

PERFORMANCE MANAGEMENT

Developing an ethical approach

INSIGHTS | Caroline McCamley | Executive Director | May 2021



'Values come in many forms. What matters most is that they work for your employees, your culture, and your entire organization. When they do, they will align your employees around a core set of beliefs and behaviours that epitomizes your culture and employer brand.

And in the process, they will provide the foundation for building a culture of recognition – one that will inspire your employees to do the best work of their lives and take your organization to new levels of success.'

Performance management has a chequered history in terms of its ability to deliver on its promise. Why is this so and what can be done about it? In this article we will lay out some of the evidence and issues which may underly the problems.

The focus will be on questions of integrity – whether there are 'values contradictions' at the root of the problem and how a values-driven approach could provide a path to improvement.

We will consider the role of the Board and its importance in providing critical leadership – in setting the tone from top, demanding evidence of positive impact, and overseeing change where needed.

Performance management - what do we know?

In its definition of performance management systems, the US Office of Personnel Management captures the intent as 'the systematic process by which an agency involves its employees, as individuals and members of a group, in improving organizational effectiveness in the accomplishment of agency mission and goals.'² Clinical in its language it reflects the reality of what most performance management systems set out to do, but all too often fail to achieve with measurable certainty.

Performance management is hardly a new concept. Stretching as it does in different forms back to the mediaeval Guild system, it has evolved through many iterations, approaches and tools. Today it also carries expectations of intellectual and emotional commitment to an organisation and its objectives, often way beyond 'doing my job'.

With such a long time to think and experiment, it would be reasonable to assume that performance management systems have reached a pinnacle of sophistication and effectiveness in creating organisation value. Evident in almost every type of organisation, and assumed to be a critical component in the delivery of reliable performance and professional development, they must be good, mustn't they?

Yet when both the academic literature and the reported experience of many leaders, managers and employees are considered, performance management might be described as one of those 'alienating aspects of everyday practice'.³

Performance management systems are all too often viewed by managers and employees alike with a combination of cynicism, distaste and

pessimism, a tiresome task for which there is never enough time.

What's the problem?

Global studies of leaders in organisations reinforce the reality of significant problems with performance management systems. Studies show a vast difference between what organisation leaders believe a performance management system will do, and what they say they deliver.

In a major 2016 survey, 94% of leaders in organisations expressed a *belief* that performance management improves business performance, but just 34% agreed that it *delivered* business objectives.⁴ Expectations of performance management are that it should deliver improved performance effectiveness and results, develop employees, and facilitate communication and information exchange between employees and managers. However, when asked what *purpose* performance management serves, responses were that it was primarily administrative purposes. These include helping managers make pay decisions, providing documentation for the organization to defend itself...⁵ and as an emphasis in performance management systems, oversight 'largely concerned with tracking compliance not business outcomes'⁶

A second survey in 2016, involving 31,000 responses across 29 markets, reported that '... performance management reviews have become simply a compliance exercise with little impact on future results, prompting employees to question the purpose of performance management.'⁷

On managerial skills and accuracy, this study found just 55% percent of organisations reported a formal process to address bias or inconsistency in

performance reviews, with the authors of the study commenting that 'in the new world of work, where fairness and transparency are high priorities, this figure should be much closer to 100%.'⁸

The view from HR

These findings were further reinforced the same year in a study⁹ which provided insights into management practice from the vantage point of the HR manager, frequently the 'owner' of the performance management system as one of a suite of interrelated employee management activities, what one study¹⁰ described as 'the synergies of a human resources architecture'.¹¹ Adding to the inadequacy in managerial skills, attention and time¹², HR Managers rated accuracy of appraisals at 41%, down from 50% in 2012, with those answering 'not sure' or 'don't know' on accuracy tripling, from 6% to 19% in the same period.

Coaching was rated by 70% of HR managers as 'very' or 'somewhat important' in performance management, yet a whopping 93% believed that managers needed more training to coach effectively. Just over half of the organisations surveyed provided systems to prompt coaching.

Failing systems?

