

Asia Pacific Journal of Human Resources

<http://apj.sagepub.com/>

Performance management: Theory in practice?

Alan R. Nankervis and Robert-Leigh Compton

Asia Pacific Journal of Human Resources 2006 44: 83

DOI: 10.1177/1038411106061509

The online version of this article can be found at:

<http://apj.sagepub.com/content/44/1/83>

Published by:



<http://www.sagepublications.com>

On behalf of:



[Australian Human Resources Institute \(AHRI\)](#)

Additional services and information for *Asia Pacific Journal of Human Resources* can be found at:

Email Alerts: <http://apj.sagepub.com/cgi/alerts>

Subscriptions: <http://apj.sagepub.com/subscriptions>

Reprints: <http://www.sagepub.com/journalsReprints.nav>

Permissions: <http://www.sagepub.com/journalsPermissions.nav>

Citations: <http://apj.sagepub.com/content/44/1/83.refs.html>

Performance management: Theory in practice?

Alan R. Nankervis*

Curtin University of Technology, Perth, Australia

Robert-Leigh Compton*

Australian Catholic University, Sydney, Australia

This paper reports the findings of a recent Australian study of performance management systems conducted by the School of Management at Curtin University of Technology, Perth, in association with the Australian Human Resources Institute (AHRI). It was undertaken electronically via the AHRI website, and resulted in a broad range of responses from both the public and private sectors. It reflects the views of a broad sample of Australian HR professionals.

Its main purposes were to update findings from earlier studies, to ascertain current levels of use and satisfaction, and to determine whether performance management has become a more effective strategic tool in the human resource management repertoire. The findings suggest, as in earlier studies, that the use of, and satisfaction with performance management systems remain problematic, although there are some indications that the increasing integration of the balanced scorecard within these systems appears to encourage more strategic links between individual, group, and organisational outcomes, as espoused by strategic human resource management theorists.

Keywords: balanced scorecard, performance management, performance review

* The authors would like to acknowledge the generosity of Mr Christopher Mills of Core Measures (Singapore) who permitted us to adapt his survey instrument for our purposes, and to Ms Jo Mithen and Ms Geraldine Kennett of AHRI for their support of the project. Mr Subramaniam Ananthram's assistance with the data analysis is also acknowledged.

Correspondence to: Associate Professor Alan Nankervis, School of Management, Curtin University of Technology, GPO Box U1987, Perth, WA 6845, Australia; fax: +618 9266 7897; e-mail: Alan.Nankervis@cbs.curtin.edu.au

The review of employee performance, and the management of its collective contributions to organisational effectiveness, have been perceived as a combination of informal and formal techniques which together have the potential to contribute to the motivation of individual employees and their work groups, to evaluate the efficacy of all human resource management (HRM) functions, and to provide organisations with a strategic advantage in their ongoing pursuit of competitive goals and imperatives. Recent research, together with considerable anecdotal industry evidence, suggests that many organisations and their senior managers still regard performance management as a mechanistic annual ritual which is a necessary evil, but has little relevance to their 'bottom line', with minimal recognition and understanding of the powerful tool which it can become.

Research cited in the *Harvard Business Review* suggests that companies which utilise effective performance management systems may perform better in financial terms than those which do not (Rheem 1996, 3–4), although direct cause–effect relationships are inherently problematic (Colbert 2004). In particular, companies which manage the performance of their people effectively are more likely to outperform than those which do not (McDonald and Smith 1995).

Success or failure in performance management depends on organisational philosophies, and the attitudes and skills of those responsible for its implementation and administration, together with the acceptance, commitment and ownership of appraisers and appraisees (Lawler 1994; Hedge and Teachout 2000). A particular programme's effectiveness may also be influenced by the notions of 'procedural fairness' and 'distributive justice' (Gabris and Ihrke 2000), where 'procedural fairness' refers to the employees' perception of the programme's overall process equity, and where 'distributive justice' is linked to perceptions of the fairness of associated rewards and recognition outcomes. Supporters of performance review and management systems such as Drucker (1954), Cascio (1996), and Wilson (2001), argue that performance review programmes are the logical, and preferable, means to appraise, to develop, and to effectively utilise, employees' knowledge and capabilities.

Some critics of performance management suggest that performance review 'nourishes short-term performance, annihilating long-term planning, building fear, demolishing teamwork and nourishing rivalry and politics' (Deming 1982, 102), and others (e.g. McGregor 1957; Levinson 1970; Lawler 1994; Glover 1996; Glendinning 2002) critique its practical difficulties while supporting its underlying principles. There has been an enormous amount of research conducted on performance management, making it one of the most praised, criticised, and debated HRM practices for decades, but despite all the research, countless texts, articles and conference papers, performance review remains a major source of frustration for managers (Lawler 1994; Glover 1996).

Performance management programmes arguably benefit both their organisations and their employees, and can provide individual feedback and collated organisational data which can be used for HR planning and

programme evaluation purposes. Collated data can also assist managerial planning, human resource development programmes, and remuneration schemes. Individual performance management outputs include opportunities for remedial skills development, retention, career development, training and upskilling programmes.

Rapid and discontinuous change within organisations, flatter organisational structures, broader spans of control, and self-managing work groups, combined with network structures and looser business relationships have emphasised the importance of performance management as one of the most crucial links between HRM functions and organisational competitiveness. This article explores these links through the findings of a recent Australian survey of HRM professionals, and suggests some ways in which performance management systems might be revised in order to achieve desirable outcomes.

