



6. Performance Management

The aims of the section are to:

- Give an overview of performance management including performance management theories, aims, cycle, assessment and impact.
- Provide theoretical information about performance management, but rather to highlight the importance of performance management in SME's.



Keywords

Objectives, performance, management, appraisal, assessment, rating, reward, feedback.



Required knowledge

Knowledge of basic terms in human resource management and basic terms of motivation and behavioural psychology.



Time requirements

Total time recommended to study this chapter: three hours.





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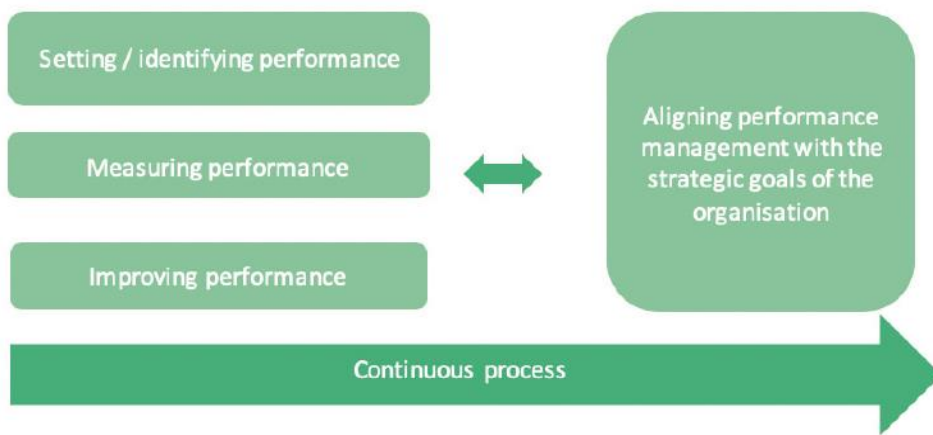
Introduction to performance management



Performance management (PM) is a process of identifying, measuring and developing the performance of individuals and teams and aligning performance with the strategic goals of the organisation (see Figure 1). According to Armstrong & Taylor (2014), PM comprises five elements: agreement, measurement, feedback, positive reinforcement and dialogue.

It is important to highlight that performance management and reward management are closely associated topics that play an important part in achieving one of the key goals of HRM – to contribute to the development of a high-performance culture. Performance is concerned with how well a task or output is achieved and reward is about recognising individuals for their achievements (Armstrong & Taylor, 2014).

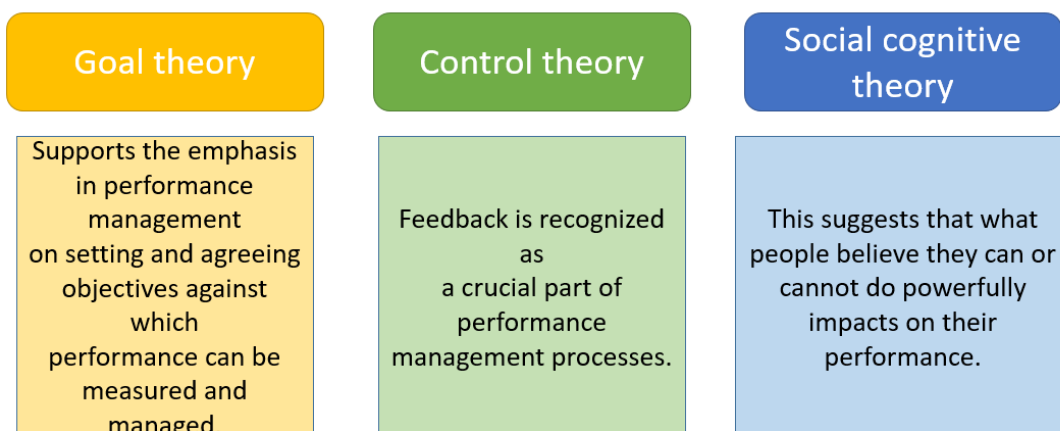
Figure 1. Performance management definition



Source: Armstrong & Taylor (as cited in Komulainen et al., 2019)

Performance management theories

Figure 2. Performance management theories



Source: Adapted from Armstrong & Taylor (2014)



Goal theory

Goal theory, as developed by Latham & Locke (1979), highlights four mechanisms that connect goals to performance outcomes:

- 1) they direct attention to priorities;
- 2) they stimulate effort;
- 3) they challenge people to bring their knowledge and skills to bear to increase their chances of success;
- 4) and the more challenging the goal, the more people will draw on their full repertoire of skills.

This theory supports the emphasis in performance management on setting and agreeing objectives against which performance can be measured and managed.

Control theory

Control theory focuses attention on feedback as a means of shaping behaviour. As people receive feedback on their behaviour, they appreciate the discrepancy between what they are doing and what they are expected to do and take corrective action to overcome the discrepancy. Feedback is recognized as a crucial part of performance management processes.

Social cognitive theory

Social cognitive theory was developed by Bandura (1986). It is based on his central concept of self-efficacy. This suggests that what people believe they can or cannot do powerfully impacts on their performance. Developing and strengthening positive self-belief in employees is, therefore, an important performance management objective (see Figure 2).

Aims of performance management

The overall objective of performance management is to develop and improve the performance of individuals and teams and, therefore, organisations.

The aim is to develop the capacity of people to meet and exceed expectations and to achieve their full potential to the benefit of themselves and the organisation. It is about ensuring that the support and guidance people need to develop and improve is readily available.

Effective performance management has two other important purposes. First, it can communicate to employees the strategic goals of the enterprise and specify what the organisation expects from them in terms of behaviour and results in order to achieve those goals. This means defining what doing a good job entails. Second, it can help with relationship building between employees and their managers. Involving both managers and their staff in performance planning and review can widen the dialogue between them and enhance inter-personal trust.



A summary of what management and individuals can gain from performance management is given in Table 1.

Table 1. What management and individuals can gain from performance management?

What management can gain	What individuals can gain
<p>The opportunity to:</p> <ul style="list-style-type: none"> ● integrate individual, team and corporate objectives; ● guide individual and team effort to meeting overall business needs; ● motivate and engage employees; ● recognize individual contribution; ● plan individual careers (talent management); ● introduce relevant and effective learning and development programmes to meet identified needs. 	<p>They will:</p> <ul style="list-style-type: none"> ● know what is expected of them; ● know how they stand; ● know what they need to do to reach their goals; ● be able to discuss with their manager their present job, their development and training needs and their future.

Source: Armstrong (2015)

Guiding principles of performance management

The overarching principles governing effective performance management were defined by Egan (1995, p. 35): “Most employees want direction, freedom to get their work done, and encouragement not control. The performance management system should be a control system only by exception. The solution is to make it a collaborative development system, in two ways. First, the entire performance management process – coaching, counselling, feedback, tracking, recognition, and so forth – should encourage development. Ideally, team members grow and develop through these interactions. Second, when managers and team members ask what they need to be able to do to do bigger and better things, they move to strategic development”.

