
Performance Management : Can it Work?

by **Patricia A. McLagan**

Performance management has many meanings to many people. To some, it is inextricably linked to evaluation, pay and promotion. To others, it means performance review and is positive or negative depending on where they fit on the 'normal curve'. Still others, see it as a way to bringing rationality and order into individual work. Or performance management may mean 'performance review' to some, while others see it as the entire people management system.

No matter what the meaning, performance management is often a source of dissatisfaction in many organisations. Normal curves in performance reviews guarantee that most people are 'average' or below. Because it contradicts most people's view of themselves, this demotivates. Also, communication between 'bosses' and 'subordinates' is often incomplete and unsatisfactory. And, goals and expectations are frequently too unstable to be of any use as a performance or review reference point.

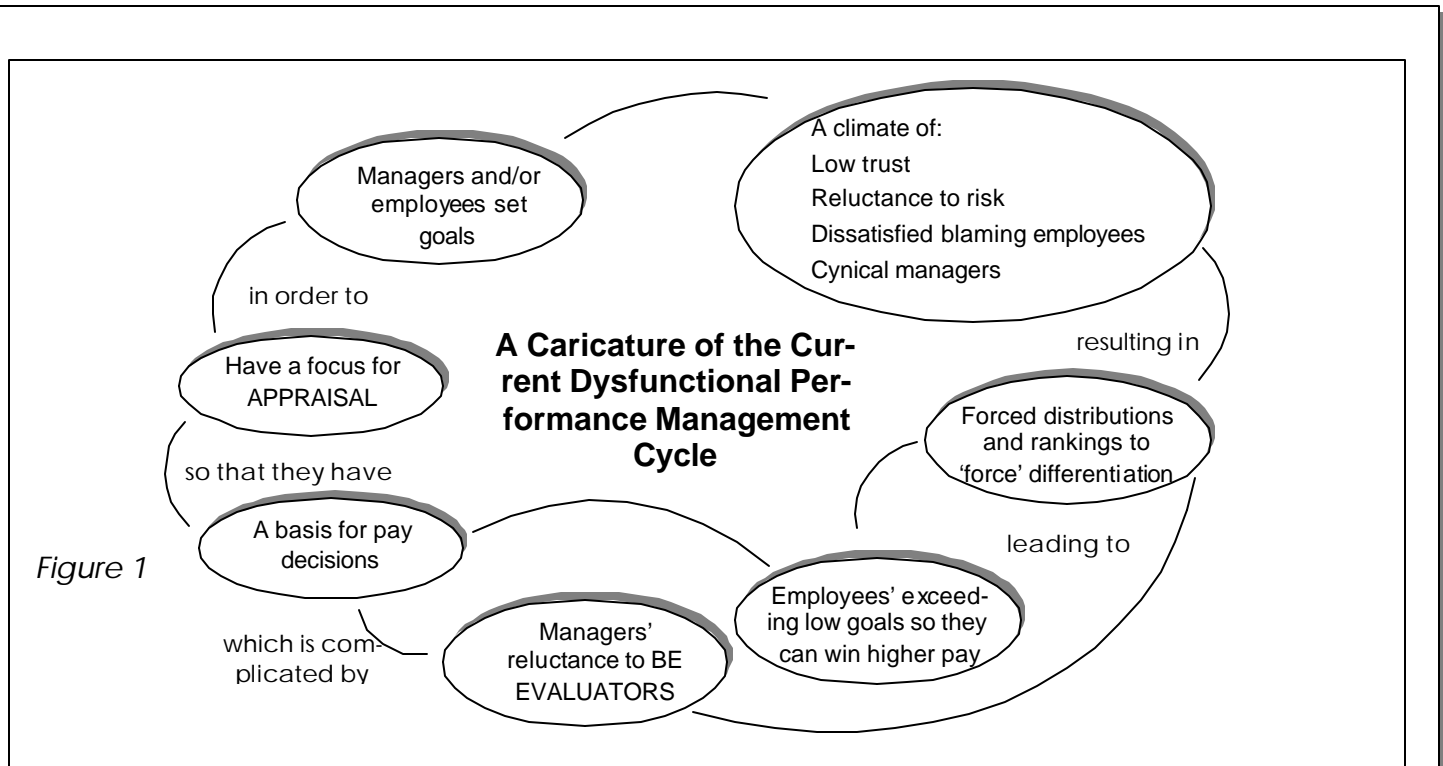
Depending on who you talk to or read, there are varying recommendations about what to do with performance management for the future. Ed Lawler would say it's important to focus on the total process, from goals to appraisal. W. Edwards Deming, on the other hand, has said that performance management should focus on process improvement. Scrap individual performance review, he urges. The only individual focus should be development.

