feedback, identifying employee strengths as well as areas for development. To help managers, organisations need to have a clear company vision, strategy and goals. Then managers can start to develop objectives on a departmental, business unit and then individual basis.

We know managers are effective when their employees say, ‘I receive regular feedback that is actionable, appropriate and timely. I understand the performance standards that I have and that are set for me. I feel that they’re fair. I am measured on my results and how I achieve those results. I participate regularly in open and honest discussions with my managers. Great results around here are rewarded through our management, systems and how management also tackles poor performance.’ Finally, we are looking for comments like, ‘My manager supports my development and understands my needs.’

What we do know is that there are different management styles. Buckingham (2005, p.79) pointed out that:

…great managers know what the most effective way to invest their time is to identify exactly how each employee is different. We need to figure out how best to incorporate those enduring idiosyncrasies into the overall plan. It’s about constantly tweaking your environment so that the unique contribution, the unique needs and the unique style of each employee can be given a free rank. Your success as a manager would depend almost entirely on your ability to do this.

**Recognising individual differences**

Organisations need to build upon individual employee needs and idiosyncrasies. In the performance management process, we must learn to recognise employees. In a Gallup survey in 1999 (see Harter, Schmidt and Keyes (2003) for a review), the largest of its kind ever undertaken on workplace satisfaction, recognition was regarded as being most important in the performance management process when it was sincere and spontaneous. Employees expected recognition at least every seven days. Some managers are surprised at the frequency of recognition employees prefer. If we wait until the end of the annual review or the end of the year, we are waiting too long. While recognition is important, we must acknowledge that not one size fits all.

Development is a powerful tool of recognition. The least amount of recognition we can give is sending employees on training courses or education programs. The greatest level of development we can achieve is to allow employees to be mentored and coached, provided with access to experiential learning, perhaps given projects or allowing them to share some individual or expert. Finally, give them a full change of job, a stretch assignment. These are effective developmental processes that can really recognise individuals’ contribution to the business.

Development is also a useful tool for both high performing as well as high potential employees. High-performers can be the lifeblood of our organisation. As our workforce is shrinking and we need to do more with less, we need to keep our quality employees as they are critical for organisational success.
Performance management gets results

Harper and Vilkinas (2005) investigated the link between performance management and business results. Where good performance management and solid performance management existed, organisational performance improved. Employee-involvement and motivation were high. Employees had an increased sense of personal value and perception of empowerment. Organisations found it easier to recruit, deploy, develop and retain employees because the reputation of the organisation was strong.

Conclusion

Performance management is plain hard work. It takes a great deal of time and effort to ensure that the organisation has a clear vision and strategy; that each business unit has its objectives; and that all employees have objectives and KPIs. A well-designed and implemented performance management system ensures that employees understand the direction and priorities of the organisation. Employees are able to achieve their performance objectives as they receive strong feedback from their managers and are recognised for their achievements. For organisations, this means that performance management is ongoing hard work. A 'set and forget' approach runs the risk of generating unintended negative consequences and undermining the potential for performance management to promote employee and organisational performance.

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