Strebler et al. (2001) suggested that the following principles are required for performance management to work effectively:

- Have clear aims and measurable success criteria.
- Be designed and implemented with appropriate employee involvement.
- Be simple to understand and operate.
- Make its use fundamental to achieving all management goals.
- Allow employees a clear ‘line of sight’ between their performance goals and those of the organisation.
- Focus on role clarity and performance improvement.
- Be closely allied to a clear and adequately resourced training and development infrastructure.



- Make crystal clear the purpose of any direct link to reward and build in proper equity and transparency safeguards.
- Be regularly and openly reviewed against its success criteria.

Personal appraisal and performance management

It is sometimes assumed that performance appraisal is the same thing as performance management. But there are significant differences. Performance appraisal can be defined as the formal assessment and rating of individuals by their managers at, usually, an annual review meeting. In contrast, performance management is a continuous and much wider, more comprehensive and more natural process of management that clarifies mutual expectations, emphasizes the support role of managers who are expected to act as coaches rather than judges, and focuses on the future.

Performance appraisal has been discredited because too often it has been operated as a top-down and largely bureaucratic system owned by the HR department rather than by line managers. It has been perceived by many commentators (e.g. Townley, 1989) as solely a means of exercising managerial control. Performance appraisal tended to be backward looking, concentrating on what had gone wrong, rather than looking forward to future development needs. Performance appraisal schemes existed in isolation. There was little or no link between them and the needs of the business. Line managers have frequently rejected performance appraisal schemes as being time-consuming and irrelevant. Employees have resented 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 annually. It is better, probably, to ensure regular conversations for feedback rather than rely on annual appraisals. As Armstrong & Murlis (1998, p. 253) assert, performance appraisal too often degenerated into 'a dishonest annual ritual'. The differences between them are summed up by Armstrong & Baron (2004) which are set out in Table 2.

Table 2. Performance appraisal compared with performance management

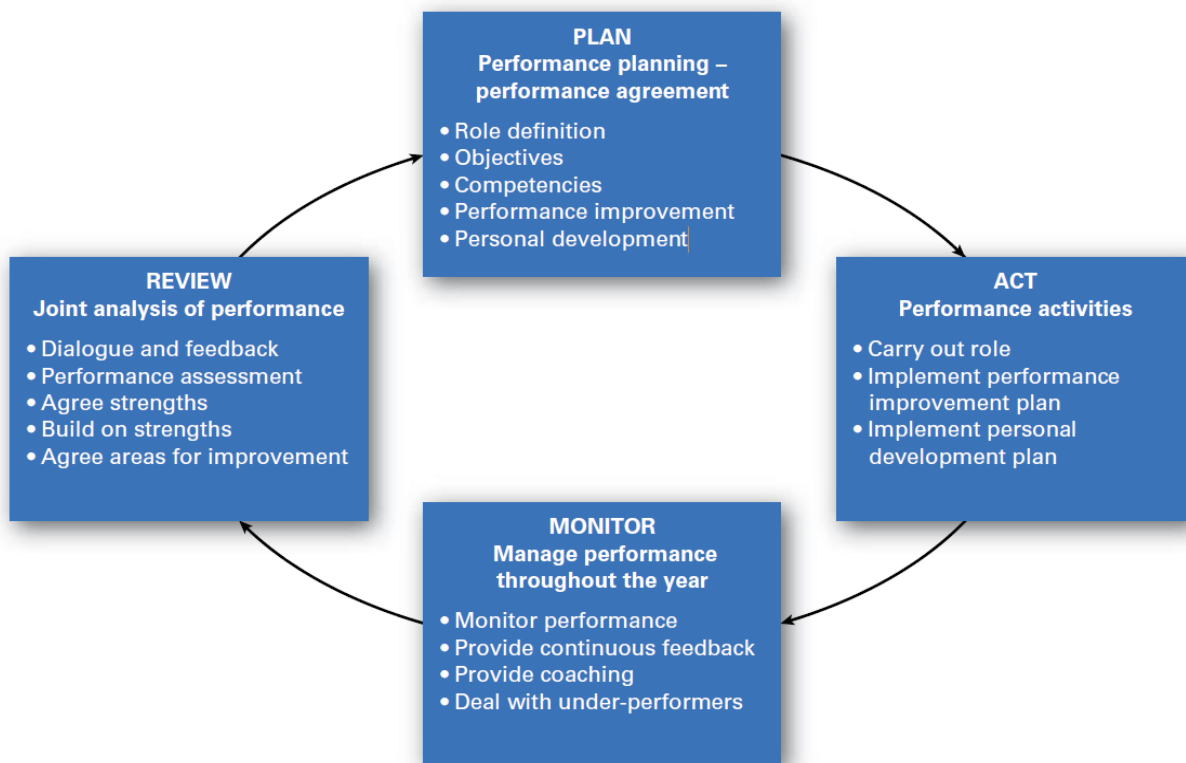
Performance appraisal	Performance management
Top-down assessment	Joint process through dialogue
Annual appraisal meeting	Continuous review with one or more formal reviews
Use of ratings	Ratings less common
Monolithic system	Flexible process
Focus on quantified objectives	Focus on values and behaviours as well as objectives
Often linked to pay	Less likely to be a direct link to pay
Bureaucratic – complex paperwork	Documentation kept to a minimum
Owned by the HR department	Owned by line managers

Source: Armstrong & Baron (2004)

The performance management cycle

Performance management is a natural process of management: it is not an HRM technique or tool. As a natural process of management, the performance management cycle corresponds with plan-do-check-act model (see Figure 3).

Figure 3. Performance management cycle



Source: Armstrong & Taylor (2014)

Performance management includes processes of: performance planning, managing performance, performance reviews and performance assessment recording the agreement and review, and the use of web-enabled technology (see Table 3).

Table 3. Summary of performance management activities over the year

<p>Start of year</p> <p>Continuing dialogue</p> <p>End of year</p>	<p>Performance agreement</p>	<ul style="list-style-type: none"> • Define role profiles, updating as necessary. • Ensure that role profiles set out updated key result areas and competency requirements. • Define goals and standards of performance. • Identify and define key performance indicators. • Draw up development plans.
	<p>Ongoing performance management</p>	<ul style="list-style-type: none"> • Monitor progress and review evidence of achievement. • Provide informal feedback as required. • Provide coaching as required. • Update role profiles and objectives as necessary.
	<p>Performance review</p>	<ul style="list-style-type: none"> • Prepare for performance review by analysing achievements (work and learning) against objectives. • Identify specific strengths and weaknesses on the basis of evidence. • Assess overall performance. • Provide feedback. • Use conclusions of performance review as the basis for next year's performance and development agreement.