Objectives of the study

Our study was undertaken in order:

- to update data on the goals, purposes, types, measures, and communication techniques, of contemporary performance management systems;
- to compare these findings with those obtained in earlier Australian studies;
- to assess the levels of user satisfaction with such systems, and the perceived problems;
- to explore whether these systems include more strategic HRM characteristics.

Research findings

Methodology

The study was undertaken jointly by the School of Management at Curtin University of Technology (CUT) and the Australian Human Resources Institute (AHRI), and was conducted by means of an e-survey posted on the AHRI website in mid-2003. The study was advertised in the AHRI newsletter, and members were invited to access and complete the survey online. The survey instrument comprised nine sections, covering company detail; the aims of performance management; system type and designers; strategic focus, and use of the balanced scorecard (BSC); performance requirements, and communication methods; performance review techniques, associated HRM functions (e.g. salary review, promotions), and disclosure aspects; present and future trends in performance management; appraisal training; and overall satisfaction levels.

Both quantitative and qualitative data were obtained, with the former analysed using SPSS. The findings from the study are compared with data from three earlier surveys – namely, Nankervis and Penrose (1990), Nankervis and Leece (1997), and Collins (2000) – in the discussion section.

Sample

The study can be claimed as the largest of its kind in Australia, with 992 respondents (cf. Nankervis and Penrose (1990) with 106 respondents; Nankervis and Leece (1997) with 614; Collins (2000) with 520), and is arguably a reliable indicator of the state of performance management practice across Australian industry, especially given its sectoral and organisational coverage. However, these claims are tempered by the unknown number of possible respondents (AHRI members who access the website), and because all respondents are HRM professionals. Despite this caution, the findings provide a credible picture of the nature and uses of performance management in contemporary Australian organisations, the associated level of satisfaction, and suggestions for the enhancement of systems.

Figure 1 (n = 961) shows the organisation type of respondents. Thus 36 per cent come from small organisations (under 200 employees), 18 per cent from medium (201–500 employees) and 46 per cent from large organisations (more than 501 employees). Table 1 (n = 728) illustrates a selection of the industry sectors included. The large proportion of ‘other’ responses (321, 44%) includes public sector, not for profit, education, health and community service, agencies.

Figure 1 Organisation type of respondents

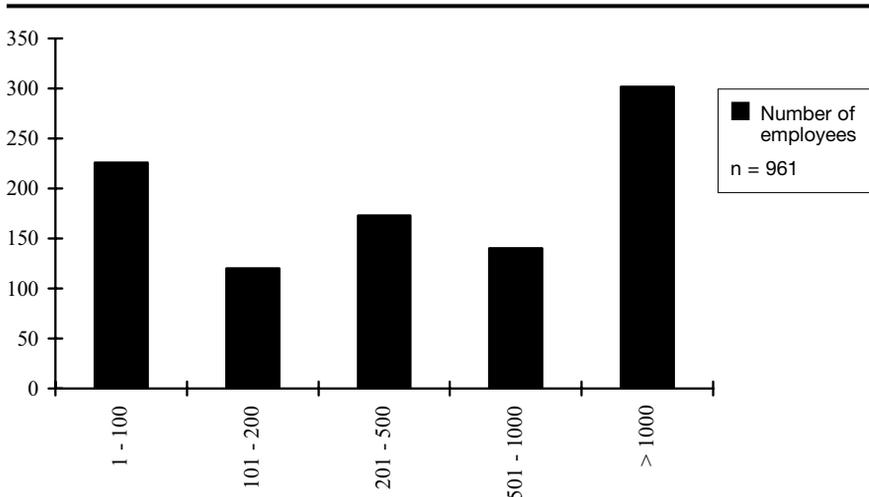


Table 1 **Industry sectors**

Type of industry	N	%
Chemicals and pharmaceuticals	19	2.7
Electronic manufacturing	8	1.1
Engineering	21	2.9
Finance and related	79	10.8
Food and beverage	24	3.3
General manufacturing	53	7.4
Hotel and leisure	29	4.1
IT and related	47	6.4
Management services	52	7.1
Media and related	15	2.0
Property and related	12	1.7
Retail	30	4.1
Shipping and logistics	14	1.9
Trading	4	0.5
Other	321	44.0
Total	728	100

Note: N = Number of responses

The majority (78%) of respondents' organisations are Australian owned, with 11.5 per cent US, and 8 per cent European owned. Of the foreign-owned companies, 42 per cent use the same performance management system, 33 per cent use a modified form, and only 25.6 per cent use a totally different system.

In summary, the sample represents the views of HRM professionals within a broad cross-section of industry sectors and organisation types in primarily Australian-owned organisations.

Usage and purposes of performance management systems

Almost all organisations (952 = 96%) report using a performance management (PM) system, mostly for the last 1–5 years (65%), and 64 per cent having a formal PM policy manual. While approximately 68 per cent are contemplating changes to their present system, only 24 per cent are currently making changes. Table 2 sets out the main purposes of current PM systems in this sample.

