



A Quick Guide to Performance Management





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Introduction

Performance management is an unquestionably complex topic, encompassing everything from performance appraisals, to the disciplinary process, to ongoing observations and adjustments to ensure optimal performance.

A well-developed performance management process allows employers to assess areas for improvement and identify areas where employees are unproductive or ineffectual. Identifying weaknesses and poor performance allows managers and supervisors to address these issues, finding solutions that employees and employers are both happy with and working towards better performance. While this isn't always pleasant, it's crucial to keep a business moving towards its goals.

On the flip side, regular performance reviews are beneficial in that they increase employee engagement and productivity for those who are performing well. Even managers benefit from understanding their strengths and having their achievements recognised: those who received feedback on them have been shown to increase productivity by almost 9%.

Yet, despite the benefits, 53% of employers admit to not tracking or appraising performance. Employees need feedback, both positive and negative, in order to know if they are on the right track or if they need to change direction.

So how do you go about it in the best way? Our quick guide has been designed to give you a summary of the fundamentals of performance management and current best practice to help you create sound process that works for your business.

Setting Objectives & Standards

When looking at goals and targets on an organisational level, individual performance management may seem trivial. Working with individual staff to set goals for their targets and performance seems time-consuming, but it's essential: strategic and operational targets are only accomplished if individual staff members meet their personal targets.

When setting objectives and standards it's important both managers and staff are realistic about staff capabilities, resources available, timeframes for completion and competing tasks. To avoid overreaching, lay out all information about these variables so that informed decisions can be made.

For multi-person teams, encourage managers to assign a performance outcome to each person, even if they aren't entirely in control of all aspects. This way each outcome is supervised, and the team is motivated to succeed together.

Performance Objectives & Performance Standards

Effective performance appraisals rely on clear, established performance objectives and standards.

Performance objectives are what the team and/or individual need to accomplish over a set timeframe. Performance standards are the standard of performance required to achieve these objectives.

Once objectives are defined, performance standards should be set that:

- differentiate between successful and unsuccessful work.
- accurately reflect performance and variations.
- are measured by someone at least partially in control of people whose performances are being appraised.
- are based on documented and job-related observations.
- recognise the realities of the work.
- draw on a clear position description.
- are aligned to the organisation's strategic and operational objectives.
- are agreed upon by all parties.

How and when to set objectives

While managers don't need to wait for a chosen date to be imparted, objectives should be set at specific times. Certain objectives should be made clear from the outset when an employee is hired, for example completion of initial training. However, performance-based objectives should be set and reinforced at regular intervals, such as at an annual performance development planning session.

Performance objectives should be determined after each performance appraisal. After all, if you don't have set measurable objectives and standards, there is no way of determining if you have achieved them when it comes time for the next appraisal.

Performance objectives should be SMART: specific, measurable, achievable, realistic and time-based. Most importantly, objectives should be agreed upon by both managers and individuals and both parties should have a copy.

Employees should be engaged in setting their own objectives to ensure they're invested in company growth, as it aligns with their professional development.

Organisational Conduct & Behavioural Standards

In addition to individual, team, and department performance standards, employees should know the expected level of conduct generally acceptable in the workplace.

These standards are often laid out in HR policy and procedure documents and are reinforced by management and senior employees. Strong standards have a significant impact on organisational culture and will prevent situations where employees are unsure of what behaviour is considered acceptable.

Examples of typical policies containing conduct and behavioural standards include:

- Code of conduct
- Drugs and alcohol at work
- Staff dress code
- Social media at work
- Workplace bullying

- Equal opportunity, harassment, and discrimination
- Workplace health and safety
- The use of company-owned property

Specific performance management, discipline, and termination policy and procedure documents should set out the consequences of underperformance and breaches of policies.

These policy and procedure documents should be easily accessible, clear and simple to understand, applied consistently, and offer a level of certainty regarding workplace norms. If employers allege that an employee's conduct is in breach of company policy, they must prove employees have an awareness and understanding of that policy to avoid legal repercussions.

This can be summarised as the "Five C's of effective policies and procedures":

- Clarity
- Communication
- Certainty
- Consistency
- Consequences

Best Practice Tip: Employers may need to make company documents available in other languages, braille, or in audio format to cater to diverse groups of employees.

Monitoring Performance

The Purpose of Performance Appraisals and Reviews

Performance appraisals involve observing employee work behaviour and results and comparing them against the agreed objectives and standards, evaluating job performance and employee development potential, and acting on the results of the appraisal process e.g. through promotion, recognition, counselling, training, or in some cases, termination.

