

# A MODEL OF THE UNDERLYING PHILOSOPHY AND CRITERIA FOR EFFECTIVE IMPLEMENTATION OF PERFORMANCE MANAGEMENT

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## ABSTRACT

The objective of this study was to develop a model that assists organisations in implementing performance management effectively. A model describing the philosophical paradigm underpinning best practice in performance management and the criteria for effective implementation of performance management was developed. The sample used in this study was a convenience sample of 615 employees. Exploratory factor analysis revealed three reliable philosophical dimensions. Moderate correlations were found between the three dimensions and some of the implementation criteria.

### Key words

Effective performance management, underlying philosophy

It has been argued that, from all the areas of Human Resource Management, performance management has the greatest impact on organisational performance (Stiles, 1999). However, despite the growing body of research that supports the positive impact that effective performance management can have on the organisation's bottom-line, evidence suggests that organisations in South Africa and elsewhere are not utilising the practices that are advocated by the theory of best practice in people and performance management (Kock, Roodt & Veldsman, 2002).

Performance management has developed under the assumptions of bureaucracy, that is inappropriate to the fast-changing environments often found in the world of work today (Stiles, 1999). Bartlett and Goshal (2002) argue that HRM should focus on building processes that form part of the design, development and delivery of an organisation's strategy. They have, however, noted that although organisations realise that people are a key source of sustainable competitive advantage, minimal managerial attention has been given to employee development, motivation, and commitment. Williams (2002) also found that, in most cases, performance management still rested on the traditional methods of objective-setting and performance appraisal, supplemented occasionally by personal development plans. Human resource managers are therefore still stuck in old paradigms, using antiquated tools and are trying to bring about major change with incremental solutions (Bartlett & Goshal, 2002). It thus seems that a revolution in performance management is required.

### Value of performance management

Most organisations recognise the value of performance management in improving both individual and organisational performance (Decenzo & Robbins, 2002; De Waal, 2002; Engelman & Roesh, 1997). Organisational case studies also provide anecdotal evidence that an integrated performance management system is the key driver to their success (Brown & Armstrong, 1999; De Waal, 2002; Gratton, 2000; Winslow & Bramer, 1994). Dave Packard, for instance, stated that no other operational system had contributed more to HR's success than performance management (Gratton, 2000). Improvements in financial indicators such as stock price, book value, earning per share and return on investment have been found to be

significantly greater in those organisations with performance management systems than those without (Hellriegel, Jackson & Slocum, 1999; McDonald & Smith, 1995; Zwell, 2000). Effective performance management can also contribute to the personal development and growth of the employee. As organisations encourage employees to use their talents and skills in the workplace, employees develop a toolkit of portable skills that make them more marketable and that contributes to their feeling of self-worth (Heil, Bennis & Stephens, 2000).

Conversely, the cost of poor performance has been found to have a large financial impact on organisations around the world. A survey of seven nations found that the annual cost of managing poor performance was great, ranging from \$1.29 billion (or 0.6% of GDP) in Sweden to \$105 billion (or 2.3% of GDP) in the United States (Future Foundation, 2004). Failure to implement effective performance management could result in lower employee morale, motivation and commitment to work (Armstrong, 2000; Schwartz, 1999). In addition, employees could be unsure of the objectives of their work and of their performance in reaching those objectives (Heil, Bennis & Stephens, 2000). There is a high probability in these circumstances that the organisation could fail to leverage the potential of its human capital in the best possible manner. In this way, organisations could lose their competitive edge and overall organisational performance could potentially be diminished. As South Africa is now an international player, organisations will need to utilise performance management effectively in order to build sustainable competitive advantage through the performance of their people.

### Current status of performance management

Literature, however, suggests that South African organisations in particular often fail to follow best practice in performance management and are still struggling to implement performance management effectively (Le Roux, 1995; Rademan & Vos, 2001; Spangenberg & Theron, 2001). Some of the more common problems experienced by South African organisations, as well as international organisations, are summarised in Table 1.

