Since 1993 the CIPD has been regularly reviewing and publishing work on performance management. As one of the key practices of HR it has featured heavily in the work on people and performance carried out in the late 1990s and early twenty-first century, when it was identified along with work design and training as a key practice in performance delivery.

We have tracked the evolution of performance management since the early 1990s from a heavily bureaucratised procedure focused on objective-setting or merit rating to a more wide-reaching and inclusive process integrated with other related practices such as career management, talent management and development.

We have traced this progression from a lack of understanding about performance management as a holistic process to manage performance through its links to pay, development and most recently talent management to its place as a tool for line managers to direct skill and effort. We have also unpacked the elements of performance management and looked at how organisations can put a number of elements together to create a performance management process that is more appropriate for their circumstances and particular talent pool.

Work conducted by the then Institute of Personnel Management in 1992 produced the following definition of performance management:

‘A strategy which relates to every activity of the organisation set in the context of its human resources policies, culture, style and communications systems. The nature of the strategy depends on the organisational context and can vary from organisation to organisation.’

The work suggested that performance management in its broadest sense would be carried out when the following activities were apparent:

- communication of a vision to all employees
- setting departmental and individual performance targets that are related to wider objectives
- conducting formal reviews of progress towards these targets
- using the review process to identify training, development and reward outcomes
- evaluating the whole process to improve effectiveness
- expressing performance targets in terms of measurable outputs, accountabilities and training/learning targets
- using formal appraisal procedures as ways of communicating performance requirements that are set on a regular basis
- linking performance requirements to pay, especially for senior managers.

Although the use of individualised performance-related pay is now less common, the other characteristics are still broadly true of performance management today. However, the research also found that performance management systems exhibiting all or most of these characteristics were, in the early 1990s, relatively rare. Most apparent were the tools associated with performance management, such as appraisal or objective-setting, but often operating in apparent isolation from other HR policies such as communication or development.

In 1998 the Institute of Personnel and Development instigated another programme of research (Armstrong and Baron 1998). Using a survey and a number of practice-based case studies, this work concluded that performance management was most likely to be viewed as a continuous process rather than an annual activity. However, this process was still largely a collection of interlinked tools rather than a single
system to manage performance. Moreover, it was apparent that there was a significant schism between performance management that was led by the desire to develop individuals, and performance management that was driven by the desire to pay individual rewards linked to outcome performance. The research was also able to identify a number of underlying trends, such as the shift of ownership of performance management from HR to line managers and the rejection of bureaucracy with emphasis on minimising paperwork.

Finally, when the CIPD revisited the area in 2005 (Armstrong and Baron 2005), they were able to conclude:

‘Overall there has not been a great deal of movement in the kind of practices employed by organisations to manage performance since the 1997 survey was carried out. Practices such as team appraisal and 360-degree appraisals had become more popular, and it appeared that more organisations had become more sophisticated in their approach and in the integration of performance management with other HR practices. However the vast majority still relied heavily on the tried and tested practices of objective setting and review, accompanied by development plans and performance appraisal.’

However, the accompanying case studies revealed evidence that performance management has acquired a much more central role in the strategic management process, particularly with regard to aligning behaviour and values. As one manager commented:

‘We expect managers who lead this organisation to behave in line with the stated core values. So the competencies reflect the values, and the individual performance management assessments are invited to assess how far managers are behaving in line with core values.’

Another stressed that performance management was the primary means by which they ensured a ‘line of sight’ between strategic goals and individual activity and behaviours: ‘It’s about creating a line of sight between what the individual does and what the organisation needs.’

**Performance management as a management tool**

Performance management is most usually designed by HR and delivered by line managers, although line managers have become more central to the objectives and use of performance management. Over the years it has become the most important tool in the manager’s armoury to ensure that the people management side of their job is adequately addressed. In simple terms, performance management is the means by which many firms ensure that managers do what good managers ought to do, ensure people know what they ought to be doing, have the skills to do it and complete it to an adequate standard.