The table shows that the main purposes of performance management are, almost equally, the determination of training and development needs and the appraisal of past performance, together with the alignment of individual and organisational objectives (75.5%), and to a lesser extent, the development of individual competencies, career planning, salary increases, and the assessment

Table 2 Main purposes of performance management

Aims of performance management	N	%
Determine training and development need	885	89.2
Appraise past performance	882	88.9
Align objectives	749	75.5
Develop individual competencies	561	56.6
Assist career planning decisions	556	56.0
Link pay to performance	503	50.7
Assess future potential/promotion prospects	475	47.9
Discipline/dismiss non-performing staff	287	28.9
Change organisational culture	278	28.0
Retain high calibre staff	273	27.5
Other	42	4.2
Set performance objectives	24	2.4

Notes:
1. Total number of respondents = 992
2. N = Frequency

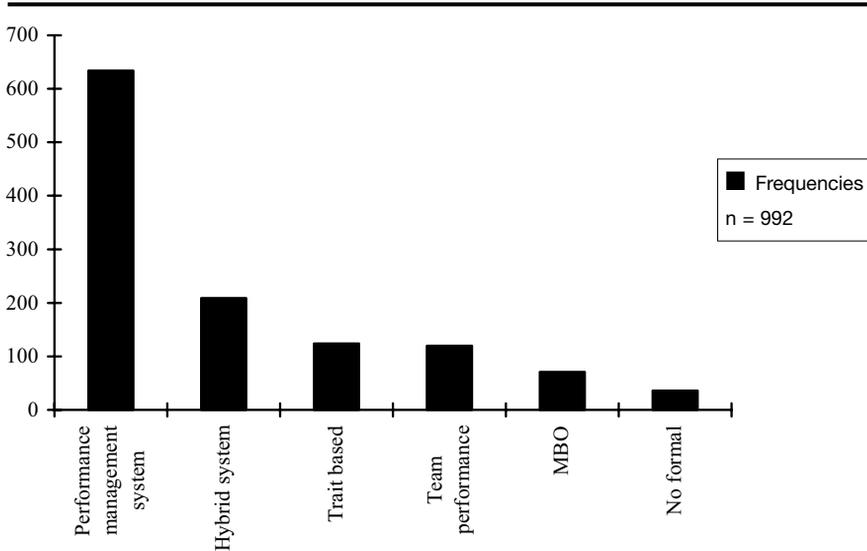
of future promotional prospects. Discipline and dismissal, organisational change, and the retention of 'high calibre' staff are of less importance.

System type

Respondents were given the choice of six alternative descriptors to categorise their system type (namely, trait-based, management by objectives (MbO), hybrid system, 'performance management', team performance management, or 'no formal system'), and each descriptor was briefly delineated. As figure 2 shows, the two major types of performance management systems in this study are 'performance management' (64%) and 'hybrid' (21%), both of which were combinations (or customised forms) of more traditional appraisal techniques such as MbO and competencies, with 'performance management' described as directly linking individual goals and the organisation's 'strategic direction and key measures'. Trait-based and team appraisals received little support, and interestingly, MbO by itself only attracted 7 per cent of the responses. As discussed later, the latter finding may be explained by its incorporation within more customised and complex systems.

Of all responses, nearly 34 per cent do not use competencies in their appraisals, 46 per cent use formal or informal behaviourally based measures, and 20 per cent employ behaviourally anchored ratings (BARS). Sixty-five per cent of respondents report consistent performance management systems for all employees, with the remainder having different systems for managers and other employees. The criteria for and measures of these similar and different

Figure 2 Performance management system types



systems are described later in the article. The large majority of all current systems (75%) have been designed by internal organisational HRM specialists or project teams, with equal proportions (12%) imposed by multinational headquarters, or designed by external consultants.

In summary, the main types of performance management systems reported in this study are tailored combinations of traditional techniques, largely designed by the organisations themselves and incorporating all employees, and often consciously linking employee and organisational goals and imperatives.

Strategic elements of performance management

This section of the study explored the 'strategic' elements of systems, and in particular the application of the balanced scorecard framework to performance management. It began by assessing the frequency of usage of organisational vision/mission statements; articulated organisational values; critical success factors; and the balanced scorecard; and then examined the relationships between plans, missions, measures, and reviews associated with the BSC. The specific choice of the BSC was due to its explicit and structured inclusion of performance measures with key organisational objectives and strategies. Thus, while the first question involved all 992 respondents, successive questions only targetted those who used the BSC. A Likert scale of five items, from 'strongly agree' to 'strongly disagree', was used for the latter questions, with a response rate between 253 and 325.

Although only 25.5 per cent of the total respondents (253) reported using the BSC, a small number of others also responded to these questions. Overall, nearly 88 per cent of all respondents who use the BSC possess a vision or mission statement, and more than 80 per cent have expressed organisational values, but only 36 per cent use critical success factors in their performance management systems. These findings represent a significant difference from earlier studies conducted prior to the development of the BSC.

With respect to the strategic elements of BSC-based performance management systems, the data indicate that more than 89 per cent of these respondents believe that their performance measures are 'strongly'–'somewhat' built into a cohesive plan, and further, that more than 95 per cent are convinced that their key measures are consistent with their organisations' missions, visions, and long-term goals and strategies.

While most respondents using the BSC felt that their performance measures were generally consistent with organisational goals and strategies, there is a broader spread of opinion with respect to the linkages at all levels of management. However, more than 78 per cent 'strongly'–'somewhat' agreed that there are such links, and more than 88 per cent were confident that their performance measures are 'well balanced' with respect to the BSC categories (namely, financial and operational performance, customer and employee satisfaction).