Source: Armstrong & Taylor (2014)

Performance planning – performance agreement

A performance agreement is the outcome of the decisions made jointly by the manager and the individual during the planning part of the performance management sequence. It provides a foundation for managing performance throughout the year and for guiding improvement and development activities. It is used as a reference point when planning and reviewing performance and is therefore a key component of a performance management system. It contains agreements on expectations in the form of the results, competencies and actions required, defined as performance and learning goals, and on action plans to develop performance and abilities. The basis for these agreements is a role profile which is jointly developed by the two parties (Armstrong, 2015).



Role profiles

An important part of performance planning is the agreement or updating of a role profile for the role holder. A full role profile defines:

- Overall purpose – what the role exists to achieve.
- Key result areas – elements of a role for which clear outputs and standards exist, each of which makes a significant contribution to achieving its overall purpose. It is best to restrict KRAs to no more than five or six.
- Knowledge and skill requirements – what the role holder should know and be able to do.
- Behavioural competency requirements – the types of behaviour required for the successful performance of a role.

However, the process may be made less complex for line managers by grouping together knowledge and skill and behavioural competency requirements under the heading of 'critical success factors' or 'role requirements' meaning those aspects of a role that must go well to ensure success.

Key performance indicators

Key performance indicators (KPIs) are the metrics or other sources of information which indicate how outcomes can be measured or recognised.

Performance goals

Performance goals define the results individuals are expected to achieve. The expected results will be defined within the framework of the role profile and by reference to the key performance indicators established for key result areas. Wherever possible, goals are quantified as targets which indicate what has to be achieved over a period of time in terms of quantified results or the completion of a project. But they can be expressed as qualitative performance standards which state that a key aspect of the job will have been well done if something specific happens.

Action planning

1. Achieving goals – any actions required by the individual and the manager to achieve the overall objectives of the job.
2. Performance development plans – these will spell out what employees in conjunction as necessary with their managers, need to do in specified areas of their jobs such as reaching sales or productivity targets, working accurately, providing services to internal customers, cutting costs, reducing waste, meeting deadlines. In any development area, goals are set on what has to be done and by when, and agreement



reached on how the expected results will be achieved. If there are any behavioural performance problems such as being uncooperative or lack of effort, plans are agreed on how the problems can be overcome. The plan should be focused; too many goals will only dissipate improvement efforts.

3. Personal development plans – learning plans to achieve learning goals for which individuals are responsible with the support of their managers and the organisation.

The performance management cycle in SMEs

For SMEs, the adoption of advanced managerial practices in the main business processes is key to the successful improvement of their business performance and competitiveness. However, it is well known from the literature that SMEs experience difficulties in adopting new and innovative managerial practices (Cagliano et al., 2001). Therefore, there is a clear need to stimulate the development of managerial capability in SMEs considering the factors characterizing these companies.

SMEs exhibit different managerial characteristics from larger organisations. The small firm is not a scaled-down version of a large firm and we cannot simply look at the needs of SMEs by adapting policies and practices from larger firms in smaller enterprises.

Ates, Garengo, Cocca & Bititici (2013) argued that in order to support the development of managerial practices to improve organisational performance SMEs experience particular difficulties. Authors emphasize that SMEs seem to be more focused on internal and short-term planning, whereas they spend less effort in possessing a long-term view on internal and external issues, such as communication, competition, sustainable competitive advantage, strategic market positioning and horizon scanning. SME managers should become more conscious that development on the path to short-term performance does not lend itself simply to changing at a later stage to the long-term path.

Planning seems to be the most crucial phase of the identified closed-loop process. SMEs show difficulties in developing effective mission, vision and values, and most of them have never formalised their strategies. However, reference frameworks available in the literature for the implementation of a performance management system are based on a top-down approach, i.e. they establish performance measures starting from the identification and formalization of the company's mission and vision (Cook & Wolverton, 1995; Garengo, Biazzo & Bititci, 2005; Hudson et al., 2001) without considering that SMEs have difficulties in managing concepts such as mission and vision. To support the development of managerial practices first of all, we should support SMEs to unveil their strategy without forcing SMEs to adopt the same complex methodologies used by large organisations, but proposing an approach that complies with characteristics and managerial culture of SMEs. The literature is developing in this direction; see, for example, the bottom-up approach proposed by Garengo & Biazzo (2012) to guide entrepreneurs and managers to unveil mission vision and strategy. However, further research should be carried out to develop an SME-friendly, visual strategic framework for guidance.



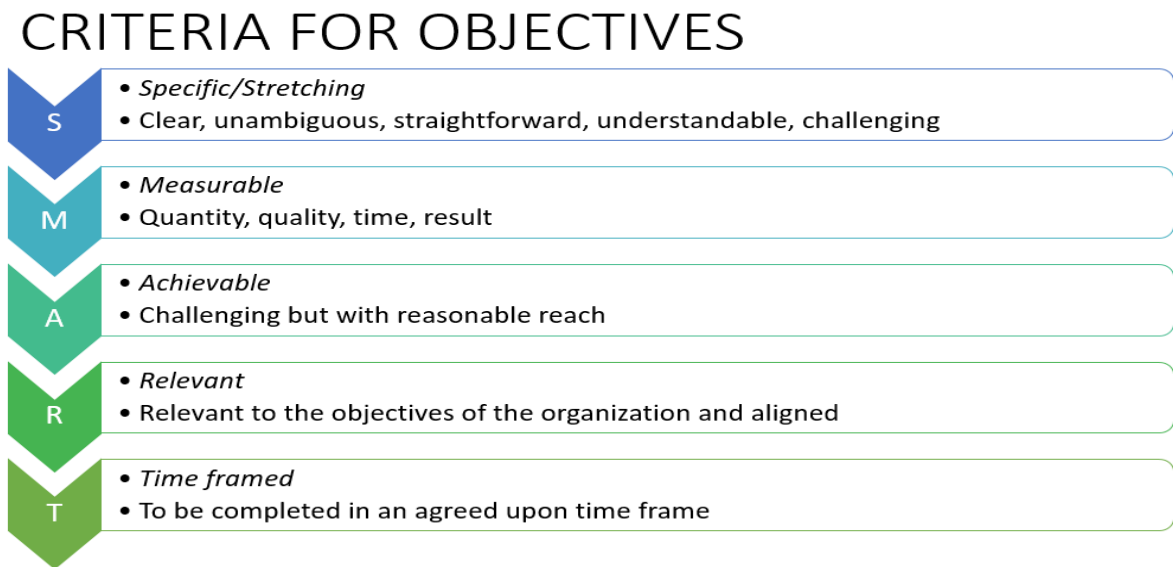
A second key barrier that SMEs should tackle to develop their managerial practice is the difficulty in managing the internal and external communication process. How can firms develop their performance practices without communicating with employees, customers and suppliers? It is clear that this is an internal contradiction that it is sometimes determined by distorted performance management practices, i.e. the collection of information to blame employees for negative performance, instead of improving the overall company performance. This also means to tackle the traditional command and control management style. There is a clear need to reinvent the management style in SMEs to move towards empowered and information-based organisations, similar to the recommendations made by Gary Hamel (2009). However, given the large diffusion of command and control approach in SMEs and the difficulty in changing that behaviour in the short term, the entrepreneur's commitment to the continuous development of managerial practices becomes crucial.