The people management aspect of the line manager’s role was explored as part of the ‘Black Box’ work carried out for the CIPD by a team led by Professor John Purcell at Bath University and published in 2003. They found that the relationships between an individual and their line manager is the most significant factor impacting on the individual’s willingness to perform. As such they concluded that line managers have a crucial role to play in bringing HR policies to life and none more so than performance management. They therefore identified performance management as one of the critical processes shaping the link between people management and organisational performance.

As such, performance management becomes a primary tool for managing the business if it is significant in shaping individual behaviour and ensuring these are directed towards achieving the strategic aims of the organisation. As Mohrman and Mohrman (1995) emphasised, ‘performance management is managing the business’; in other words, it is what line managers do all the time.

As a result of this history of performance management over the last couple of decades, we have seen performance management progress from an HR policy firmly within the remit of the HR department to a business process that is central to aligning activity with strategic goals and is as much about managing the business as it is about directing people and controlling the flow of training or reward.
However, this also means that it is not enough just to tell line managers they have to manage performance; they must also understand why this is necessary and understand what it means for them and their ability to manage their departments or teams better and in a way that is aligned to the strategic aims of the organisation.

What does performance management look like in the twenty-first century?

Much of our work to date has focused on trends and developments in practice, looking at where the next generation of performance management activity might take us. In the latter half of the 1990s, performance management was developing rapidly as more knowledge-intensive work demanded better and better ways of directing and managing performance. The result was that many organisations were experimenting with different performance management systems. Many of the systems and processes studied in the past CIPD investigations were less than five years old and many were still in the process of development or redevelopment. However, in recent years we have seen evidence that there has been much more continuity in performance management, with organisations making relatively small changes to an established process rather than redesigning or redefining the objectives of that process.

So the question now is less about how performance management itself is evolving and more about how performance management is embedding into the strategic management process to ensure that people are adding value to the organisation and hence driving business performance.

In 1998 the CIPD (Armstrong and Baron 1998) concluded that performance management is a process that contributes to the effective management of individuals and teams to achieve high levels of organisation performance. As such, it establishes shared understanding about what is to be achieved and an approach to leading and developing people that will ensure it is achieved.

Other writers have tended to define performance management as a more operational process. For example, Briscoe and Claus (2008) say:

‘Performance management is the system through which organisations set work goals, determine performance standards, assign and evaluate work, provide performance feedback, determine training and development needs and distribute rewards.’

However, undoubtedly the twenty-first century has seen acceptance that the way forward to organisational performance and growth is to create high-performance, high-commitment work systems that rely on relationships with managers built on trust, understanding and mutual co-operation. With the old carrot and stick approach to management long consigned to the scrap heap, the greater preoccupation with employee engagement and commitment has cemented the place of performance management as the centrepiece of communication between manager and individual.

This shift has resulted in performance management being perceived as a continuous process rather than a discrete event, with Latham et al (2007) commenting that ‘a distinguishing feature of performance management relative to performance appraisal is that the former is an ongoing process whereas the latter is done at discrete time intervals…it is therefore owned and driven by line managers rather than HR.’

Sparrow (2008) argues that the rise of HR management (HRM) contributed to the shift towards performance management as it moved the focus to a broader agenda for the management of performance with the emphasis on open and honest communication between managers and individuals and the development of trust-based relationships.
Why manage performance?

Since the early development of objective-setting and review through all its later manifestations, the underlying assumption of performance management is that individual performance can be raised through a focus on setting and monitoring goals and aligning development and reward to individual aspirations and potential to grow and develop new skills. Further performance management assumes that by raising individual levels of performance, organisational performance will also improve, although to date no definitive evidence has been provided to conclude that this is indeed the case.

However, what we have been able to prove is that former practices in the management of individual performance have been found lacking. Merit rating and management by objectives – popular until the late 1980s – were eventually found to be too mechanistic to deal with a fast-changing environment where organisations need to be ever more agile and adaptable to survive. The annual appraisal risks becoming an annual ritual rather than offering meaningful direction.