**TABLE 1**  
**CURRENTS ISSUES FACING ORGANISATIONS**  
**IN PERFORMANCE MANAGEMENT**

1	HR is still perceived to own the process, and not line management, as best practice advocates (Hodges & Pantony, 2003; Parker, 2003)
2	Lack of empowerment of line management and employees in performance management (Armstrong, 2000; Gratton, Hope-Hailey, Stiles & Truss, 1999; Lennon, Kim, O'Reilly, Molloy & Johnson, 1998).
3	Short-term focus on hard targets often results in little managerial commitment to the design and implementation of performance management (Deloitte & Touche, 2001; Furlonger, 2002; McGovern, 1999).
4	Struggle to align performance management with the strategy and goals of the organisation (Hodges & Pantony, 2003; Le Roux, 1995; Rademan and Vos, 2002)
5	Organisations often experience difficulties in linking reward, remuneration and promotion decisions to performance (Griffith & Orgera, 1997; Hodges and Pantony' 2003; The Corporate Leadership Corporation, 2003)
6	The results from performance management are sometimes found to be questionable in terms of reliability in measurement (Decenzo & Robbins, 2002; Hellriegel, Jackson & Slocum, 1999; Muchinsky, 2000; Rademan & Vos, 2001; Spector, 2003) and consistency of application (McGovern, 1999).
7	Performance management systems tend to be evaluative rather than developmental (Heil, Bennis & Stephens, 2000; Hodges & Pantony, 2003; Rademan & Vos, 2001; Weiss & Hartle, 1997; Williams, 2002; Zwell, 2000)
8	Focused on historical performance data rather than directing future behaviour (de Waal, 2002; Williams, 2002).

From the table, it is clear that a need exists to determine where the problems in practice lie within various organisations so that a framework can be developed to assist organisations to better leverage the potential of their people.

**A case study organisation**

A large life insurance organisation in South Africa was found to be a highly suitable case study of the issues facing organisations when implementing performance management. The organisation, which employs approximately 1300 full-time staff, is currently attempting to move from a traditional performance appraisal process to performance management. The appraisal process was found to be a paper-intensive, bureaucratic process that resulted in a punitive culture. In addition, the company found that although their staff members' performance was mostly evaluated as average during the appraisal process, the disappointing overall performance of the company did not correlate with these ratings. It was therefore felt that a culture of performance with better performance measures, feedback mechanisms and development initiatives had to be put into place. It was also hoped that this approach would encourage the growth of a new culture based on accountability, trust, development, and growth that would ultimately result in better organisational performance.

It was for this reason that the implementation of an effective performance management system was identified as one of the business priorities in 2002. The new performance management system was launched in the third quarter of 2004 and is currently in its second cycle of formal performance appraisals. During the implementation of the new process, the organisation has experienced many of the problems identified in Table 1. For

this reason, it was felt that the issues facing the organisation were relevant for developing a framework that could be used to potentially assist this, and other organisations in implementing performance management effectively.

**Research objectives**

The organisation is trying to effect a paradigm shift from bureaucracy to the new people-centred paradigm underpinning performance management by using new tools and by implementing best practice. In managing this change process, the organisation is trying to avoid and overcome many of the problems identified in Table 1. The purpose of this study was therefore to assist the organisation, and possibly other organisations in the future, in implementing performance management effectively.

However, the philosophical paradigm underpinning performance management first had to be identified to ensure that the cultural changes the organisation wants to realise support the values of performance management. Secondly, the criteria for effective performance management had to be identified to ensure that best practice is being followed during the implementation process. Finally, the link between these two elements needed to be investigated to understand how the philosophy of performance management informs and supports the criteria for effectiveness.

Once these theoretical aspects had been clarified, a measuring tool could be developed to assess the organisation's performance against the criteria for effectiveness and to determine whether the organisation's underlying philosophy of performance management is aligned with the current philosophy as identified in the literature. With these needs in mind, a literature review was conducted and a model for performance management was developed that would form the basis of a measuring instrument.

**A model of performance management**

*Purpose and definition of performance management*

Organisations require the unique qualities and commitment of employees so that more, better quality work can be done in less time in order for the organisation to survive in the increasingly competitive economic environment (Decenzo & Robbins, 2002). As mentioned previously, the great value of performance management is that it assists organisations in building sustainable competitive advantage by leveraging the potential of its human capital. As such, the purpose of performance management can be viewed generally as a means of sustaining competitive advantage through the performance of its people (Hartle, 1997; Weiss & Hartle, 1997).

Another outstanding feature of performance management is that it attempts to link the efforts and performance of individuals to the goals, strategies and performance of the organisation (Engelmann & Roesch, 1997; Stiles, 1999; UCSD, 2004; Williams, 2002). Figure 1 has been developed to demonstrate how the behaviour and skills of people are linked to the ultimate financial performance of the organisation (Gratton, 2000).