The four objectives of performance appraisal are:

1. Assessment of performance

The organisation should discern between those whose performance is helping achieve the organisation's objectives and those who are not.

2. Rewarding high performance

High-achievers want to be recognised for their efforts. Outstanding performers should be identified and rewarded to maintain motivation and momentum.

3. Planning for development

Employees should be assisted in their development to achieve optimum performance.

4. Giving Feedback

Communicating expectations and giving positive and constructive feedback are essential to continued high performance.

Benefits of Performance Appraisals

Performance appraisals are not just for employees. Line managers and supervisors can also benefit from an accurate analysis of their performance. Creating an inbuilt system for performance appraisals helps to reassess company goals and analyse areas of weakness.

The benefits for appraisees:

- Recognition of good work which builds confidence, job satisfaction, commitment, and motivation.
- An opportunity to re-assess work goals and discuss areas for improvement.
- An opportunity to explain underperformance.
- An opportunity to air grievances or speak about problems in a safe way.
- An opportunity to discuss career goals.
- A way to build trust and facilitate relationship growth with a manager.

The benefits for appraisers:

- A way to gain valuable insight into individual jobs and teams.
- A way to align individual, team, group, and organisational goals and communicate them.
- An opportunity to hear and investigate potential issues.
- Improved decision-making.
- Identification of development points, training needs, and future forecasting.

- A way to foster increased job satisfaction, motivation, and self-worth in employees.
- Improved group performance.
- An opportunity to clarify expectations of employees, re-assess work goals and discuss what has worked well and what needs improvement
- A way to improve the quality of relationships with subordinates.

For organisations:

- It fosters a culture where staff are valued and there's a commitment to improvement.
- Staff are aware of organisational goals and values and can see how their contribution affects organisational success on a larger scale.
- The identification of training needs and opportunities creates improvement at all levels.
- It encourages managers to hone their leadership, motivation and communication skills, making them more valuable to the organisation.

The drawbacks of performance appraisals

When implemented well, performance appraisals can be beneficial in strengthening the business and fostering a culture of improvement. However, you must be aware of possible issues that may arise while completing appraisals.

Management attitude

Problems include not taking the process seriously, not seeing its value, and reluctance to confront underperforming employees. All of these have an impact on performance outcomes.

Halo effect

Overall employee appraisal can be influenced by one desirable quality that skews the appraiser's ability to rate the employee objectively.

Horns effect

The reverse of the 'halo effect', whereby overall employee appraisal is influenced by one negative quality.

Central tendency

This happens when an appraiser rates every employee similarly without distinguishing high or low-achievers. This could be due to a lack of opportunities to observe employees, or unwillingness to have to explain high or low ratings.

Relationship effect

An appraiser's judgment of an employee's performance may be impaired by the length of their acquaintance or the nature of their relationship. This could be positive or negative, but it is not reliable.

Leniency or strictness bias

This is where a manager distorts appraisal accuracy by repeatedly rating employees high or low despite their actual performance. Falsely high ratings could be given in pity or to protect employees from a record blemish. Conversely, a falsely low rating could be an attempt to encourage an employee to resign or to assert dominance.

Prejudice, bias and stereotypes

Managers may hold personal prejudices towards a particular type of person (be it nationality, age, sexual orientation etc.) and this bias could cloud their judgment. While often unconscious and difficult to identify, these behaviours should be discouraged.

Recency effect

When managers can only remember instances of good or bad performance based on what is recent. This distorts appraisal accuracy as employees improve their performance in anticipation of the performance review process.

When to Conduct a Performance Appraisal

The traditional method of annual performance reviews is falling by the wayside. Over 50% of employees see this method as inaccurate. Giving feedback on performance six months or even a year after the initial work can be largely irrelevant. Try to keep reviews or appraisals at a maximum six months apart and at the end of projects to ensure the feedback is timely and accurate.

Types of Performance Appraisal Systems

There is no one-size-fits all approach to performance appraisal systems. Every employee and workforce is unique, and it's wise to tailor the systems to fit the requirements. You may need to combine types. Don't be afraid to try out different approaches until you find the one that works.

Comparative approaches

Ranking

Ranking compares employees' performance and lists them from high to low. This can be a general ranking or separated into skill areas or competencies.

- **Advantages**

Easy to use and implement.