In summary, most survey respondents have such components of strategic management as visions or missions, and expressed organisational values, fewer use critical success factors, and only a quarter are presently using the balanced scorecard as the basis for their performance management systems, although later data indicate that this proportion is expected to grow in the future. Of the respondents who use the BSC, most agree that their key performance measures are linked with a conscious plan, consistent with organisational missions, and include 'well-balanced' measures reflective of the key BSC categories, but are not quite as effective in cascading these to all management levels.

Performance criteria and appraisal communication techniques

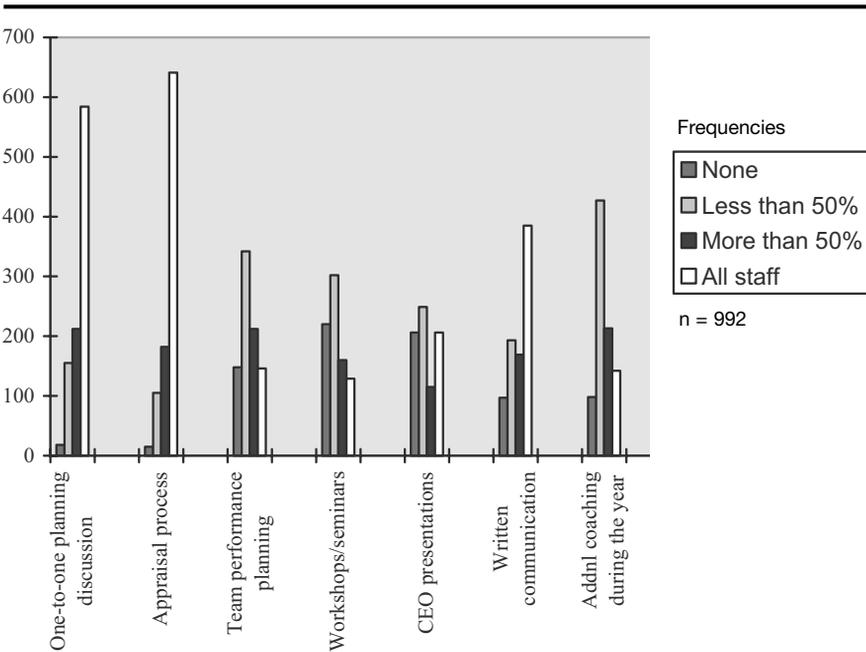
This section of the study sought information on the appraisal criteria and appraisal communication techniques used, and involved all participants. Table 3 details the findings on the criteria for managers and other employees, and figure 3 shows the frequencies for appraisal communication techniques. As indicated, many organisations use a variety of criteria and techniques, so the responses add up to more than the total 992 respondents. As the table and figure show, different criteria are used for different positions, and appraisal techniques vary between organisations. Thus, while most organisations employ objectives/targets, broad responsibilities and roles, and written job descriptions, for most positions, these are variable across management and non-management roles, and the use of competencies (either linked, or not linked, to organisational values) appears less crucial than other factors. This latter aspect is

Table 3 Performance criteria for managers and other employees

Performance requirements	Senior management	Managers	Supervisors	Other staff
Objectives/targets	837 (84.7)	792 (79.8)	637 (64.2)	550 (55.4)
Broad responsibilities and roles	681 (68.6)	693 (69.9)	565 (57.0)	473 (47.7)
Main job activities and tasks	415 (41.8)	556 (56.0)	651 (65.6)	671 (67.6)
Written job descriptions	577 (58.2)	705 (71.1)	688 (69.4)	703 (70.9)
A set of competencies (linked to values)	391 (39.4)	409 (41.2)	362 (36.5)	347 (35.0)
A set of competencies (not linked to values)	198 (20.0)	245 (24.7)	244 (24.6)	257 (25.9)

Notes: 1. Total number of respondents = 992; 2. Values in parentheses are percentages

Figure 3 Frequencies of appraisal communication techniques



perhaps a little surprising, given the findings of the previous section, but may reflect the limited use of the BSC method to date.

The preferred appraisal communication techniques appear to be the appraisal interview itself (65%); ‘one-to-one’ performance planning discussions (59%); and written communication (39%), with considerably less use of CEO

presentations, team planning sessions, specific workshops or seminars, or dedicated coaching programmes.

Performance review mechanisms and associated features

Respondents were asked about the mechanisms used for the review of employee performance, and the associated features (e.g. documentation; frequency of reviews; links with promotion and salary). The choice of review mechanisms was limited to seven items, namely:

- joint employee–supervisor discussions
- supervisor judgement with no employee involvement
- employee self-assessment
- peer review
- subordinate review of manager's performance
- work group or team review
- no performance review.

Given the extensive use of hybrid systems, discussed above, many organisations are employing multiple forms of performance review, either in formal 360 degree or multi-rater systems, or in more customised forms. However, the data reveal that joint discussions between employees and their supervisors are still widespread (641/992 (64.6%) for all staff, plus 242/992 (24.4%) for 'over half' their staff), followed perhaps surprisingly by self-assessment (33% for all staff, plus 16% for 'more than half' the staff), although more than 23 per cent do not use any form of self-assessment.