In this model, business goals are defined and the context for people to perform is developed. Employees' behaviour determines the meeting of business goals, influencing organisational performance, and ultimately financial



Figure 1: A model for linking business goals with individual and organisational performance (from Gratton, 2000, p.10)

performance. De Waal (2002) similarly believes that main purpose of performance management is to alter the behaviour of people. The context in which people perform can be shaped by a communication process (UCSD, 2004), a management style (Hartle, 1997; Weiss & Hartle, 1997) or a management information and control system (De Waal, 2002). In addition, Armstrong (2000), Brown and Armstrong (1999), Engelmann and Roesch (1997), and Newton (1998) all agree in some way that the result of performance management is performance improvement. Gratton's model (Gratton, 2000), in combination with the views of the above-mentioned experts, is useful for developing a definition of performance management. From this perspective, performance manage-

ment can generally be defined as a philosophy for managing the behaviour of people within a context that facilitates and supports the alignment of individual goals with organisational goals in order to achieve organisational and financial performance.

By examining organisational goals and sources of competitive advantage, the organisation can develop a unique purpose and definition of performance management that supports and communicates the strategic direction of the firm. The content of the system will be informed by the strategic intent of the organisation and will tend to be unique in every organisation (Brown & Armstrong, 1999; Weiss & Hartle, 1997; Williams,

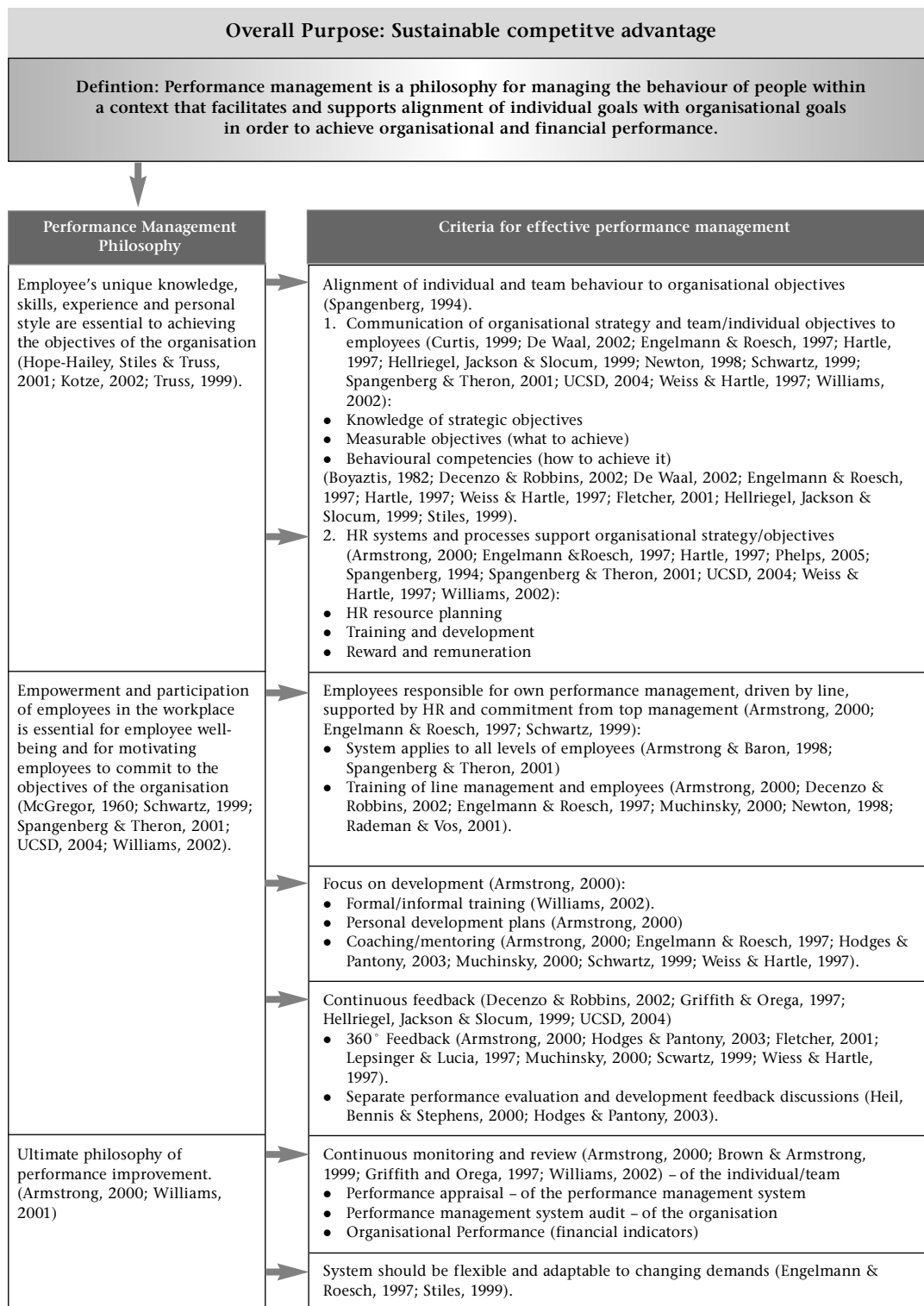


Figure 2: A philosophical model of performance management and criteria for effectiveness

2002). For this reason, it can be concluded that performance management is more a philosophy of management than a pre-formulated system or process to be implemented (Weiss & Hartle, 1997).