- **Disadvantages**

Highly subjective and can be inaccurate, especially when comparing employees performing dissimilar tasks, or when the ranker does not have a knowledge of the skills required. It also only compares employees against each other, without indicating whether they are objectively high or low-achieving.

Grading

Just like high school, grading rates employee performance into categories, such as poor, satisfactory, and good.

- **Advantages**

Addresses employee performance individually rather than as a comparison.

- **Disadvantages**

Individual performance doesn't indicate how employees perform in relation to colleagues. This can be too simplistic.

Forced Distribution

Forced distribution is a variation of grading where a set proportion of employees must fall within categories, similar to a bell-curve.

- **Advantages**

Prevents managers rating all employees the same. High and low-achievers are easier to spot.

- **Disadvantages**

Could damage trust and create staff rivalry.



Attribute approaches

Graphic Scales or Ratings

This involves attributing employee performance (including personal characteristics and/or work behaviours) to a number from 1-5. “Unsatisfactory performance” is usually 1, and “Exceeds expectations” is usually 5.

- **Advantages**

Easy to use.

- **Disadvantages**

Particularly unreliable method of assessing performance. Assessable criteria may not be relevant, criteria often overlap and it can be hard justifying low ratings.

Critical Incidents

Supervisors keep a journal of times (critical incidents) when employees have performed particularly well or poorly over a period of time. The supervisor uses these critical incidents to assess an employee’s overall performance level.

- **Advantages**

If the journal is well kept, it’s a transparent, accurate, and objective way of assessing work behaviour and outputs.

- **Disadvantages**

Success depends on managers taking decent notes.

Behavioural approaches

Behaviourally Anchored Rating Scales (BARS)

An extension of the critical incidents approach,

BARS involves creating a list of job-specific behaviours (from desirable to unsatisfactory) based on elements of job performance, e.g. knowledge, attendance etc.

- **Advantages**

BARS is job-specific and provides clear performance standards for multiple areas, is objective and more transparent than general number scales.

- **Disadvantages**

Can be difficult and time-consuming to create and is individual to each assessed job.

Below is an example of what BARS may look like for varying performance standards.

Superior: Always early and completed preparatory tasks before opening.

Very good: Mostly arrives early and completed preparatory tasks before opening.

Good: Sometimes arrives early and completes preparatory tasks before opening.

Acceptable: Arrives on time and gets preparatory tasks completed as office opens.

Marginal: Occasionally arrives late to work. Sometimes forgets to flip “open” sign and turn off phone night-mode.

Poor: Often late, frequently forgets to turn off phone night-mode, appearance is often unprofessional.

Unsatisfactory: Often/always late, appearance is unprofessional, poor demeanour, forgets to/ does not distribute mail, messages, faxes or emails to people, misses phone calls etc.



	Superior	Very Good	Good	Acceptable	Marginal	Poor	Unsatisfactory
Sorted mail	✓	✓	✓				X
Distributed deliveries	✓	✓	✓				X
Check phone messages	✓	✓	✓	✓			X
Forwarded phone messages	✓	✓	✓	✓			X
Turned off phone night-mode	✓	✓	✓	✓	1 ✓ 2	X	X
Checked all emails	✓	✓					X
Forwarded emails	✓						X
Checked fax machine	✓	✓	✓	✓			X
Distributed faxes	✓	✓	✓	✓			X
Professional appearance	✓	✓	✓			X	X
Positive demeanour	✓	✓					X
Check office desk is tidy	✓						
Waters plants	✓						
Cleans office kitchen	✓						
Flips "open" sign	✓	✓	✓	✓	1 ✓ 2	X	X



Behavioural Observation Scales

Similar to BARS, this involves creating a list of preferred behaviours gathered by the Critical Incidents method. Employees are assessed on how regularly they display these on a scale from 1-5. "Almost never" is "1" and "Almost always" is "5".

Essay or Narrative Description

A manager writes their opinion of employee work-related behaviour as a long form report. Generally, descriptions will be in response to broad questions regarding performance.

- **Advantages**

Useful in addition to other methods to provide context and help qualify ratings.

- **Disadvantages**

Highly subjective and impacted by managerial ability to effectively convey their opinion. Can also be time-consuming and difficult for comparison.

Management by Objectives

A manager and employee agree on set objectives and responsibility areas and meet to review results regularly. Performance is contingent on achieving goals.

- **Advantages**

Job specific, very clear and highly motivating. Ensures the achievement of short-term goals and continued improvement.