Work group or team performance for all staff is only included in 10.6 per cent of the respondents' systems, and a further 11.5 per cent for 'more than half' their staff, while peer review is employed by 36 per cent (all, and 'more than half', the staff). Subordinate review had the support of only 9 per cent of respondents, with only 6 per cent using supervisor judgements unaccompanied by employee input.

Most review mechanisms (96%) are documented, many (64%) permit access to these results by third parties (presumably more senior and HR managers), and nearly 60 per cent take place more than once annually. It appears that while an employee's 'potential' is more or less equally included in or separated from the review discussions, promotional opportunities (54% do not include), and salary reviews (64% separate), are still largely seen as dissociated from performance review. Only 1 per cent of organisations do not allow employees access to their own review reports, with 89 per cent permitting full disclosure and a further 9 per cent partial disclosure. The aspects of the reviews not disclosed generally involve future potential, overall ratings, salary issues, and 'other' aspects (e.g. bonus pay recommendations, individual

and team member comments, 'relative merit to others', 'personal opinions', and confidential feedback).

Performance management training

Respondents were asked about the degree of training in the importance, use, and nature, of performance management systems, and the persons responsible for such training. The data indicate that the majority of organisations (69%) do provide some form of training, although most focus on managers and supervisors rather than employees, and less than half involve all managers. The significant issues discussed in such training programmes include almost equally, performance appraisal techniques, the balanced scorecard, and the 'strategic focus' of performance management, and to a lesser extent, performance coaching and simple explanations of the actual review process. Most organisations (62%) utilise training or HR managers to design and conduct such training, with less use of line managers (27%) or external consultants (11%).

Trends and issues in performance management

This section sought respondents' opinions on the extent of their present and/or future use of such performance management techniques as the balanced scorecard, 360 degree/multi-rater feedback, upward appraisal, team appraisal, forced ranking/bellcurve, manager and employee training. Table 4 and figure 4 summarise these findings, and imply that many respondents are considering future changes to their systems. In particular, the table shows that use of the balanced scorecard and 360 degree/multi-rater feedback are poised to increase, as are team appraisal, manager and employee training. Forced rankings and the use of the bellcurve do not appear to have significant support.

Effectiveness of, and satisfaction with, present review systems

This section reports only the qualitative responses of the sampled HRM professionals of the perceived effectiveness of their present performance management systems. The study did not include quantitative measures. Although the majority of respondents (69%) report general satisfaction with their present performance management systems, ranging from 49 per cent 'effective' to almost 20 per cent which are 'more than effective'(16%) or 'highly effective' (4%), more than 30 per cent are less than satisfied. The 'best' aspects of current systems include their alignment with the organisation's strategic business imperatives; their perceived simplicity, consistency, equity, and transparency; links with staff development, pay, coaching, succession plans. Reflective comments include the following:

Table 4 Responses to the present and future use of performance management practices

Present					Performance management practice	Future				
Not used	Rarely	Occasionally	Fairly often	Extensively		Will not use	Rarely	Occasionally	Fairly often	Extensively
507 (51.1)	72 (7.3)	114 (11.5)	112 (11.3)	131 (13.2)	Balanced scorecard: A set of measures created by management which relate to the organisation's critical success factors	283 (28.5)	50 (5.0)	132 (13.3)	201 (20.3)	209 (21.1)
442 (44.6)	173 (17.4)	189 (19.1)	88 (8.9)	55 (5.5)	360/Multi-rater feedback: An individual's performance assessed by peers/subordinates	221 (22.3)	87 (8.8)	253 (25.5)	221 (22.3)	113 (11.4)
528 (53.2)	152 (15.3)	128 (12.9)	79 (8.0)	54 (5.4)	Upward appraisal: Subordinates assess their manager's performance	295 (29.7)	132 (13.3)	194 (19.6)	168 (16.9)	103 (10.4)
577 (58.2)	175 (17.6)	105 (10.6)	49 (4.9)	32 (3.2)	Team appraisal: Team members appraise team members	368 (37.1)	134 (13.5)	188 (19.0)	135 (13.6)	66 (6.7)
715 (72.1)	41 (4.1)	41 (4.1)	70 (7.1)	67 (6.8)	Forced ranking/Bellcurve: Only a percentage can achieve the highest rating	618 (62.3)	66 (6.7)	57 (5.7)	74 (7.5)	70 (7.1)
111 (11.2)	138 (13.9)	296 (29.8)	280 (28.2)	128 (12.9)	Manager training: Use of training to develop managers' skills in performance planning, managing and appraising	40 (4.0)	43 (4.3)	163 (16.4)	360 (36.3)	298 (30.0)
185 (18.6)	179 (18.0)	280 (28.2)	206 (20.8)	104 (10.5)	Employee training: To develop employees' skills in performance planning, tracking and appraisal preparation	63 (6.4)	76 (7.7)	214 (21.6)	321 (32.4)	230 (23.2)