This pen picture hints at some of the reasons why performance management doesn't deliver the results that Boards and CEOs believe it should, and managers are on a hiding to nothing implementing any system that may of itself be flawed. Employees' resentment is also understandable, when they describe '... the superficial nature with which appraisals have been conducted by managers

who lack the skills required, tend to be biased and are simply going through the motions.¹³

Academic research has long pinpointed the failures in performance management systems, as summarised in a report for the UK Institute of Employment Studies in 2011. It referred to systems with competing functions of the evaluative and developmental aspects of performance management systems¹⁴, with too many/conflicting objectives (at every level of the process through to the individual), and systems requiring considerable resourcing if they were to be implemented properly (for example training, oversight, time).¹⁵ Process complexity¹⁶ together with the time-consuming and bureaucratic nature of a system were further issues which could overshadow the qualitative aspect of performance conversations.

Nor are issues only coming to light recently. By the mid twentieth century it was known that in a performance review process, managers could be either overly heavy handed/judgemental¹⁷ or significantly nervous/avoiding¹⁸, with both behaviours having a negative impact on the very thing at stake – performance. The influence of organisation culture, politics and ethical practice on performance management systems, was highlighted from the 1980s and, over time, issues identified ranged from personal bias and inaccuracy in judgement making¹⁹; discriminatory practice in relation to ethnicity²⁰ and gender²¹; appraiser discomfort and bias; the fidelity of what was being measured; process fairness and consistency; and motivation (of both appraiser and appraisee) and were noted as among ‘a myriad of issues identified for ongoing research.’²²

Curiously, while the issue of organisation culture was identified, its significance in addressing flaws less so. Despite Trevino, a leading researcher in the field, noting that decisions in design and delivery of

performance management can produce tremendous social consequences...²³ he focussed on fixing system design rather than testing the underlying ethics or philosophy.²⁴ Others reached the conclusion that the validity of hard vs soft criteria had been dealt with, and the research domain of methods of job analysis mastered²⁵ and, if these particular views are correct, then the source of continuing problems in performance management must lie elsewhere.

In a nutshell

So after decades of experience (and investment) the overall picture is one of performance management that is:

- believed vital to organisation success, but experienced as failing to get close to that objective
- used to make important decisions about pay and reward, career prospects, and the development of individual employees, but considered poorly implemented, and not particularly accurate or fair
- described as a core part of a manager's role, but managers are reported as lacking interest, confidence, skills or support to carry it out, able to avoid or manipulate the system and not held to account for this supposedly critical element of management responsibility
- successful if linked to a strong coaching process, but as many as 90% of managers may require training to be effective coaches
- considered a core system, but HR professionals are losing confidence and querying effectiveness - yet continuing to design, implement and oversee performance management systems.

Astonishingly, while there are indicators of a radical pivot to different performance management practice in some organisations, in many they trundle on, tweaked or prodded, perhaps in the hope that it will all come good. Organisation leaders may remain convinced that performance management and appraisal is the holy grail – if only they could fix the mechanics and, as the organisational psychologists suggest, make us love the experience.²⁶ Many Boards fail to ask why promised results are not evident or to seek the information against which to make any judgement.

The role of the Board

There is growing emphasis on environmental and social governance and this offers opportunities for Boards to pay attention to how employees are led and manage. Within what is now termed the not so people-friendly area of Human Capital Management, Boards should be interrogating the systems and results, yet the practices involved in employee management are something currently only discussed at every meeting by 20% of boards.²⁷

Boards must begin to look under the performance management bonnet and insist on information and analyses that gives them a full understanding of what works, and what doesn't work. This cannot be confined to senior management or HR reports – with the best will in the world, reliance by the Board for the warts and all information on those who design, conduct and oversee the performance management systems is, at least, naïve.

As an example, HR may cite an absence or low rate of appeals of performance management decisions as a measure of success. However this could equally be a reflection on a poor appeals mechanism or, and very seriously, a demonstration

of the potentially high 'cost' to an individual of making an appeal. Much more 'ear to the ground' feedback will be of significant value to a Board in assessing the quality and acceptability of the performance management experience, and whether it works in adding value in generating value.