Thirdly, special attention should be given to the planning and communication of internal and external change initiatives. If top management does not pay attention to managing change effectively, the PM process will inevitably be affected. The main challenge is that critical change steps, particularly the soft aspects of change, are omitted. SMEs should take a more strategic and long-term view of change rather than seeing it as project management only. Changes should be driven proactively rather than waiting until change is imposed by external forces such as customer complaints and changes in legislation (Ates & Bititci, 2011; Burnes, 2004; Gray, 2002).

Criteria for objectives

The acronym 'SMART' is often used to define a good objective. Traditionally, S stands for specific (sometimes 'stretching'), M for measurable, A for agreed, R for realistic and T for time-related (see Figure 4). But as Chamberlin (2011) argued, 'the real aim of setting objectives is for people to know exactly what it is they have to do, when they've done it, that they are able to do it, why they have to do it (i.e. who for) and that it is something they should be doing, and how they are progressing along the way'. Following Blanchard (1989), he suggested that the last three letters of the mnemonic should be amended to read A for attainable, R for relevant and T for trackable. He attached particular importance first to 'relevant', meaning that the objective is to do with the business and its customers. Second, he emphasized 'trackable' because the important thing to do with objectives is to monitor progress over time, i.e. track it (he rejected 'time-related' because it did not convey this essential feature and was in any case covered already by 'specific').

Figure 4. Criteria for objectives



Source: Adapted from Armstrong & Taylor (2014)

Managing performance through the year

Performance management should not feel like a forced task for managers, but something that is natural throughout the year. Appraisals are seen as disadvantageous as they focus and dwell on the past rather than what is at hand. Performance management can continue to improve on someone as yearly reviews will not focus on what is current and give certain goals for a whole year (Armstrong & Taylor, 2014).

Performance review

A performance review provides a focal point for the consideration of key performance and development issues. The performance review meeting is the means through which the five primary performance management elements of agreement, measurement, feedback, positive reinforcement and dialogue can be put to good use. It leads to the completion of the performance management cycle by informing performance agreements.

There are 12 golden rules for conducting performance review meetings:

- 1. Be prepared.** Managers should prepare by referring to a list of agreed objectives and their notes on performance throughout the year. They should form views about the reasons for success or failure and decide where to give praise, which performance problems should be mentioned and what steps might be undertaken to overcome them. Thought should also be given to any changes that have taken place or are contemplated in the individual's role, and to work and personal objectives for the next period. Individuals should also prepare in order to identify achievements and problems, and to be ready to assess their own performance at the meeting. They should also note any points they wish to raise about their work and prospects.



2. **Work to a clear structure.** The meeting should be planned to cover all the points identified during preparation. Sufficient time should be allowed for a full discussion – hurried meetings will be ineffective. An hour or two is usually necessary to get maximum value from the review.
3. **Create the right atmosphere.** A successful meeting depends on creating an informal environment in which a full, frank but friendly exchange of views can take place. It is best to start with a fairly general discussion before getting into any detail.
4. **Provide good feedback.** Individuals need to know how they are getting on. Feedback should be based on factual evidence. It refers to results, events, critical incidents and significant behaviours that have affected performance in specific ways. The feedback should be presented in a manner that enables individuals to recognize and accept its factual nature – it should be a description of what has happened, not a judgement. Positive feedback should be given on the things that the individual did well in addition to areas for improvement. People are more likely to work at improving their performance and developing their skills if they feel empowered by the process.
5. **Use time productively.** The reviewer should test understanding, obtain information, and seek proposals and support. Time should be allowed for the individual to express his or her views fully and to respond to any comments made by the manager. The meeting should take the form of a dialogue between two interested and involved parties, both of whom are seeking a positive conclusion.
6. **Use praise.** If possible, managers should begin with praise for some specific achievement, but this should be sincere and deserved. Praise helps people to relax – everyone needs encouragement and appreciation.
7. **Let individuals do most of the talking.** This enables them to get things off their chest and helps them to feel that they are getting a fair hearing. Use open-ended questions (i.e. questions that invite the individual to think about what to reply rather than indicating the expected answer). This is to encourage people to expand.
8. **Invite self-assessment.** This is to see how things look from the individual's point of view and to provide a basis for discussion – many people underestimate themselves.
9. **Discuss performance not personality.** Discussions on performance should be based on factual evidence, not opinion. Always refer to actual events or behaviour and to results compared with agreed performance measures. Individuals should be given plenty of scope to explain why something did or did not happen.
10. **Encourage analysis of performance.** Don't just hand out praise or blame. Analyse jointly and objectively why things went well or badly and what can be done to maintain a high standard or to avoid problems in the future.
11. **Don't deliver unexpected criticisms.** The discussion should only be concerned with events or behaviours that have been noted at the time they took place. Feedback on performance should be immediate; it should not wait until the end of the year. The purpose of the formal review is to reflect briefly on experiences during the review period and, on this basis, to look ahead.
12. **Agree measurable objectives and a plan of action.** The aim should be to end the review meeting on a positive note (Ahmad & Alaskari, 2014).



Dealing with Underperformers (5 Steps)

1. Identify and agree the problem – provide feedback and make sure the employee agrees on the issue.
2. Establish the reasons for shortfall – this is not to provide blame. This is to look at the facts and discuss them with the employee.
3. Decide and agree on action required – actions may be taken by the manager, employee, or both. Arrangements for feedback can be made for the action.
4. Resource the action – managers can provide training, coaching, facilities, etc.
5. Monitor and provide feedback – this is to make sure the proper actions are being taken to correct any problems. If the actions are not working, feedback can be given and new plans can be put in action (Armstrong, 2015).

Performance management issues

The many-faceted nature of performance was commented on as follows by Cascio (2010, p. 303): 'It is an exercise in observation and judgement, it is a feedback process, it is an organisational intervention. It is a measurement process as well as an intensely emotional process. Above all, it is an inexact, human process.'

As a human process, performance management can promise more than it achieves. However well designed a performance management system is, its effectiveness mainly depends on the commitment and skills of line managers (Armstrong & Taylor, 2014).