- **Disadvantages**

Can result in a loss of innovation and a lack of ownership of decisions. Hard to compare performance, measure improvement and can lead to the setting of easily achieved goals.

Forced Choice

Forced choice selects a number of explanations which reflect employee work performance most accurately. Outcomes are graded using a hidden formula.

- **Advantages**

Manager prejudice is diminished due to the undisclosed formula used to assess employees.

- **Disadvantages**

The process must be implemented by experts, making it difficult, expensive and time-consuming.

Field Review

A technique whereby appraisers and human resources specialists meet to discuss appraisee results.

- **Advantages**

Effective in reducing manager prejudice and analysing performance accurately and objectively.

- **Disadvantages**

Can be costly, time-intensive and may be met by manager resistance.

Assessment Centre

A technique whereby groups of employees are assessed using a variety of methods, simulations, and exercises. May also be valuable to identify performance potential.

- **Advantages**

An impartial technique which can simultaneously be a training exercise to improve performance and identify talent for career progression.

- **Disadvantages**

Costly, time-intensive and not suitable for small organisations given the use of simulations.



Self-Assessment

Where an individual employee appraises their own performance to be followed up with their supervisor.

• Advantages

The collaborative approach ensures employees are involved in the process and can help set goals for future performance and improve commitment.

• Disadvantages

Cannot be relied upon as the only source of evaluation and there needs to be a follow up with a manager. Employee ratings often don't match supervisor ratings and can be a source of tension.

The Balanced Scorecard

Designed as an organisational performance evaluation tool, the balanced scorecard assesses performance from different perspectives: the customers' view of the business, the internal environment, growth and learning, and finance.

• Advantages

The balanced scorecard allows for a more comprehensive assessment from different opinions and viewpoints.

• Disadvantages

Not all individuals are equally qualified to provide feedback, and so their assessment may not be valuable.

360-Degree Feedback

360-degree feedback provides employees feedback on their performance from a range of sources – peers, subordinates and managers. It should provide a range and depth of information.

In this method, both the sources and employee complete a questionnaire regarding the employee's performance.

Questionnaire statements are rated on a scale, with the opportunity for additional comments. Feedback can be presented to the employee in aggregate or summary terms.

For best results, ensure:

- questions are short, clear and relevant.
- respondents are able to provide reliable feedback.
- everyone is adequately briefed on the process.
- the feedback process is clearly explained.
- training is provided to those giving feedback and results.
- issues of confidentiality are addressed, and feedback is anonymous.
- the report is concise, clear, and provides guidance on how to use the information.
- the process is constantly monitored and evaluated.

• Advantages

As with the balanced scorecard, 360-degree feedback means you have the opportunity to access a range of perspectives. It is also more structured, meaning feedback is easily comparable.

• Disadvantages

This approach is time consuming, as it requires collecting data from several sources and may not be time-effective for your business.

Managing Underperformance

Having to start a conversation about underperformance is never an easy task. However, it does allow you to recognise the external factors that may be influencing underperformance and take steps to prevent it taking root. By doing this, you are lessening the need for active intervention, and effectively managing the issue.

These actions can help prevent underperformance:

- Keep job descriptions relevant and up to date.
- Ensure performance standards are set and communicated to employees.
- Ensure clear and detailed person specifications are set when recruiting, including skills, knowledge, qualifications and experience required.
- Ensure that an appropriate recruitment process targets the correct candidates.

Despite the measures above, under-performance can still happen for a variety of reasons. It's important to consider the impact of external, internal and personal forces when assessing an employee's performance.

Factors external to your organisation may include:

- Major dips in the economy affecting housing prices and living costs
- Changes to government policy and funding in relation to public transport, social security and housing

- Increased competition in the market
- Changing customer tastes
- Natural disasters and changes in supply levels

Factors internal to your organisation may include:

- New technology being implemented
- Department or organisation re-structures
- Job re-designs
- Redundancies and survivor syndrome
- Organisational culture
- Staff conflict
- Lack of clear goals or a misunderstanding of expectations

Personal factors

There could also be personal circumstances impacting employee performance and behaviour such as changes in their home life (a new child, divorce, illness, death of a family member). These can be discussed in a performance management meeting with the employee.

Under-performance should be addressed promptly by an employee's direct line manager. While uncomfortable, it cannot be left until the formal performance appraisal process for a number of reasons. Firstly, underperforming employees may mistakenly believe their performance is satisfactory. Secondly, performance can continue to decline, affecting other employees' behaviour, and thirdly high-

performing employees may see the lack of management action as demotivating, lowering morale.