As with any item on the Board agenda, a range of reliable and rigorous information sources is essential in arriving at a judgement on the effectiveness of performance management. Boards can play an important part in interrogating the system, asking questions such as:

- What are the metrics that tell us about the effectiveness and impact of performance management systems on our people?
- What is the impact of performance management on the bottom line?
- How do we gather the 'worms eye' view accurately – the experience and views of the managers and employees at the coalface of performance management systems?
- How do we hold managers to account for the quality of their attention and practice in performance managing their team?

They are also critical in providing leadership in shaping these systems so that they are ethically sound, and reflect the values of the organisation.

Ethics and culture

The academic literature has been pointing towards ethics and cultural issues²⁸ in performance management for some time, but these 'pointers' can be slow to influence practice within organisations trying to manage a system with many moving parts and a relentless cycle of activity. The belief that a performance

management system should deliver may hold organisation attention, and with considerable investment in systems already the focus then remains on trying to make it do so.

Academic interest in ethics and organisations tends to focus the majority of scholarship on ethical failure, a deficit model with a pessimistic view of human nature,²⁹ and on avoidance of error. An alternative is an approach that is values-based and can support enquiry in the appreciative tradition,³⁰ to maximise potential, just as performance management itself is designed to do. A values-based starting point is a real possibility as the governance focus changes. From the Board to the newest employee, a performance management system should be viewed with confidence and trust in its intent, design and implementation. Company values should be reflected in all aspects of performance management practice, from the system, processes and metrics design, to how they are applied and experienced.

The system should respond to strategic goals, accurately align with the way in which the organisation is structured and does its business, and be capable of delivering reliable outcomes and evidence that it is working. Crucially it must be experienced by everyone as an effective system that can be trusted. In this, considerable weight should be given to understanding the experience of managers and employees who are at the coalface of how a performance management system functions, and what underlies its flaws.

To put it simply, performance management systems should be:

- congruent with organisation values and principles

- delivered by managers in a manner that accords with the values
- providing employees with an experience that reinforces those values
- generating outcomes that fulfil the intended goals – making a qualitative difference to the business, management and employees.

By using a values lens – the organisation’s ethical DNA – a hard look at the foundations of performance management systems and the root causes of why they are not delivering, is possible.

The internal values code

“Core values represent an organization’s highest priorities, deeply held beliefs, and fundamental driving forces. They’re your guiding principles – who you are, what you believe, and who you want to be – and serve as promises about how your organization will treat customers, employees, vendors, and community members. In short, they’re the DNA of your culture.”³¹

A values-driven performance management culture combines values and business strategy, integrating what we will do with how we will do it. This is far from an airy-fairy notion of systems design and planning. Integrity – the importance of strong ethical or moral principles underpinning behaviour and practice – is at the heart of all regulatory and compliance frameworks across every sector. Often arrived at following failures and scandals, the formal iteration and codifying of both what is right and the right way to do it, is found everywhere. Values and mission statements of organisations are seldom seen in this way, yet these are the internal ‘codes’ setting out the organisation’s commitment to integrity, and usually stated in greater detail through a set of values such as respect, fairness and transparency.

Yet because they are stated does not mean that these values are practiced.

Values based systems design

While values are highlighted on company websites, viewed from the employee trench there can be a lengthy lag between saying and doing – stating ‘we respect our people’, does not translate automatically in behaviour that respects people at every level and in everything that is done.

Respect for people should shape the contractual obligations between employer and employee including the form and manner of performance management in an organisation.

It is important to bear in mind that many workers see ongoing performance support, development and recognition on merit as a right, and dissatisfaction with performance management systems cannot be dismissed as resistance to being managed.

Reluctant or enthusiastic participants, employees take a jaundiced view of performance management when they experience it as incoherent, poorly delivered, manipulative, disrespectful in form, tone or relevance and inconsistent in its application across the organisation.

In one study³² of the impact of ethical cultures on employees, the findings are of strong correlations between ethical cultures and improved well-being, enhanced job attitudes and morale, keeping good employees motivated, willingness to stay, and willingness to recommend the organisation to others. These outcomes are also part of what is sought through performance management and so marrying it with greater ethical sensitivity seems logical.