Probably the only point of experts agreement is that: the next generation of performance management will require something different than performance appraisal forms. Since 'fixing the forms' has been the traditional way to fix performance management problems, this means that most companies must soon take a careful look at their position on this issue. But this requires a deep understanding of the history of performance management as well as of the options for moving forward.

The History of Performance Management

Performance management should be a process for linking people with business priorities. It has had a strange evolution, however. To understand it we must reach down to the roots of 'scientific' management. These roots took shape when the view was that the general worker was a cost whose benefits could be optimised through procedures, hierarchical controls, authority limits, and specialisation of work.

Unfortunately, the ultimate consequence of such bureaucratisation and control is to take thinking out of work. Thus, for much of this century, we have expected people at the top to think, and those below them, to do. Other resources – plant, equipment, technology, money – have been treated as the business' key assets. People continue to be costs (there is no tax credit for investing in people!).



At some point in history, however, people or their representatives, began to request pay increases. This set in motion the chain reaction that has shaped our view of performance management today. There needed to be some rationale for any pay actions that fell outside the norm. 'Performance' became the rationale, and performance review the vehicle for distinguishing levels of performance. But people wanted a fair basis for review. This is where goals came in. Performance goals were initially devised to providing clear focus for review. So the need to pay people gave rise to the need for performance review. This, in turn, put the spotlight on personal performance goals. Then the games began.

Managers who had to make the pay decisions, proved notoriously bad at both ensuring that goals existed and at conducting credible performance reviews. They began to rate most of their employees as 'above average'. (Incidentally, most people, when asked, will say they are above average. An 'above average' skew may be a response to

a fundamental human esteem need.) Universally high ratings were not acceptable to key decision makers, who began to require 'normal distributions' as an antidote to ratings creep. They hoped that by forcing a distribution, managers would give the 'tough' feedback and halt the inflationary salary increases that were occurring.

Thus was born the almost universally hated 'ranking' process where employees are placed on a continuum - in competition with each other - for money, recognition, and ultimately, self-esteem.

Some managers were ingenious in their resistance to the comparative systems that emerged. Some rotated high ratings amongst employees. Others hid behind the performance review processes, telling their employees, 'This is not my opinion, the system made me do it.' The result: the performance review process not managers, managed. Everyone except those at the top of the curve were demoralised.

Of course employees found ways to beat the system, to. It doesn't take a genius to know that if the way to get high ratings is to 'exceed goals', then start is with low goals. So the pay/performance review/goals connection deteriorated into a game-playing process where the needs of both the organisation and its people were hijacked.

The legacy of performance management is thus fraught with entanglements and performance disincentives. Specifically, the pay/performance review/ goals connection and the convoluted bureaucracies that have attempted to put the whole thing right, have left most organisations with:

- Low trust due to poor management, game playing and erosion of self-esteem.
- Downward pressure on performance.
- Who wants to set challenging goals or take risks if pay is related to 'exceeding' goals and being valued as a key performer.
- Less willingness to communicate or to

admit errors or problems. Communication increases exposure. In low trust environments, pay-driven performance management systems encourage people to keep quiet about things and to present an illusion of perfection.