#### *Philosophy of performance management*

The field of performance management has moved away from the philosophy based on the paradigm of management control and direction through coercion and tight controls to one based on shared values such as participation and empowerment, which emphasise the individuality and self-directed nature of the employee (Schwartz, 1999; Spangenberg & Theron, 2001; UCSD, 2004; Williams, 2002).

This shift in philosophy is partly a result of the new shift in focus on employees as a sustainable source of competitive advantage (Hope-Hailey, Stiles & Truss, 2001; Kotze, 2002; Truss, 1999). It also stems partly from Theory Y, which states that employees will strive towards goals to which they are committed, and from Noon's view of 'hermeneutical' man, which speaks of employees as creators of organisational reality rather than mere respondents to external cues (McGregor, 1960; Noon, 1992; Truss, 1999). Furthermore, McGregor (1960) felt that management's aim should be to facilitate the growth and development of its employees in order to leverage the potential of its human resources. Performance management thus subscribes to a philosophy of improvement (Armstrong, 2000; Williams, 2001).

Three philosophical tenets emerge from this shift in philosophy. First, employee's unique skills, knowledge, experience, skills and personal style are essential to achieving the objectives of the organisation (Hope-Hailey, Stiles & Truss, 2001; Kotze, 2002; Truss, 1999). Secondly, empowerment and participation of employees in the workplace, as well as recognition of their contributions and achievements, are essential for employee well-being and for motivating them to commit to the objectives of the organisation (McGregor, 1960; Schwartz, 1999; Spangenberg & Theron, 2001; UCSD, 2004; Williams, 2002). Thirdly, performance management rests on a philosophy of performance improvement, both of the individual and of the organisation (Armstrong, 2000; Williams, 2001). This humanistic approach clearly indicates a shift from bureaucratic to a more empowering, people-centred paradigm that is aligned with the overall purpose of performance management.

#### *Criteria for effective implementation of performance management*

Despite the fact that the content of performance management tends to be unique to every organisation (Brown & Armstrong, 1999; Weiss & Hartle, 1997; Williams, 2002), there are some basic processes followed by most organisations that could be viewed as best practice. For example, most experts on the subject tend to agree to some extent that performance management is an ongoing process of planning, managing, supporting, monitoring, assessing, reviewing, rewarding and developing performance (Brown & Armstrong, 1999; Griffith & Orega, 1997; Spangenberg & Theron, 2001; Williams, 2002). Similarly, a number of criteria for effective implementation of these processes can also be found in the literature. These criteria have been linked to the three main philosophical tenets of performance management that have been identified. Figure 2 has been created to describe this relationship.

If employees' behaviour is essential to achieving the objectives of the organisation, it follows that employee behaviour must be aligned to those objectives. The performance management process should therefore focus on the objectives of the job and of the organisation (Spangenberg, 1994). This means that organisational strategy as well as measurable objectives must be communicated to individuals and teams (Curtis, 1999; De Waal, 2002; Engelmann & Roesch, 1997; Hartle, 1997; Hellriegel, Jackson & Slocum, 1999; Newton, 1998; Schwartz, 1999;

Spangenberg & Theron, 2001; UCSD, 2004; Weiss & Hartle, 1997; Williams, 2002). In addition, it is argued that employees must not only know what is to be achieved but also how it is to be achieved (Hartle, 1997; Weiss & Hartle, 1997). In this regard, behavioural competencies are becoming more important in communicating performance expectations (Boyatzis, 1982; Decenzo & Robbins, 2002; De Waal, 2002; Engelmann & Roesch, 1997; Fletcher, 2001; Hellriegel, Jackson & Slocum, 1999; Stiles, 1999).

To effectively facilitate the link between organisational objectives and individual behaviour, HR systems and processes underlying performance management should also support and be aligned with organisational objectives (Spangenberg, 1994; Spangenberg & Theron, 2001). This also facilitates strategic fit of performance management processes and HR interventions (Beer & Lawrence, 1984; Fombrun, Tichy & Devanna, 1984; Stiles, 1999; Storey, 1992). As such, performance management should be aligned with and linked to all aspects of HR planning (recruitment, career management, succession management, leadership development), training and development, as well as reward and remuneration initiatives (Armstrong, 2000; Phelps, 2005; Spangenberg & Theron, 2001; Williams, 2002).