The contract

Within organisations, both employee and employer freedom is curtailed by dint of the employment contract and formal systems and standards. A contract, employee handbooks and employment policies, are all part of making this transaction clear – what an employee is to do under what circumstances, and what they will get in return; the acceptance that they will be managed, report to someone, meet certain standards and so on. Since performance management is ubiquitous, then even if not mentioned in the contract chances are that it is a generally accepted part of most workplaces by most employees. Quite reasonably though, employees are right to assume and expect that any system of management and performance management will be respectful in design and implementation.

Yet the problems and complaints commonly reported, often described in terms of ‘technical’ flaws or an absence of time or skill, can also be understood as evidence of disrespect.

Measurement formulas that cannot be met by an employee, inadequate training and poor management practice, or post event ‘fixing’ of outcomes against factors other than performance, are all disrespectful of the employee whose performance is being managed.

However, there may also be a deeper issue lurking in the dissatisfaction that employees express about performance management systems, even where they are well designed, implemented and managed. In setting out effort/reward obligations, employment contracts generally make no mention of the intention to harness and measure ‘discretionary’ effort, and in so doing determine ‘above average’ performance, and possibly use it as a basis of reward.

Or, to put it another way, the contract does not say that doing the contracted job as contracted will likely only ever be viewed as 'average' performance.

Today's workplace is focussed on the idea of 'high' – never 'ordinary' or 'acceptable' – performance, and discretionary effort is a critical, although not contracted, component to be utilised in its pursuit, as this definition makes clear. High Performance Working (HPW) is 'a general approach to managing organisations that aims to stimulate more effective employee involvement and commitment to achieve high levels of performance.'... 'designed to enhance the discretionary effort employees put into their work, and to fully utilise... the skills that they possess.'³³

Consent

Which brings us to two issues related to respect – whether there is consent to this performance management arrangement and the extent of fairness within the system and in the effort-to-reward ratio and its application.

Where is consent to be found in the transaction on discretionary effort between employee and employer, if that extra work is not mentioned in a job description or contract? If discretionary effort – going those extra miles – is required to tip performance assessment toward an 'above average' rating (and any associated short or long-term benefits), on what basis has an employee consented to this arrangement, and is that consent free, informed and explicit?

Complaints about performance management often refer to situations where:

- the job presents little opportunity for using discretionary effort

- the use and value of discretionary effort is influenced by efforts of a team and not only that of the individual
- a manager values certain types of effort, or the effort of certain people doing certain jobs
- having expended the extra effort, an employee may find their final assessment at the mercy of the bell curve, explicitly (infrequent) or contrived (suspected)
- in the event of dissatisfaction, the recourse may be to an 'appeals' mechanism, an 'after the fact' route which may also involve arbitration with a binding outcome, which may be itself ethically inadequate

There is consent in a contract to the 'employee effort/employer pay' transaction, but arguably either no consent, or a limited form of consent, to extra-contractual activity – the making available of discretionary effort for the benefit of the organisation.

Employees certainly do not consent to the treatment that is so often the subject of complaints as we have described here. Exploring exactly what employees are being asked to consent to through performance management, offers another way of identifying whether the system is respectful, and the importance of defining and requiring the associated behaviours in its implementation.

If consent is important, then so too are fairness and transparency, essential in system design and delivery.

Fair systems

Complaints of unfairness about performance management systems are familiar to managers and HR partners, and hardly surprising. If an organisation is going to the trouble of measuring

and rating performance at all, then at a fundamental level the system has to be seen to be fair and to operate fairly. What fairness looks like may never have been considered at the design stage, particularly if it focuses on building a system from strategic objectives and goals. But fairness quickly becomes an issue on implementation.

Two contentious issues in the fairness debate are:

- the use of generic factors of objective setting and performance measurement
- the focus on individual (or team) assessment through the line management function but a final outcome of assessment determined by an organisation-wide decision taking account of budget and the statistical bell curve.