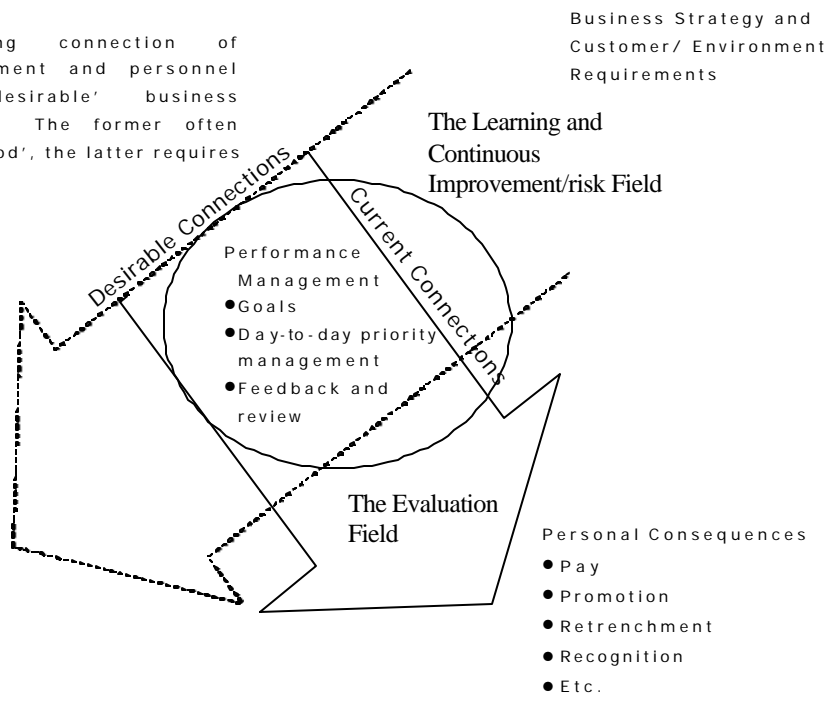
- Reduced incentive to work as a team. After all, employees are competing for a position on the curve that will determine pay.
- Massive game playing with the system. Most managers don't trust the rating system and the pay conversion tables they are often forced to use. So they manipulate the system to make conclusions come out the way they feel they should. This further corrupts the entire process. Systems that are supposed to be rational and fair are actually subverted so that people can better trust them. This game playing has occurred even for computerised systems which are supposed to protect from such manipulations.

It is no wonder that Quality gurus like Deming

Personnel versus Business Use of Performance Management

The current strong connection of performance management and personnel actions makes 'desirable' business connections difficult. The former often encourages 'looking good', the latter requires learning and stretch.

- Business Results
- Implemented strategy
 - Retained customers
 - Financial viability
 - Happy equity and debt stakeholders
 - Committed, Skilled Employees



have advised us to throw away performance management as it has been practised. It is also easy to understand why labour unions have so vehemently opposed performance-based pay. Many performance management systems are convoluted and generally demoralising. Changing the appraisal forms, while a temporary distraction, cannot solve the real issues.

Even if we were to start over, we still would have to deal with the fundamental problem of full disclosure and open communication. These are two basic processes that have been difficult to ensure in fear-based, hierarchical systems. It's quite possible that no performance management process can work until we do something about the inbred dependency and autocracy that characterises most human institutions today.

Added Fuel for Change: Organisations Have New Requirements

The corruption of performance management over time is enough reason to fundamentally change the way organisations manage the performance of people. But there is another, perhaps more compelling, reason: organisations' needs have changed.

It is clear by now to most people that the key factors for organisations are fundamentally different than they used to be. Flexibility, quality, external focus, innovation and continuous improvement, waste elimination, continuous learning, global awareness, and competitiveness are among the themes today.

Underlying all these themes is a new view of people. People's values, skills, commitments, and ideas on the keys to flexibility, quality, innovation, and so on. If people don't use their brains, take extra steps to handle special customer problems, notice areas for process improvement, go for quality, work together,

and support each other for the larger good, then none of the organisation's aggressive new goals can be achieved.

Can performance management play a role under these new conditions? Certainly the old performance management practices appear to be moribund. But, we can't fully answer the question until we examine yet a few more considerations.

Issues That Next Era Performance Management Must Address

Before any organisation redesigns its methods for managing people, it's important to step outside the paradigm of rational and scientific management that has dominated organisational design and processes for so many years.