In handling under-performance, line managers need clear procedures to follow, support from their organisation and training in how to manage these situations. Managers should be prepared with the key message, specific examples of underperformance, and a planned discussion agenda in order to remain calm throughout the conversation.

Performance Improvement Plans

Performance Improvement Plans (PIPs) are a management tool used to help improve the performance of underperforming employees or those who have demonstrated unsatisfactory workplace behaviours.

PIPs are constructive for both employees and employers. When combined with a formal performance management and disciplinary process, they can be used to put an employee on notice. While their employment may be at risk, PIPs allow employees the opportunity to improve their performance. This could mean learning new skills or identifying areas where they are struggling. However, if employees fail to improve, PIPs give employers proof of procedural fairness in the case of disciplinary action or termination.

PIPs should be implemented after firstly having informal talks with employees about their performance and conduct deficiencies, and then after conducting formal performance management and disciplinary counselling meetings. A PIP should not be issued to an employee without prior consultation, and an

opportunity for both parties to discuss and agree upon performance goals.

PIPs should include:

- a definite time-frame for employee progress to occur and performance to be re-assessed for changes.
- clear, specific and realistically attainable goals e.g. employee to sign up 10 new customers per month.
- training required to achieve agreed performance standards (if necessary).
- regular meetings with supervisors to provide support, monitor progress, and modify objectives where appropriate.
- re-assessment of performance at the completion of PIP time-frame and corresponding management action.
- full documentation: e.g. minutes of progress meetings and issues discussed. These will be kept by employers, but copies should be made available to employees.

Issuing Warning Regarding Performance

Employers should be aware of the risk of unfair dismissal claims by employees who don't feel sufficiently warned about their underperformance and received no opportunity to improve or respond before being terminated.

Remember:

- Warnings don't remain "alive" forever. Depending on the severity of conduct which triggered the warning, they typically lose relevance once employees demonstrate improvement for a consistent time. A good guide is six months before expiration.

- Warnings should always be documented. Even verbal warnings should be noted. This will help prove reasonableness if a subsequent termination decision is challenged.
- Warnings should specifically explain the type of underperformance and identify the timeframe for improvement.
- Employees should sign a receipt or acknowledgment of receiving a warning. If an employee refuses, they should still be issued a copy and a record be kept on their personnel file
- The process for issuing warnings should be in company policy and procedure documents and an employee's employment contract.

Verbal warnings

When an employee first starts showing signs of underperformance, the conduct might not warrant a formal performance management process, but still require addressing.

The employee's direct supervisor should then issue a verbal warning. It's best accompanied by an informal performance management process.

The aim is for performance improvement, so the supervisor informs their subordinate of the performance gap and ways to correct it. Further counselling, training or access to the employer's Employee Assistance Program (EAP) may be necessary.

First written warnings

A first written warning might be used where there's been a verbal warning and no improvement. Alternately, an employee may not have been previously warned, but their behaviour

or the level of underperformance makes the written warning necessary.

Ideally, this warning will be issued with a formal performance management process. This allows employees an opportunity to respond to their performance issues and work with their manager to improve them. A PIP may also be issued with the first written warning.

Written warnings should contain:

- an outline of the underperformance/ misconduct issue and corrective action required.
- actions to be taken if the employee does not improve.
- details of previous warning and date of issue.
- details and signatures of those present at the formal performance management meeting.
- dates for performance to be re-evaluated.

Final written warnings

The number of warnings issued before an employee can be dismissed depends on the severity of the underperformance, behaviour, or misconduct, and whether they have improved. In serious circumstances, a final written warning could also be the first warning. Conversely, final written warnings can also be given to employees as an alternative to dismissal. In most circumstances, you shouldn't issue repeated final warnings.

For a list of common performance issues, possible causes and specific corrective action, please refer to the Fair Work Ombudsman's Best Practice Guide for Managing Underperformance from www.fwo.gov.au.



Conclusion

Every level must pull their weight for the whole organisation to flourish. To do this, they must all be striving toward the same goal and objectives, with an understanding of the level of performance expected of them.

Creating a company culture like this requires work. But it can be done. Align your organisational values with your performance outcomes so that everything is linked. Above all else, you should ensure your performance management system is ready to use in your organisation. Every key player should understand the need for performance management and how to utilise it. With everyone on board, performance management can help address and tackle individual issues to help your organisation grow.

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