Performance management issues in SMEs

Lack of human resources. SMEs typically have limited human resources. Often all the staff are involved in the activities of managing daily work, and have no extra time for additional activities, such as implementing a PMS (Barnes et al., 1998; Hudson et al., 2000; Hvolby & Thorstenson, 2000; McAdam, 2000; Noci, 1995; Tenhunen et al., 2001).

Managerial capacity. Technical excellence in products and operational processes is often perceived as the only key critical factor in SMEs. A managerial culture is often lacking in these companies and therefore managerial tools and techniques are perceived as being of little benefit to the company. Very often, employees occupy different positions at the same time, the organisations are flat, and though the entrepreneur is in charge of both operational and managerial functions, he/she usually neglects the managerial activities (Marchini, 1995).

Limited capital resources. The impact of the resources needed to implement a PMS is proportionally more onerous in SMEs than in large companies (Barnes et al., 1998; Burns & Dewhurst, 1996; Ghobadian & Galleary, 1997; Hudson et al., 2000; Hvolby & Thorstenson, 2000; Neely & Mills, 1993; Noci, 1995). Moreover, the absence of affordable software platforms that focus on the specific needs of SMEs further obstructs the introduction of PMS in these companies (Bititci et al., 2002).

Reactive approach. SMEs are characterised by poor strategic planning and decision-making processes are typically not formalised. The lack of explicit strategies and methodologies to support the control process promotes both a short-term orientation and a reactive approach to managing the enterprise's activities (Brouthers et al., 1998; Marchini, 1995).

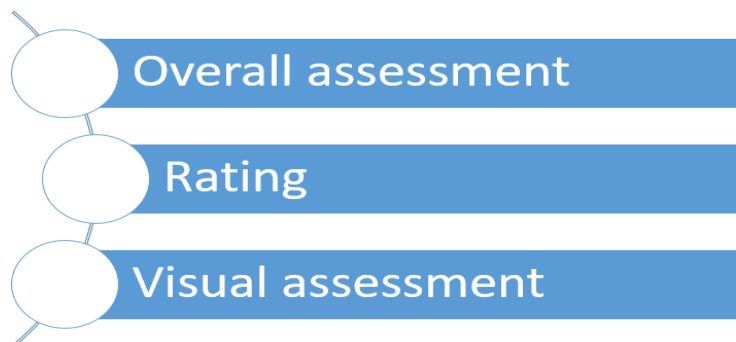
Tacit knowledge and little attention given to the formalisation of processes. One of the main barriers to organisational development in SMEs is the lack of a managerial system and formalized management of the processes. Furthermore, since knowledge is mainly tacit and context-specific, the information required to implement and use a PMS is difficult to gather (Jennings & Beaver, 1997; Marchini, 1995; Martins & Salerno, 1999).

Misconception of performance measurement. Bourne (2001) underlines that a PMS can only be effectively implemented and used when the company perceives the benefits of the PMS. SMEs often do not understand the potential advantages of implementing a PMS; these systems are perceived as a cause of bureaucratization and an obstacle to the flexibility of SMEs (Hvolby & Thorstenson, 2000; Hussein et al., 1998; McAdam, 2000).

Performance assessment

An overall assessment is based on a general analysis of performance under the headings of the performance agreement (see Figure 5).

Figure 5. Performance assessment



Source: Armstrong & Taylor (2014)

Overall assessment

The aim is to reach agreement about future action rather than to produce a summarized and potentially superficial judgement. An overall assessment is recorded in a narrative consisting of a written summary of views about the level of performance achieved (see Figure 6). This at least ensures that managers have to collect and record their thoughts.



Figure 6. Framework for overall assessment

What

- the achievement of previously agreed objectives
- related to the headings on a role profile

How

- behavior in relating to competency framework headings

Source: Armstrong & Taylor (2014)

But different people will consider different aspects of performance and there will be no consistency in the criteria used for assessment, so it is necessary to have a framework for the analysis.

This could be provided on a 'what' and 'how' basis. The 'what' is the achievement of previously agreed objectives related to the headings on a role profile. The 'how' is behaviour in relating to competency framework headings. The results for each 'what' and 'how' heading could be recorded following a joint analysis during a review meeting.

Overall assessment limitations:

- We can recognize people at either extreme (top performers and inadequate performers) but cannot accurately distinguish performance differences in the bulk of people lying between those extremes.
- They can be bland, superficial and overgeneralized.

Rating

Rating summarizes on a scale the views of the evaluator on the level of performance achieved. A rating scale is supposed to assist in making judgements and it enables those judgements to be categorised to inform performance- or contribution-pay decisions, or simply to produce an instant summary for the record of how well or not so well someone is doing.

Rating scales can be defined alphabetically (a, b, c, etc), or numerically (1, 2, 3, etc). Initials (ex for excellent, etc) are sometimes used in an attempt to disguise the hierarchical nature of the scale. The alphabetical or numerical points scale may be described adjectivally, for example, a = excellent, b = good, c = satisfactory and d = unsatisfactory.

Rating limitations:

- They are largely subjective and it is difficult to achieve consistency between the ratings given by different managers;
- Because the notion of 'performance' is often unclear, subjectivity can increase;
- To label people as 'average' or 'below average', or whatever equivalent terms are used, is both demeaning and demotivating;