Some of the major new considerations include:

- **The role of process in performance.** Dr Deming asserts that about 80 per cent of performance variability is due to organisation processes rather than to factors controlled by individuals. Thus, he says, individual performance management focuses on the wrong thing. Furthermore, the evaluative, esteem-focused nature of performance review does far more damage than good to climate and performance. Deming feels that the evaluative energy of the organisation should be directed at continuously improving processes so that people can perform. It's a compelling argument.
- **Rationality is not free.** Any time we introduce a process or system into an organisation we must resolve to continue – forever – to keep it alive. Otherwise the forces of bureaucracy and rigor mortis will set in. People will begin to play games with the process, and a new vicious cycle of “subvert-then fix-then subvert” will set in. Any people-management processes – whether they focus on quality performance or finances – will become bastardised unless their purpose and

spirit are consciously attended to. Think about what happens in marriages when any aspects of the relationship are "taken for granted".

- "Rationality is not free" means that any process we install, no matter how principled, well-conceived, or participatively developed, must have a constant investment of attention. Managers may want to "forget about it now". But they should not install any process they are not willing to continually nurture.

- **Intrinsic rewards are the only way to sustain real quality in the new organisation.**

The legacy of the past is a legacy of trying to find the right extrinsic reward systems. "How do we motivate people?" has been a common management cry for years. Organisations have traditionally focused on extrinsic answers: pay, promotion, other rewards.

- Extrinsic rewards are important to people, yes. But in many cases their importance is due to their connecting with intrinsic motivators: personal acknowledgements and appreciation, personal belonging, security of knowing that what we do fits and is important. The "think/do" segmentation of hierarchical, bureaucratic organisations made it difficult to offer the more powerful "intrinsic" motivators: what people really want most is involvement, meaningful work in which we think and have discretion, opportunity to be part of a community working toward a shared and challenging goal, opportunities to learn and be challenged. These are all "intrinsic" rewards.

- Hierarchical, command-and-control organisations are not structured to allow optimum intrinsic satisfaction. So people have turned to other parts of their lives for it. In fact, many people don't even expect to meet intrinsic needs in the workplace. This has forced them to put more pressure on their employers for external rewards. Demands for higher pay, better titles, and faster promotions must be seen in this light. It's what organisations have conditioned people to ask for. It's the only way people know to express their needs.

- **Entropy and chaos are increasingly dominant organisation foci.** Entropy is the tendency for things to "fall apart" or to reassemble into new forms unless they are continually infused with energy to keep them together in their current state. Chaos is the state of unpredictability and complexity which makes it impossible to eliminate surprise and, with certainty, to predetermine outcomes of a system.

- Chaotic systems (organisations fall into this category) are constantly responding to external conditions in unpredictable ways. We can only measure the predictability by finding or creating magnet themes which keep behaviour generally within a certain band of probability. When these magnets exist, their patterns are repeated at all levels of the system. They become the system's DNA and RNA. For example, if the Organisation has a shared value of quality, then quality will be a priority in many of the little, often unplanned actions that occur everywhere in the organisation.

- To manage and use chaos and entropy, organisations must be sure that all of their people share and continue to talk about key themes (values and goals), but that any “useful” entropy (fortunate mistakes and unaligned happenings – like the mistaken discovery of Post-it notes) is recognised and nurtured. Does performance management have a role here? Probably, as we shall see later.
- If you want processes like performance evaluation and pay decisions to work, then fix these processes by fixing other things. Research and common sense tell us that people are more likely to accept evaluative personnel outcomes if:
 - they know what the criteria (goals) are, and have participated in developing them.
 - they have a trusting relationship with the evaluator(s), where there is frequent communication.
 - they can trust the organisation’s use of information.
 - the evaluators are credible and have information necessary to form opinions. (Today this often means that the manager’s opinions by themselves are less and less valid; most managers are not available at the point of performance. Customers and fellow team members are.)

- there are many forms of recognition and appreciation, including intrinsic rewards, which bring meaning and purpose to work.
- the people themselves play a meaningful role in the major decisions about goals, evaluations of performance, and assessments of the organisation’s processes and systems.
- the culture is one of trust and development rather than fear and political gamesmanship.