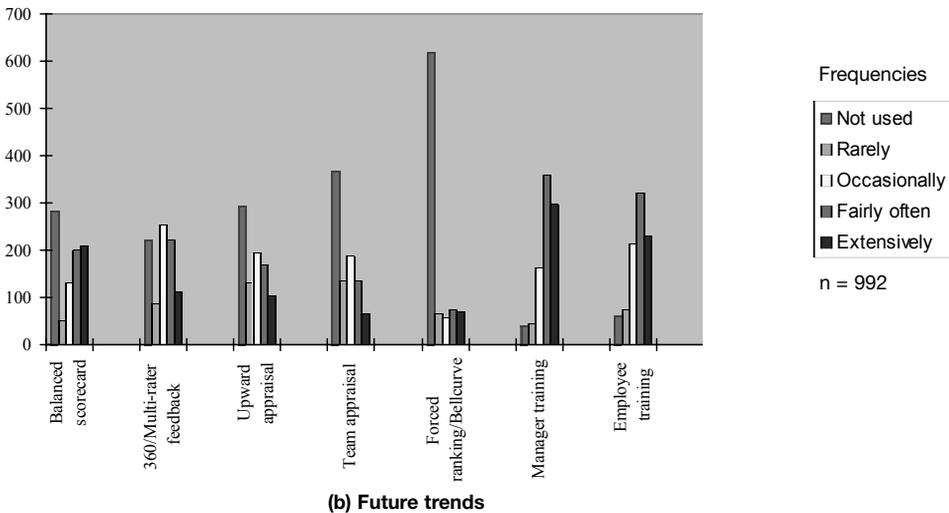
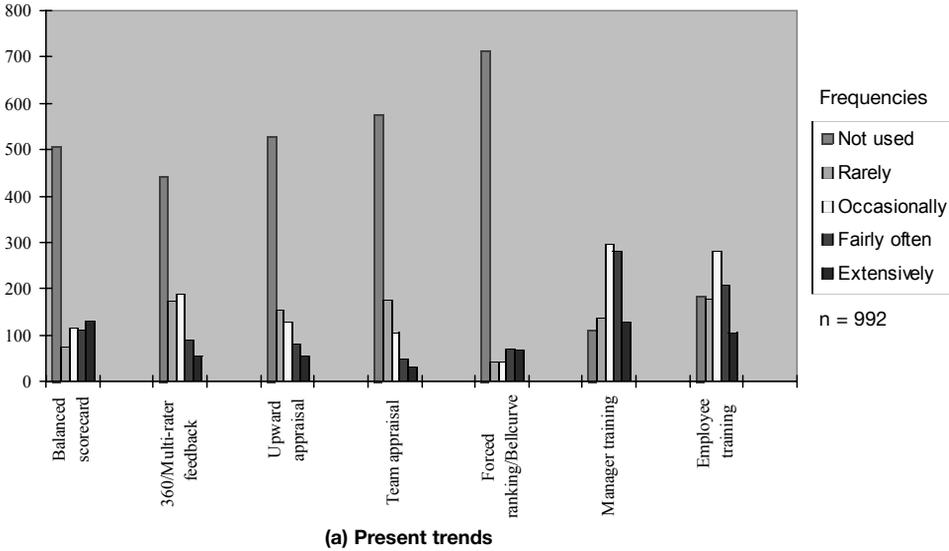
Notes:

1. n = 992

2. Values in parentheses are percentages

3. Mean scores for the performance management practices are 2.24, 2.09, 1.91, 1.70, 1.64, 3.18 and 2.86 for responses to 'Present use' and 3.00, 2.91, 2.61, 2.32, 1.77, 3.92 and 3.64 for responses to 'Future use' seriatim

Figure 4 Present and future trends in performance management



‘It increases everyone’s awareness of their role and how they fit into the organisation’

‘(It) covers what you do, how you do it, and what additional skills you need to do it, and draws from the corporate plan and the business plan, and can be modified to meet individual business unit needs’

- 'Sets individual goals linked to operational and strategic plans'
- 'Achievement against KPIs, ability to self-assess, clear objectives and agreed action plans'
- 'collaborative approach, senior management commitment, communication'
- 'focuses on the feedback discussion rather than the 'form-filling' component'
- 'less focus on a mechanical process and more upon performance planning and the actual interpersonal interaction'
- 'Open discussion, focused opportunities for discussion, active and useful dialogue, honest feedback, one-on-one communication'
- 'at least there is one' or 'better than none at all'

On the other hand, dissatisfaction factors include the absence of many of the same characteristics, especially the lack of links with organisational goals, or with promotional and salary rewards; few participation or feedback opportunities; inadequate appraisal training; or implementation and administrative difficulties. The following comments reflect these issues:

- 'A commitment to DO IT! And FOLLOW IT THROUGH! by all parties involved' (respondent emphases and expression)
- 'alignment with business objectives, need to address inflated and inconsistent outcomes'
- 'All areas-rollout, documentation, usage, outcomes'
- 'Computerised database is administered from US-cumbersome which creates pushback from employees'
- 'Directors need to understand value of performance review'
- 'I have yet to see a formal procedure that is effective. However I would use one if I could find one that did not cause as many problems as they solve'

Discussion

The sample size and organisational coverage of this study suggest that its findings may represent the dominant views of HR professionals throughout Australian industry, or are as credible as those of earlier surveys. Certainly, the findings imply that notable changes have occurred in both the perceptions and practices of Australian HRM specialists over the last decade or so. The proportion of organisations which employ formal performance management systems

appears to have increased during the period, rising from 85–86 per cent in 1990 and 1995 (Nankervis and Penrose 1990; Nankervis and Leece 1997), and 93 per cent in 2000 (Collins 2000), to 96 per cent in this study. Possible reasons for this increase in usage include the need for organisations to improve employee productivity in the face of greater domestic and international competition, a consequent rise in performance-based employment contracts facilitated by more flexible industrial relations conditions, and/or a more 'strategic' approach to performance management by HR professionals and their senior managers, at least among those who are associated with the Australian Human Resources Institute.