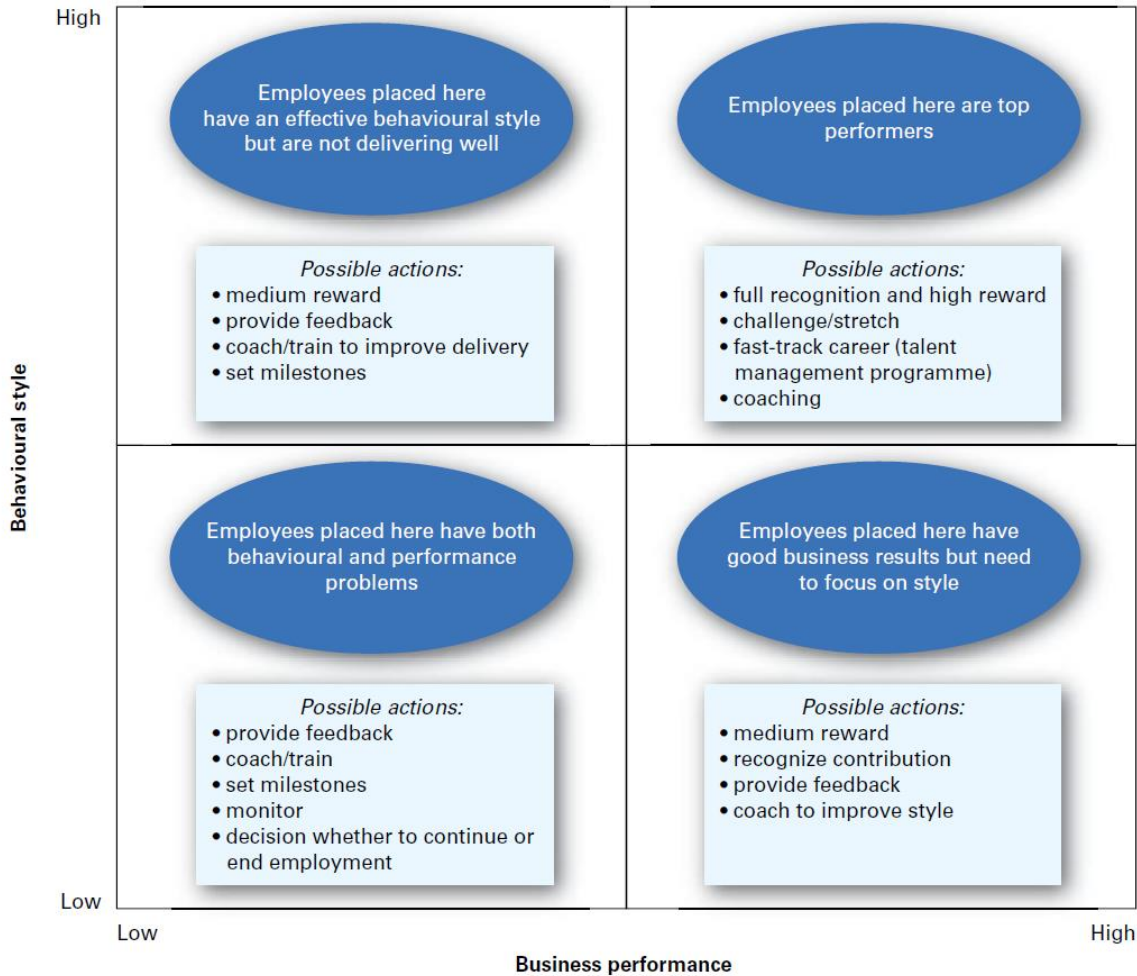


- Managers may inflate ratings to avoid confrontation with the individuals concerned.

Visual assessment

Visual assessment is an alternative to rating. This takes the form of an agreement between the manager and the individual on where the latter should be placed on a matrix or grid, as illustrated in Figure 7.

Figure 7. Assessment matrix



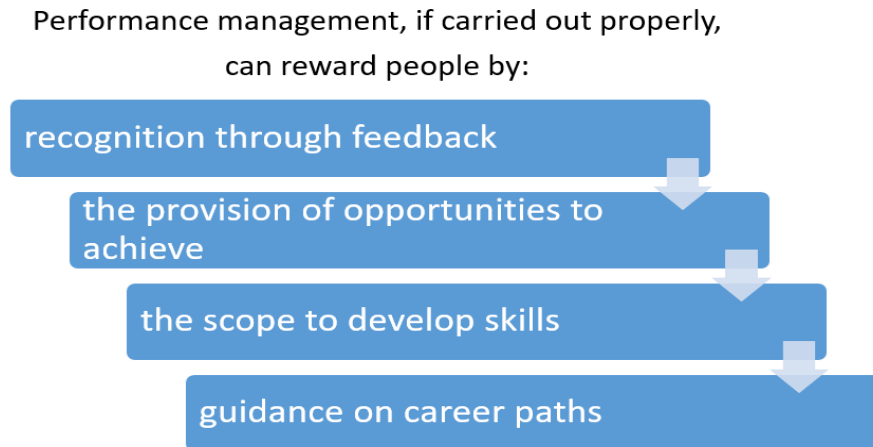
Source: Armstrong & Taylor (2014)

The vertical axis of the grid in this example assesses the behavioural style adopted by the individual in carrying out the role, i.e. inputs. The elements of behaviour to be assessed would be defined in a competency framework and this would be amplified in schedules of what would be regarded as acceptable or unacceptable behaviour for each area of competency. The horizontal axis measures the level of business performance, i.e. outputs or what the individual delivers. The assessment can place someone anywhere in one of the four quadrants according to behavioural style and delivery.

Performance management as a reward process

Performance management needs to be connected with the reward system to support employee motivation. As Figure 8 shows, performance management, if carried out correctly, gives employees support in their career paths.

Figure 8. Performance management as a reward system



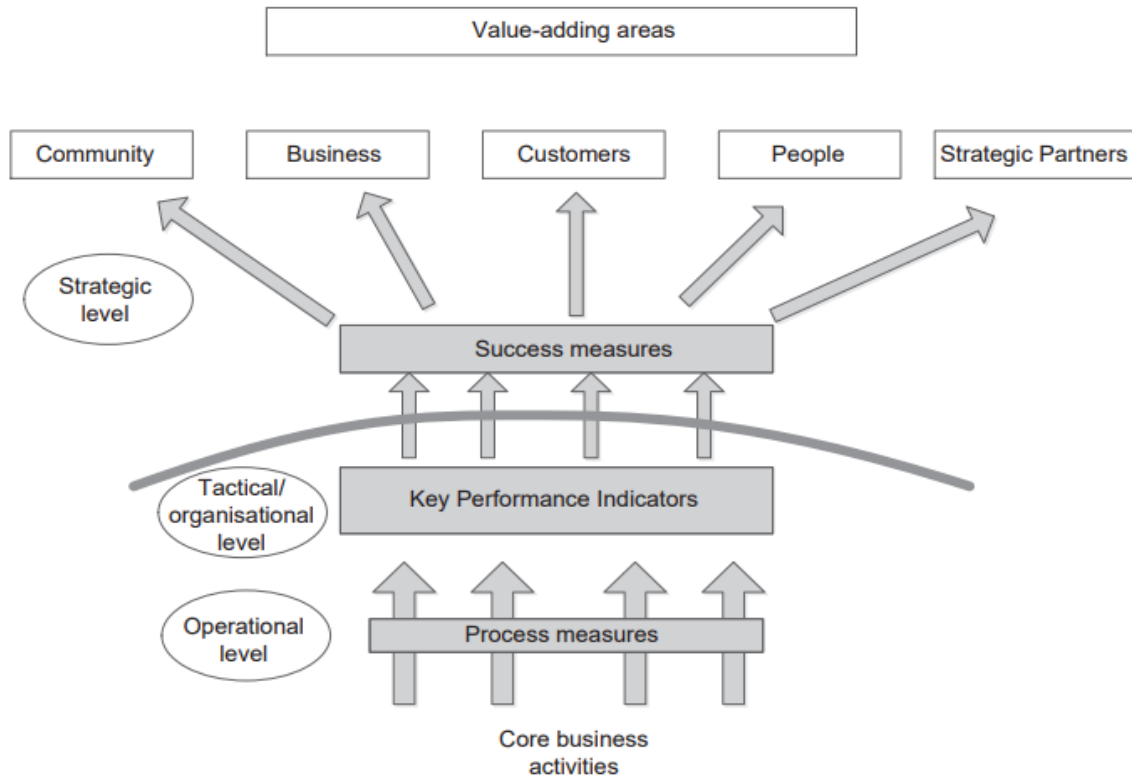
Source: Armstrong & Taylor (2014)

Also known as multisource feedback, 360-degree questionnaires are assessed and feedback is given by a number of people who may include their manager, subordinates, colleagues and customers. Assessments take the form of ratings against various performance dimensions. The term '360-degree feedback' is sometimes used loosely to describe upward feedback where this is given by subordinates to their managers. This is the most common approach and is more properly described as 180-degree feedback. Feedback may be presented direct to individuals, or to their managers, or both (see Figure 8).