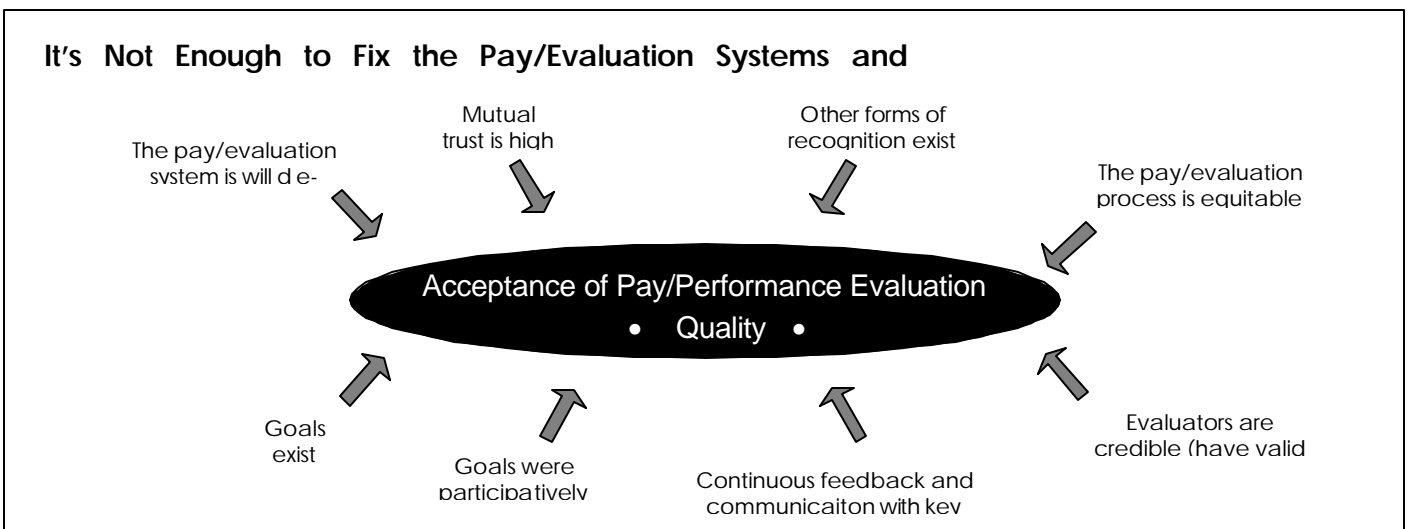
All of this says that the major reasons why people accept performance evaluations and the rewards based on them relate to reasons other than the pay system or the performance evaluation form. The latter are factors, of course. But fixing them will do little to solve the credibility and commitment problem that the other factors cause.

So, What Can be Done?

The picture looks bleak and complicated. There are compelling reasons to stop individual performance management altogether and focus, instead, on communication, participation, team goals, and process improvements.

However, it is unlikely than an either-or solution will get organisations where they must

Figure 3



go. A richer solution is needed. And, one organisation's solution will not be another's.

I would like to offer several guidelines for the next generation of performance management, including that people throughout the organisation help design and then commit to how the performance management processes will work.

1. **Be clear about what the purpose of performance management will be for your organisation.**

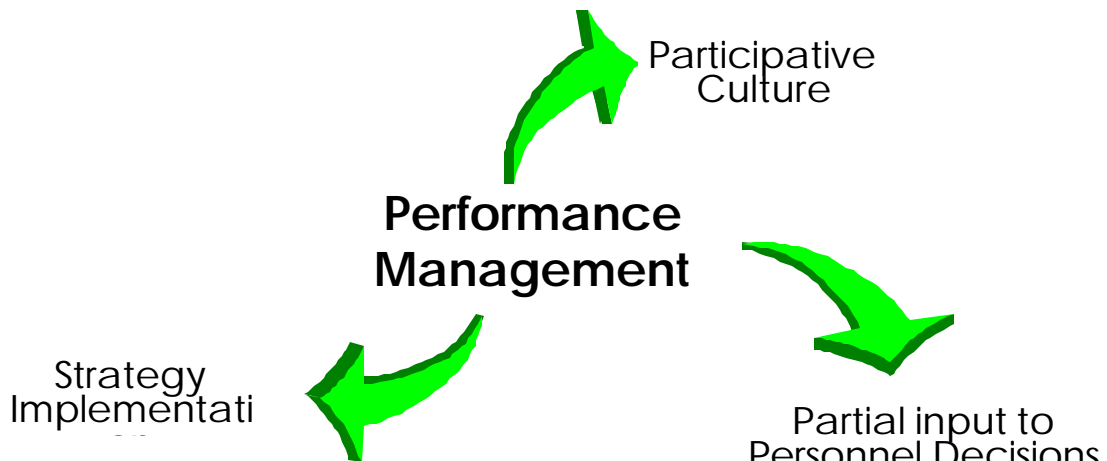
Performance management can serve at least three major purposes. First, it is the vehicle for *strategy implementation*. As such, the emphasis must be on:

- a) helping everyone understand and even help create the larger goals and value priorities;
- b) ensuring that teams and individuals translate and internalise the larger priorities as goals for their own work;
- c) making the budget and resource allocation process interactive with goal setting (rather than a fixed decision that occurs before goals are developed);
- d) using goals as active time and resource management tools every

- day;
- e) continuous feedback and information about the performance of the business;
- f) continuous feedback for teams and individuals regarding their performance and contributions – for the sake of continuous realignment, adjustment, and problem solving.

Second, performance management can be a driving force for creating a *participative culture*. Performance management is a very powerful culture-carrier. That is because people and the organisation meet in the key performance management events: knowing/ influencing the big picture, goal setting, budgeting, day-to-day decisions about priorities, feedback. If these events occur in a paternalistic or autocratic way, then the culture will be paternalistic or autocratic. If they are participative, then the culture will be participative. If the focus in these events is on teams, the culture will be a team culture, if on individuals, it will be more individualistic. In a real sense, *how an organisation manages performance is its culture*. Alternatively, an organisation

Purposes of Performance Management



that wants to become participative can do so by making the performance management events participative.

Third, performance management provides useful information for *personnel decisions*. Clearly, people differ in their energy levels, skills, and capabilities. They differ in their desire to perform (although the latter has been grossly distorted in the past due to poor management, ineffective processes, alienation between managers and workers, and excessive bureaucracy.) Performance contributions will differ, too. Some of this difference should be reflected in base pay and in various job placement decisions. Other uniqueness might be acknowledged through special recognition and bonuses. The trick is, of course, to ensure that performance is not zero sum. Everyone can perform well or poorly, so ranking is not an appropriate technique for performance evaluation. Ranking may be useful for selectional promotion, however, since not everyone can get a given job.

The links between performance management and strategy and between performance management and culture should generally be strengthened in most organisations. The link between performance management and personnel actions like pay should be weakened – at least relative to the other important roles of performance management. Point six below will suggest how pay should be positioned so that the connection doesn't destroy performance management's ability to implement strategy and create a participative culture.

2. **Install performance management as an organisational process that has the stature of budgeting, business planning, and business review.** Many organisations devote substantial time and energy to

annual planning, budgeting, and business review processes. But they are less concerned about quality in team and personal work planning and review. This makes little sense, since what people do determines whether larger plans are implemented. It's time to raise the stature of performance management to the level of business planning and budgeting.

One way to do this is to include team and individual goal setting and performance feedback on the business calendar. It also makes sense to require a specific frequency and level of quality in goal setting and performance feedback and to ensure a strong link between team and individual performance management and business plans and budgets. Some key quality measurements include: customer involvement, participation and self-management, clear linkage with larger business priorities, team synergy, use of multiple sources of feedback (not just the manager), support for any process involvement or quality initiatives, separation of decisions about base pay from performance feedback and evaluation, among others.

3. **Open up communication and stop unnecessary organisational secrecy.** It is no longer possible or desirable to control every behaviour through procedures, close supervision, and limits to "rights to know" (remember that chaotic systems can only be controlled when there is agreement on and commitment to broad themes and goals). Secrecy deprives people of the context they need to make decisions in the best interests of the company. It also severely diminishes trust and encourages "wrong" information via the grapevine.