It is very tricky to design a fair and even-handed system. Sometimes getting the bureaucracy of managing, tracking, assessing and reporting features in place overtakes the importance of designing a system that will be fair in operation. As an example, if initiative or discretionary effort are standard items in the performance management system but not all roles allow for opportunity, then the system may be administratively simple – one size fits all – but inherently unfair. Generic performance factors may make the form design and training easier, but inevitably disrupt the system through inevitable built-in unfairness.

The budget and the bell curve, at the output/outcomes end of the performance management process, are a source of infuriation among employees. Having worked hard to reach a higher-than-average level of performance, and been recognised for doing so by their manager, it is considered entirely unfair that the final outcome can be a reduced rating to fit a statistical requirement, or a lower reward to fit with a limited budget.

Where reward is an element of the function of a performance management system, then anything less than its distribution being even handed and consistent is unfair. When it comes to discretionary effort, the effort to reward calculation may bear no relationship to normal wage rates or salary scales anyway, and if employees feel further short-changed by the final decision, then this is a proverbial red flag. The amount may not have been much to start with, but that makes the principle of fairness all the more important.

How are lesser outcomes determined by the budget or the bell curve ever fair to the individual or team affected?

Additionally, unfairness is not limited to those who fall foul of the 'curve' or budget, but also impacts others who observe it happen. There may be one complaint, but a much wider loss of confidence in the system, even among the lucky few who were on the 'right side' of the curve this year.

To achieve a high degree of fairness, systems must be designed fairly, implemented with similar attention, and monitored continually for lapses.

Questions that test for 'fairness' could include:

- Have employees' control over the things against which they are measured?
- Are the measures reasonable within the role?
- Is assessment implemented fairly - to the same standards, by well-trained managers across different roles and all departments?
- If standards of performance are agreed according to the system, does the correct rating follow automatically?
- If there is financial reward for performance, is that guaranteed in line with the assessment and consistent across the organisation?
- What rigorous system are we using to monitor fairness in the system?

Transparency – seeing and understanding all the moving parts

Respectful and fair systems can be seen and experienced. There should be no barrier to everyone knowing how a performance management system has been built and how it will deliver fair, accurate and consistent results.

A craftsman in mediaeval or even more recent times, knew the calculation for reward for each extra 'item of effort'. Overtime payments or time off in lieu are examples of clarity in the effort and reward system. But in performance management systems, and particularly in systems where reward is focussed on discretionary effort, the calculations and the relative quantum of the reward are much less transparent. The effort to reward ratio is at best opaque. Equally whatever the budget for rewarding performance, transparency requires that this is known in advance together with the mechanism for fair allocation.

Transparency has the effect of bringing system ambiguities into focus, forcing solution-finding processes and solutions that measure up to values such as respect, fairness and transparency itself. Developing a transparent performance management system involves considerable honesty, a good dollop of critical analysis, and a willingness to show and talk about how the 'engine' works.

This may not be easy. Many systems are adaptations of proprietary products, built on data bases and intellectual property which their commercial developers will naturally want to protect. However, it is so important that the principles informing performance management in an organisation are made explicit before any system design or purchase, so that respect,

fairness and transparency are evident in shaping the system from the start.

Questions that translate transparency into practice include:

- Is it clear and clearly explained:
- how this performance management system aligns with the values of our organisation?
- how it works, from start to finish?
- how the system fulfils its purpose and delivers measurable value in company performance and in the development of employees and teams?
- how the system is informed by practice and experience, and adapted and improved when needed?

Across three examples of a values-based approach – respect, fairness and transparency – it is evident that having failed to ‘fix’ performance management systems, the questions here may offer a valuable addition to the tool-box of organisations keen to establish a trusted and useful approach.

Conclusions

Failures to apply the stated values which are defined by an organisation as fundamental, shapes performance management that will not only fail to deliver to anyone’s bottom line, but is self-sabotaging through the lack of alignment of values in system design and behaviour. Where performance management systems are ‘implemented with integrity, they aid an employee’s career development and a corporation’s ability to meet its objectives. When the component areas are not implemented with integrity, they can lead to ethical transgressions’³⁴

The challenge for performance management is to make integrity explicit from the start, through values-driven decision-making and systems design and implementation right across the organisation, starting and ending with informed decision-making in the Board room.

Ends

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