Performance measurement models for SMEs

Organisational performance measurement was developed specifically for SMEs. In this model, the most important indicator is stakeholder satisfaction (see Figure 9).

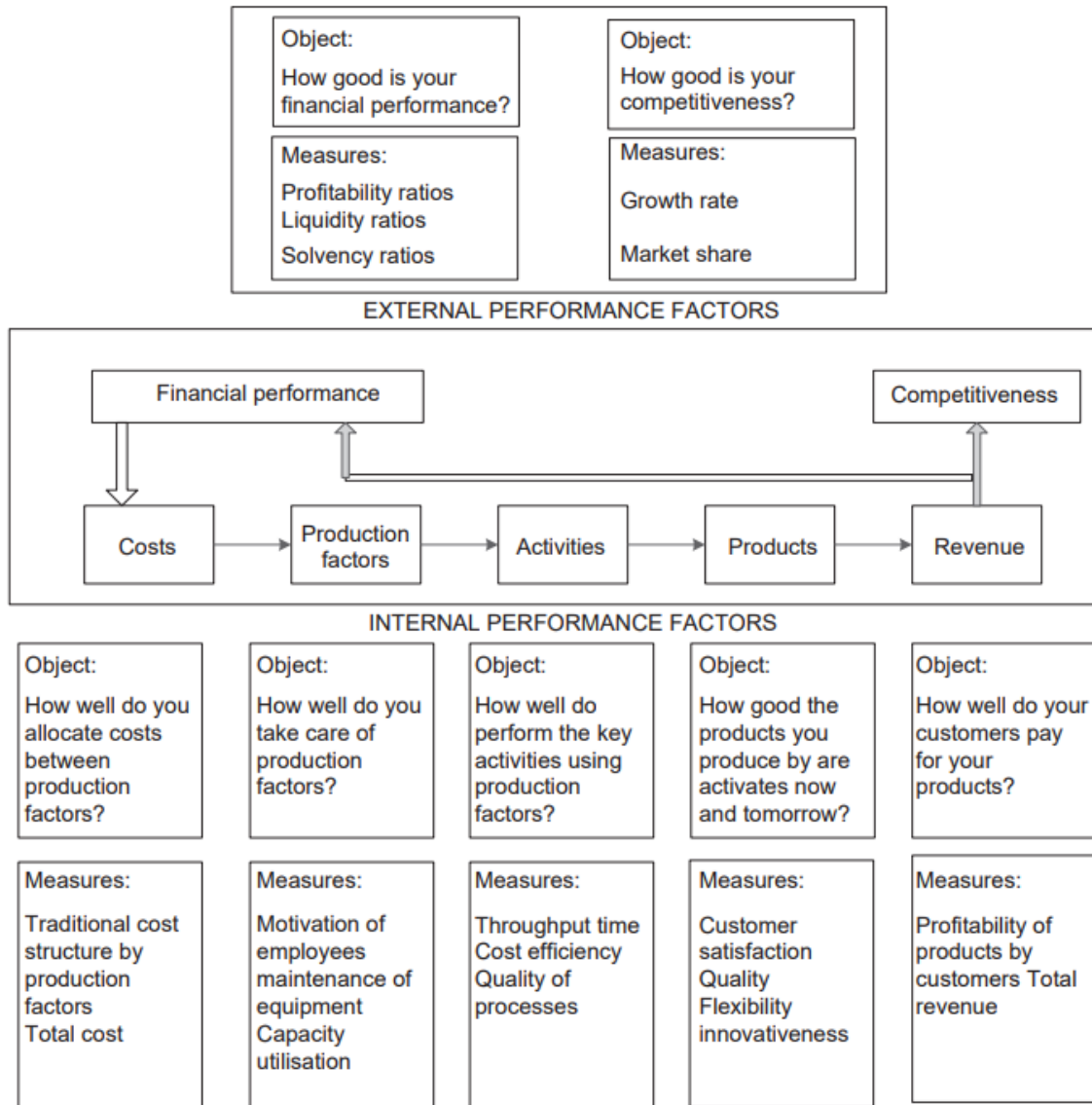
Figure 9. Organisational performance measurement



Source: Ahmad & Alaskari (2014)

The model starts at a strategic level to determine external measures, followed by a set of KPIs at a tactical level to enable the prediction and management of organisational performance. At operational level, measures are utilised for monitoring and control and improvement, however, the model is based on three principles: alignment, i.e., the selected performance measures support the alignment between people’s actions and company strategy; process thinking, i.e. the measurement system makes reference to the process of monitoring, control and improvement systems; practicability, i.e. at any level in the company, there is a consistent process for identifying measures that should be considered for ensuring the quality and suitability of data (see Figure 10).

Figure 10. Integrated performance measurement for small firms (IPMS)



Source: Ahmad & Alaskari (2014)

IPMS is specifically designed for SMEs. The aim of this model is to develop a useful managerial tool for measuring and improving performance within the companies. It is based on seven main dimensions of measures categorised into two external dimensions (financial performance and competitiveness), and five internal dimensions (costs, production factors, activities, products and revenues) which are connected by a causal chain. The internal dimensions are used to monitor the whole production process and the external dimensions are used to monitor the organisation's position in its competitive context. This framework is designed for the exclusive use of the director, implying that it is designed only for enterprises where the top management has complete control.



Performance management in SMEs (SHARPEN survey)

Performance management is an important part of HR practices, which helps to motivate and retain satisfied and engaged employees. According to results of the SHARPEN survey 2018, activities including performance evaluation are mainly conducted in SMEs by line managers and, in the case of micro and small enterprises, by the owner (see Table 4).