When the grapevine takes over there is another insidious effect: the

management structure is depowered and discredited. Secrecy and the grapevine are probably, therefore, the biggest contributor to middle management malaise and disempowerment. Thus it is even more difficult for middle managers to support participative processes: they see participative systems and structures as the final nail in the disempowerment coffin they have been in for years.

Employees must be trusted with information about where the company wants to go and where it is. Without that information they cannot properly focus their energies to accomplish the business' goals. Any attempts at performance management without a relatively open "big picture" will be doomed to failure, as mistrust contaminates the contract between the individual and the company.

Information about the big picture is motivating to most people. It says, "You are partners in our destiny. Your thinking and creativity matter." Obviously very sensitive competitive information and confidential personal information are exceptions. But most organisations keep far too much from their employees – an performance suffers from lack of useful knowledge.

4. **Expand the involvement in and increase personal accountability for key performance management events.** Customers, team members, other teams, as well as the manager, should contribute to individuals' and teams' deliberations about goals. They should also be involved in performance feedback and review. It makes no sense at all to have manager set their employees' goals. Nor should the managers be the only opinion used in performance feedback and review. Also, some individuals are the only

people present during all of their own performance, they should co-ordinate their own goal and feedback processes. Managers and fellow team members can help ensure that goals and feedback are appropriate. Multiple sources of feedback and employee co-ordination of their own performance management are the only guarantee that performance management will be valid and successful in the long run.

5. **Help people at all levels develop the mindsets and skills for participation.** Hierarchy, bureaucracy, autocracy and paternalism have been the organising principles for institutions for most of recorded history. This has, in turn, required special skills and mindsets from both leaders and followers. Leaders have typically taken on major decisions, managed through "planning, organising, control and supervision". Leaders also have projected an image of "knowing", "being in charge", and "perfection" even when they are uncertain.

Workers, on the other hand, have generally been expected to have specific job skills, follow orders, work within authority limits, and be appropriately deferential and dependent to and on their leaders.

All of this had led to the institutionalised co-dependence that characterises many organisations today. Both leaders and followers are victims of a form of organisation that requires perfectionism of those at the top, dependence by those at the bottom, and is intolerant of mistakes by all. None of this fosters healthy exploration, creative risk, mutual challenge and growth, or open learning from mistakes. This is not a healthy psychological context for anyone, no matter what his or her education or experience.

New skills and mindsets are needed. The more participative world requires leaders to become better communicators and to stimulate creative involvement by all people in key decisions of the business. They must design their organisations to minimise bureaucracy and to optimise easy flow of products and services to customers. Formal leaders need to sponsor management and decision processes that ensure both discipline and involvement. And, they must ensure that their use of power is for the good of the whole, not for personal gain. For many managers, this cannot occur without a deep personal introspection, including understanding of one's own power motives and control practices.

Employees, in order to be more fully participating and responsible members of the organizational community, also need to do some soul-searching. They must develop skills for self-management and participation. They must learn to focus energy on customers and continuous improvement – even if it requires going beyond the job description. They must be willing to abandon their own blaming and dependent behaviour and take full responsibility for their role as individual contributors and team members.

For many people, these represent fundamental changes in relationships, self-image, and their own connection with the work they do – whether as formal leaders or workers. It is critical for the organisation to provide educational and other forms of support so that these changes can occur.

6. **Reconfigure pay systems and raise satisfaction with pay by attending to recognition needs in other ways.** Pay systems are not well understood, nor do many of them make sense in light of today's business strategies. Also, as described earlier, pay has had to carry

the weight of meeting most of individuals' satisfaction needs: recognition, meaning, belonging, security, esteem. Pay systems, no matter how well designed, can never meet all these needs or be the prime motivator for quality in work (Frederick Herzberg said pay is a "hygiene" factor, remember, which can dissatisfy but can't be as strong a satisfier as intrinsic motivators).