Further support for the notion of a more strategic perspective of performance management is provided by responses to questions concerning the purposes and types of systems utilised. Thus, while earlier studies (Nankervis and Penrose 1990; Nankervis and Leece 1997) found that by far the most common purposes were the appraisal of past employee performance (99% and 94%) and the identification of training and development needs (85%); this study confirms a broader repertoire of aims, including 'the alignment of individual and organisational objectives' (75.5%), the development of individual competencies (56.5%), and the assessment of future employee potential (48%). In addition, conscious links between performance appraisal and career planning (56%), and with salary review (51%), while similar to earlier studies, may involve more sophisticated mechanisms given the dramatic changes in the nature and types of occupations during the last decade. These findings are largely in agreement with those in the Collins (2000) study. However, the limited proportion of organisations using performance management as a cultural change agent (28%), or as a device to retain 'high calibre' staff (27.5%) suggests that progress towards strategic performance management may be patchy.

The primary types of systems reported ('performance management' – 'MbO plus competencies linked to organisational key measures' = 64%, and 'hybrid' systems – 'MbO plus employee competencies' = 21%) suggest that more serious attention is being given to the customisation of performance management schemes than in earlier studies. For example, MbO alone was by far the most dominant type of performance appraisal system in both the 1990 and the 1995 studies (70% and 68%), contrasted with only 7 per cent in this study; ranking and rating systems were used by half of the respondents in the previous studies, contrasted with around 12 per cent in this study. Self-assessment as a component of performance appraisal, appears to have increased over the period, from 25 per cent in 1990, to around 33 per cent of all staff (and 16%, for 'over half' the employees) in 2003. These findings may merely reflect broad industry and occupational changes, or they may also suggest that these developments have encouraged HR professionals to refine their appraisal systems in order to be more inclusive through greater employee involvement, and to more closely link individual and organisational performance. Certainly the increased and growing application of the balanced scorecard to perform-

ance management, as discussed later, seems to imply a more strategic approach. Again, this trend is not uniform, as indicated by the comparatively low usage of team/workgroup input (12%) or multi-rater feedback (14%), but there are some suggestions that this may change in the future, as discussed later.

As in earlier surveys, most schemes are still largely designed by domestic in-house HR professionals (75%, 2003 cf. 71%, 1995), and a further 12.5 per cent by multinational HR specialists, who thereby have the potential to ensure congruence between individual and organisational outcomes, with only a small number using external consultants. The majority (65%) of organisations use the same appraisal system for all levels of employees and their managers, despite necessary differences in the competencies evaluated.

Unlike earlier research studies, this survey specifically addressed the growing use of the balanced scorecard as the philosophical and practical foundation of performance management, and isolated its users within one of its sections. The respondents who use the BSC (25.5%) reported significantly higher levels of strategic alignment between individual and organisational performance objectives than other respondents. This is reflected in their incorporation of vision/mission statements (88%), and organisational 'values' (80%) in performance management systems; and their support for the notions that it is 'built into a cohesive plan' (89%), that its key measures are 'consistent with the organisational mission' (95%), that they are linked to all management levels (78%), and that they employ 'well balanced measures' (88%). While these responses may merely reflect adherence to the rigour and 'hype' of the BSC, they may also provide guidance to other HR professionals as to the ways in which they might enhance their own alignment between individual and organisational performance outcomes.

As the communication, training, and ongoing reinforcement of the purposes, links, benefits, and desired outcomes, of performance management, are arguably the keys to its successful acceptance and implementation, it is perhaps surprising that the supervisor-subordinate appraisal interview is still the preferred appraisal communication technique (65%), complemented by 'one to one' performance planning discussions (59%). The large majority of respondents reveal almost all appraisal data to employees, with some minor exceptions. Written communication, chief executive officer presentations, team planning sessions, coaching/mentoring, and associated workshops, do not appear to be extensively used, and training for managers and employees seems to have declined between studies. As an example of the latter, performance appraisal/management training in the 1990–95 studies averaged 75 per cent (Nankervis and Penrose 1990; Nankervis and Leece 1997), and was reported at 77 per cent by Collins (2000), but in this study it only received 69 per cent support, with a focus on appraisal techniques, the BSC, a 'strategic' perspective, coaching skills, and explanations of the organisation's performance management process. Such training is primarily designed by the HR professional, but with some line management, and limited external consultant, input. These

issues may be important with respect to the effectiveness of performance management schemes, as they help to ensure that the designed system meets its preordained objectives and is consistent with broad organisational imperatives.

With respect to the future trends in performance management, it appears clear from this study that the use of the BSC and 360 degree (or multi-rater) appraisals are likely to significantly increase; along with upward appraisals, team appraisals, and appraisal training. With respect to the use of multi-rater appraisal, Collins' (2000) study contains similar findings with respect to the current frequencies for upward and team appraisals, but also suggests that organisations are already employing multi-rater appraisals at the predicted future rate in this study (33%). Ranking and rating systems do not appear to be favoured within an Australian employment environment focused on continual improvement and enhanced competitiveness, with an emphasis on flexibility and individual performance. Interestingly, biannual or more frequent appraisals seem more likely in the future, perhaps reflecting shorter business cycles, and the consequent need to constantly upgrade employee competencies or job outcomes.