Table 4. Who evaluates employee performance? (%)

Country	Responsible person							
	Owner	Line manager	HR specialist	Accountant	Admin. worker	External HR specialist / agency	Other	Activity is not performed
CZ	36.71	56.96	10.13	1.27	1.27	1.27	6.33	5.06
Finland	72.22	47.22	4.17	0.00	2.78	0.00	4.17	5.56
Germany	33.73	71.08	20.48	0.00	2.41	0.00	4.82	2.41
Lithuania	21.11	50.00	23.33	5.56	11.11	2.22	5.56	5.56
UK	22.54	59.15	33.80	1.41	4.23	1.41	5.63	11.27

Source: Maršíková et al. (2019)

Note: respondents could choose more than one option

The performance evaluation (appraisal) process is often informal (around 50%), except for Finland where the results showed nearly 85% (but the result is again influenced by the respondents' structure). See Table 5.

Table 5. Formal (systematic) employee performance evaluation process in SMEs in 5 European regions

Response	Number of responses									
	CZ		Finland		Germany		Lithuania		UK	
	%	abs.	%	abs.	%	abs.	%	abs.	%	abs.
Yes	43.24	32	15.28	11	45.24	38	44.57	41	54.93	39
No	56.76	42	84.72	61	54.76	46	55.43	51	45.07	32
Total	100	74	100	72	100	84	100	92	100	71

Source: Maršíková et al. (2019)

Results of the SHARPEN survey provide interesting insight about performance management issues across five European regions and confirmed that these processes are often informal and facilitated by SME owners and line managers. Of course, it is not possible to generalise these findings but they confirm and support findings in the literature mentioned in this chapter.



You can find more information about the SHARPEN research in our research publication:

Maršíková, K., Rajander, T., Clauß, A.-M., Medžiūnienė, I., Meschitti, V., Štichhauerová, E., Davies, J., Dulkė, D., Komulainen, R., Macháčková, V., Richter, M., Schumann, C.-A., Moš, O., & Forkel, E. (2019). *People management challenges for SMEs in five European regions: Spotlighting the (in)visible and the (in)formal and embedding SME HR issues firmly in the business and knowledge environment*. Huddersfield, UK: University of Huddersfield.
ISBN: 978-1-86218-168-7

Link: https://sharpen.ef.tul.cz/upload/PublicationHRMinSMEs_research.pdf

Summary

Performance management is the continuous process of improving performance by setting goals that are aligned to the strategic goals of the organisation, planning performance to achieve the goals, reviewing progress, and developing the knowledge, skills and abilities of people. It allows individuals and teams to achieve better results within an agreed framework of planned goals, standards and competency requirements. Performance management is a key process which helps to get work done through communication about expectations and important goals. It is also a way for organisations to identify ineffective performers for development programmes.

The aim of performance management is to develop the capacity of people to meet and exceed expectations and to achieve their full potential to the benefit of themselves and the organisation. A further aim is to clarify how individuals are expected to contribute to the achievement of organisational goals by aligning individual objectives with strategic.

Performance management may improve organisational performance generally by creating a performance culture in which the achievement of high performance is a way of life.

You can find more practical information and advice in our publication:

Komulainen, R., Maršíková, K., Davies, J., Srėbaliūtė, I., Clauß, A.-M., Moš, O., Muschol, H., Rydvalová, P., Forkel, E., & Štichhauerová, E. (2019). *A Good Practice Guide to Managing Human Resources in Regional SMEs*. Huddersfield, UK: University of Huddersfield.
ISBN: 978-1-86218-167-0

Link: https://sharpen.ef.tul.cz/upload/HRM4SMEs_Handbook.pdf



Section review questions



1. What is performance management?
2. What are the primary elements of performance management?
3. What are the key processes in the performance management cycle?
4. What are key issues in performance management?
5. Explain how you would measure work performance.
6. What is 360-degree feedback?
7. Discuss the strengths and weaknesses of performance management systems in SMEs.

Video links

SHARPEN. Performance Management in SMEs. Link: <https://youtu.be/nnVd3pDPxbY>

Dictionary


Cafeteria plan	An employee benefit plan that allows employees to choose their own benefits (e.g., employees accumulate "benefit points" which they can exchange for a variety of rewards such as vouchers, free days, money etc.)
External communication	The transmission of information between a business and another person or entity in the organisation's external environment.
Functional goals	These relate to the specific functions of an organisation (e.g. marketing, operations, HRM, finance) and which are designed to support the achievement of corporate objectives. A well-established business will divide its activities into several business functions.
Internal communication	The transmission of information between organisational members or parts of the organisation.
Reward management	The formulation and implementation of strategies and policies that aim to reward people fairly, equitably and consistently in accordance with their value to the organisation.
Self-efficacy	An individual's belief in their innate ability to achieve goals.



Case studies


1. WASTE OF PERFORMANCE

The case study deals with the issue of employee performance appraisal in a chosen SME operating in a recycling industry. The case study focuses on challenges in the process of employee performance appraisal. The case study brings a literature overview of performance evaluation process. Solutions, based on the needs of the company and secondary data, are introduced as well as tools to improve the evaluation process.

Country	Year	
CZ	2018	
https://sharpen.ef.tul.cz/upload/CH5case1.pdf		

2. EMPLOYEE EVALUATION


The case study describes a successfully growing medium-sized furniture making and sales company. The aim of the study is to analyse the specifics of the system of employee assessment in the organisation and opportunities for development of this system. The main problem the furniture company faces is the poor quality of work produced by employees who are members of generation Y. Most representatives of this generation communicate very well amongst their peers in finding general solutions, but the quality of work often suffers in terms of meeting specific quality requirements. Step-by-step suggestions for the improvement of employee performance assessment are offered: to specify the assessment criteria more clearly; to include the opinion of co-workers being assessed in the assessment results; to improve motivation systems; to change formal assessment with more effective methods such as regular daily conversations; to set clear goals for the coming period of assessment; to ensure a performance evaluation system that is fit for purpose.

Country	Year	
LIT	2018	
https://sharpen.ef.tul.cz/upload/CH5case2.pdf		



3. PERFORMANCE MANAGEMENT SYSTEM

The case study describes a medium-sized wholesale and retail trade company. The aim of this study is to analyse the system of employee performance management in the company and to foresee the possibilities for its development. Solution 1: to formalize the employee assessment system. Solution 2: to create a formal system of planning employee performance which would be oriented towards an individual contact with an employee to support corporate goals and collaboration that is jointly agreed.

Country	Year	
LIT	2018	
https://sharpen.ef.tul.cz/upload/CH5case3.pdf		

4. NO COMPETENCY MODEL NO SUCCESS IN A GLASS WORLD

This case study is focused on the analysis of strengths and weaknesses of a chosen company that is working in the glass industry. The company's HR challenges were analysed, and a suitable solution was proposed based on the results. The main challenge identified in this company's human resource management was the structure of their competency model. The practical tool suggests how to create or improve an effective competency model.

Country	Year	
CZ	2017	
https://sharpen.ef.tul.cz/upload/CH5case4.pdf		



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