So, the first action is to take the pressure off the pay system for meeting intrinsic needs. This can be done in many ways, including

- a) giving people more control over their job – their goals, their choices of behaviours, their performance feedback;
- b) ensuring that the work people do is congruent with their true career goals and capacity;
- c) including people in the information loop, treating them like valued partners in the business whose opinions and contributions matter;
- d) eliminating punishment from the environment, or at least ensuring that the ratios of positive to negative feedback are at the least, say, three to one;
- e) finding out what (besides pay) makes people feel appreciated and designing the system to provide more of that, and so on.

Pay system education and reform can play a role, too. At the very minimum, every employee has the right to know what the basis of pay decisions is. The basis can be blend of basic job value, performance level in the job, inflation/deflation, company performance, team or unit performance, skill development, and skill rarity and market value, among other things. Currently, merit pay systems which blur the line between absolute job value and

performance within the job are causing major problems for many organisations. They make this year's performance an entitlement in next year's pay. This raises base pay to levels that bump ceilings and prevent performance "bonuses" once people are in the "top of the range".

7. **Restructure work to optimise value-added action and minimise bureaucracy.** The concepts of self-managing work teams, value streams to ensure smooth flow of the product or service to customers, and "process-orientated, problem-solving teams" are relevant here. These types of structures require a level of "power sharing" that many organisations are not used to. But, they are clearly the structures being adopted by "World-Class" organisations in virtually all sectors. These structures are characterised by: direct communication and decentralised decision making across functions, open information, self-management of financial information and performance statistics, team controlled selection of team members and even of supervisors/co-ordinators.

All of this must occur in a leadership framework where management:

- a) direct overall strategy
- b) ensures that structures facilitate the work
- c) gets resources
- d) provides the best information systems to enable appropriate decentralisation, as well as to provide quick access by management (and others) to the big picture.
- e) sets up and facilitates career and skills development.

Participation skills and mindsets – which can be initially developed and nurtured within hierarchical structures – will eventually decay and fester if such organisation redesign does not occur.

Thus, the Conclusion

Performance management, which includes all the activities of business plan communication, individual and team goal setting, day-to-day goal management, feedback about business performance, and feedback regarding individual and team performance, has a major role to play in organisations today.

Figure 5

The Next Era of Performance Management

1. Be clear about performance management's purpose.
2. Treat performance management as a key business process; put it on the business calendar.
3. Communicate – real time, and without secrecy.
4. Put people in charge of themselves.
5. Develop everyone's participation mindset and skills; stop colluding in dependency, paternalism, and autocracy.
6. Make intrinsic motivators primary; fix extrinsic (e.g. pay) processes where you can.
7. Redesign work; eliminate bureaucracy and hierarchy that doesn't add value.

But, performance management as practised in most organisations is in trouble. It is often sabotaged, disliked, and used as a lightning rod for dissatisfaction with levels of involvement, respect, and meaning in work. Some very prominent management experts advise that performance management is terminally ill, and should be allowed to die.

Yet, individual and team performance can and must be managed in other ways than by process and systems improvement. The will, perspectives, and broad knowledge that individuals and teams bring to work are key – if not central – factors in organisation success. It is the role of performance management to help align these personal factors with organisational goals. It is also the role of performance management to provide every member of the organisation with the opportunity to influence the very goals with which he or she will align.

Because performance management encompasses several key events that create culture, performance management can also be a key lever for culture change. During these times where business success seems to depend on how rapidly institutions can move from bureaucracy and autocracy to participation, performance management becomes an important change management focus. If

performance management occurs in a participative way, the culture will become more participative.

But, for performance management to serve as a strategy implementation and participative culture vehicle, the old connotations, connections, and contaminations of performance management must be put into new perspectives and even abandoned. Managers must simultaneously position performance management as a strategy and culture lever, put the pay connection in perspective, and work to enhance intrinsic work motivation.

This means that managers must resist the temptation to fix the pay system and the appraisal form before taking more fundamental action. Most pay systems do need fundamental revision. But the pay satisfaction managers seek will not occur unless other issues are addressed. Nor will the standard “fix pay and appraisal” responses meet the critical need to manage better and more participatively – now.

It is time to act: to re-educate, to design, and actively use participative performance management processes. Many of the organisation’s, and individual’s most pressing needs for change require and will benefit from taking a new approach.