The work on people and performance found that HR practices alone do not drive organisational performance, but they do contribute to developing able, committed and motivated individuals who, when given the opportunity, are more likely to exhibit discretionary effort and performance above that which is sufficient to fulfil the requirements of the job.

Performance management and talent management

Any policies or processes to manage talent should be aligned to performance management to ensure that people are developing the right skills and are being challenged to develop themselves to the full extent of their talents.

The CIPD factsheet on talent management offers the following definitions of talent and talent management:

- **Talent** consists of those individuals who can make a difference to organisational performance, either through their immediate contribution or in the longer term by demonstrating the highest levels of potential.
- **Talent management** is the systematic attraction, identification, development, engagement/retention and deployment of those individuals with high potential who are of particular value to an organisation.

The phrase talent management was first used in the late 1990s and popularised by the McKinsey report *The War for Talent*. Originally talent management was a recruitment issue concerned with attracting, selecting and retaining the most talented people needed by the business. However, more recently talent management has also come to encompass identifying and nurturing the talents of people already within the organisation and, as such, performance management has an important role to play in identifying the talent needed for high performance and how to develop and sustain this.

What talent management should not be is performance management in another guise. Talent management is about ensuring the right people with the right skills are in the right place at the right time. Performance management is about ensuring they know what and how to do it when they get there.

Performance management as a driver of organisational performance

In the past it has almost been a leap of faith on the part of HR managers and researchers that if you manage the performance of the individual, organisational performance will follow. Despite our
best efforts and those of David Guest in 1997, we were unable to establish that organisations with well-developed performance management practices performed better. Guest concluded that the most likely explanation for this was ‘...the inconsistent application of PM’. He went on to say:

‘On the basis of the evidence provided by this survey we are unable to prove that PM has a positive impact on organisational effectiveness. However, the strength of opinion among managers and the examples of best practice collected by other means do indicate that it is felt to play a positive role in the majority of organisations that engage in it. Our failure to prove the case for it can be attributed, at least in part, to the lack of systematic evaluation and the incredible diversity of actions that take place under the banner of PM.’

Subsequently the work on the people and performance link by Bath University identified performance management as a key policy. The data demonstrated that five key factors associated with performance management had a significant impact on discretionary behaviour:

- respect from manager
- job satisfaction
- career opportunity
- training
- openness.

Later analysis of the line manager role confirmed performance management as a key delivery mechanism associated with the management behaviours instrumental in driving performance, such as listening, coaching, communication and creating relationships based on trust and respect.

Given that we now have a body of evidence that demonstrates the importance of commitment to the willingness of individuals to perform or exhibit discretionary behaviour in their day-to-day activities, it is not impossible that a more definitive link could be made between performance management and organisational performance. Previous research found little evidence that performance management processes were specifically designed to drive commitment among employees. Yet it seems logical that if performance management is delivered in a way that promotes trust and positive relationships with line managers, then commitment will follow.
It seems that performance management has acquired a central place in the link between the activities that individuals carry out day to day and progress towards achieving strategic organisational goals. Needless to say, there are a range of other activities that also contribute to this link, not least of which is talent management but also coaching, development, reward and HR planning.

What is unique about performance management is its progression from an HR or people-management-centred policy to a business process central to ensuring that business objectives are acted on and delivered to acceptable standards. We should expect to see progressive organisations pushing this aspect of performance management and designing performance management processes to align with other activities to ensure the maximisation of employee engagement and commitment.

The CIPD would welcome any feedback on the issues raised in this discussion document and particularly any thoughts on what sort of guidance practitioners are looking for in developing twenty-first-century performance management systems.

We would also be grateful if you would complete our online survey. Our intention is to publish the results of this, together with some short, good practice case studies, as a preliminary to further work identifying the elements of performance management that are most likely to drive sustainable business performance.
References


We explore leading-edge people management and development issues through our research. Our aim is to share knowledge, increase learning and understanding, and help our members make informed decisions about improving practice in their organisations.

We produce many resources on organisational issues including guides, books, practical tools, surveys and research reports. We also organise a number of conferences, events and training courses. Please visit www.cipd.co.uk to find out more.