Despite, or perhaps because of, the apparent trend towards more sophisticated and more customised performance management systems, designed to align organisational and employee goals and objectives, HR professionals' satisfaction with their effectiveness has declined since the 1990 study, from 84 per cent to only 20 per cent 'highly effective', and 49 per cent 'effective', in this study. The best systems enshrine ideal principles of performance management such as the strategic alignment of organisational and employee goals and outcomes; user friendliness; consistency, equity, and transparency; and clear links between appraisal and salary review, human resource development, coaching, and succession plans. The less attractive systems either fail to reflect these qualities, or provide inadequate communication, employee feedback, or appraisal training. These issues are common to all of the earlier studies, and mirror the concerns expressed by McGregor (1957), Deming (1982), and others, and appear to be inherent features of performance management, which can only be mitigated or ameliorated rather than fully implemented or eliminated.

Conclusion

This study was conducted to ascertain whether HRM professionals believe that there have been any significant changes in the design, implementation, and effectiveness of performance management systems in Australian organisations since earlier studies, and whether such changes might reflect and reinforce contemporary strategic HRM theory. It was expected that the pressures of globalisation, increased regional competition, industry rationalisation, and a significantly more cooperative industrial relations environment, would have encouraged employers to redesign their performance management systems in

order to reflect their competitive imperatives, and to enable closer links between individual, group, and organisational objectives and outcomes.

Overall, the findings of the study can best be described as mixed, with evidence that substantial changes have been made with respect to the use, purposes, and nature of performance management systems, and more hopefully, that more customised and integrated systems are proposed for the future. There are signs that some organisations, especially those utilising the balanced scorecard as the bridge between organisational and individual employee goals, are seriously attempting to implement the strategic HRM agenda in their organisations through performance management, and it appears likely that these imperatives will grow in the future.

However, satisfaction levels with present systems have deteriorated since the earlier studies, the training of system users has declined, and the involvement of employees in the review of their own and their team's performance is not yet well implemented. The dissatisfying factors remain those of all previous studies, and indicate the guiding principles that HRM professionals should use in order to further develop their performance management systems – alignment, integration, commitment, collaboration, feedback, outcomes, and user-friendliness.

Alan R. Nankervis is an associate professor of human resource management in the School of Management, Curtin Business School, at Curtin University of Technology, Perth. He is the co-author of seven books, and numerous scholarly articles and conference papers. His research interests are in the areas of strategic HRM, international HRM, HRM in the tourism industry, and the management of the service sector.

Robert-Leigh Compton is a senior lecturer in human resource management at the Australian Catholic University in Sydney. He has co-written three books, and many scholarly and professional articles and papers. His research interests include strategic HRM, employee assistance programmes, and HRM programme evaluation.

References

- Cascio, W. 1996. Managing for maximum performance. *HR Monthly* September: 10–13.
- Colbert, B. 2004. The complex resource-based view: Implications for theory and research in strategic HRM. *Academy of Management Review* 29(3): 341–58.
- Collins, R. 2000. Performance management study. Unpublished paper, AGSM.
- Deming, W.E. 1982. *Out of the crisis*. Cambridge: Cambridge University Press.
- Drucker, P. 1954. *The practice of management*. New York: Harper and Row.
- Gabris, G., and K. Ihrke. 2000. Improving employee acceptance toward performance appraisal and merit systems: The role of credible leadership. *Review of Public Personnel Administration* 20(1): 41–53.

- Glendenning, P.M. 2002. Performance management: Pariah or messiah? *Public Personnel Management* Summer: 161–78.
- Glover, R. 1996. Why are we ignoring performance appraisal research? *Parks and Recreation* 31(11): 24–8.
- Hedge, J., M. Teachout. 2000. Exploring the concept of acceptability as a criterion for evaluating performance. *Group and Organisation Management* 25(1): 22–44.
- Herzberg, F., B. Mausner and B. Snyderman. 1959. *The motivation to work*. New York: John Wiley.
- Lawler, E. 1994. Performance management: The next generation. *Compensation and Benefits Review* 26(3): 16–20.
- Levinson, H. 1970. Management by whose objectives? *Harvard Business Review* July–August: 125–34.
- McDonald, D., and A. Smith. 1995. A proven connection: Performance management and business results. *Compensation and Benefits Review* 27(1): 59–62.
- McGregor, D. 1957. An uneasy look at performance appraisal. *Harvard Business Review* May–June: 13–38.
- Nankervis, A., R. Compton and M. Baird. 2002. *Strategic human resource management*, 4th edn. Melbourne: Thomson Learning.
- Nankervis, A., and P. Leece. 1997. Performance appraisal: Two steps forward, one step back? *Asia Pacific Journal of Human Resources* 35(2): 80–92.
- Nankervis, A., and J. Penrose. 1990. Performance appraisal: Where are we now? *Asia Pacific HRM* 28(3): 74–81.
- Rheem, H. 1996. Performance management programs: Do they make any difference? *Harvard Business Review* September–October: 3–4.
- Wilson, J. 2001. Performance appraisal: An obstacle to training and development? *Career Development International* 6(2): 93.