Performance management should also be a responsibility that is shared between manager and employee (Armstrong, 2000; Schwartz, 1999) and should take place at all levels of the organisation (Armstrong & Baron, 1998; Spangenberg & Theron, 2001). Due to the complex and changing nature of work, managers are not always fully in touch with the day-to-day specifics of the employee's job (Engelmann & Roesch, 1997). Employees therefore need to take ownership of the process and need to manage their personal development with assistance and support from the organisation (Engelmann & Roesch, 1997; Hartle, 1997; UCSD, 2004; Weiss & Hartle, 1997). In this way, performance management moves away from a directive approach to a more supportive approach (Armstrong, 2000) and tends to result in employees who are more engaged in their work (Phelps, 2005). This approach also helps to realise the values of empowerment and participation that underpin the performance management philosophy (Williams, 2002).

In addition, the organisation needs to empower line management to drive the process. This is important because it is line management who understand the dynamics and intricacies of their departments, provide feedback to their subordinates, and who are ultimately responsible for their employees' performance (Armstrong, 2000). Training of line management to conduct appraisals and provide feedback is therefore of crucial importance to the success of the process (Armstrong, 2000; Decenzo & Robbins, 2002; Engelmann & Roesch, 1997; Muchinsky, 2000; Newton, 1998; Rademan & Vos, 2001). In addition, bias and rater errors lead to distrust of traditional performance appraisal processes (Williams, 2002). Zedeck and Cascio found that training enhanced the accuracy of performance appraisal and facilitated acceptability of the information to those being appraised (Muchinsky, 2000). Training can also be effective in providing managers with techniques of giving feedback in a positive and rewarding manner. Simba South Africa, for example, turned its performance management system around by communicating with line managers and training them in providing developmental feedback to their people (Porter, 2004).

Appraisees can also benefit from training in that it might alleviate their concerns around fairness, the subjectivity of appraisal, and the reasons for which they are being appraised (Rademan & Vos, 2001). Employees should also receive training in the skills of performance planning and development so that they can effectively manage themselves (Armstrong, 2000; Hartle, 1997; Weiss & Hartle, 1997).

Support from top management is also vital to the success of the process (Engelmann & Roesch, 1997). Top management provide the ultimate direction for employee performance and also act as role models in demonstrating self-managing values (Hartle, 1997; Weiss & Hartle, 1997).

In line with a philosophy of empowerment and participation, performance management has a strong developmental slant. Armstrong (2000, p.7) states that performance management should be called 'performance and development management'. It should therefore be directly linked to both formal and informal training and development initiatives in the organisation (Williams, 2002). Mentoring and coaching interventions are fast becoming prominent features as part of developmental processes in performance management (Armstrong, 2000; Engelmann & Roesch, 1997; Hodges & Pantony, 2003; Muchinsky, 2000; Schwartz, 1999; Weiss & Hartle, 1997).

The performance of employees against objectives needs to be measured and ongoing feedback regarding their progress and individual development needs should be provided (Decenzo & Robbins, 2002; Griffith & Orega, 1997; Hellriegel, Jackson & Slocum, 1999; UCSD, 2004). Regular feedback helps to mitigate the negative effects that formal performance appraisal processes generated in the past where employees felt that feedback was provided after-the-fact, emphasising past performance (Williams, 2002). This meant that little chance was created for performance improvement in the current context. In contrast, performance management is future-focused and emphasises developmental needs that will enable future targets to be met (Armstrong, 2000).

It is also being recognized that multi-rater feedback is far more effective in contributing to individual development and leads to more accurate appraisal than traditional manager-subordinate feedback (Fletcher, 2001; Lepsinger & Lucia, 1997). Single rater feedback has presented itself as somewhat problematic within organisations in that the reliability of the process may be questionable, important information that can be gained from other sources may be missed, appraisees are rated by a single individual with a singular perspective, and the fairness of the process may not be legally defensible in terms of new legislation (Rademan & Vos, 2001). For these reasons, 180° or 360° feedback is becoming a prominent feature of most performance management systems to be used at all levels and especially at managerial level (Armstrong, 2000; Hodges & Pantony, 2003; Lepsinger & Lucia, 1997; Muchinsky, 2000; Schwartz, 1999; Weiss & Hartle, 1997).

Another important factor influencing trust and openness is keeping performance review feedback separate from personal development feedback. Hodges and Pantony (2003) found that when the two processes were separated, respondents rated their scheme as more effective in achieving its objective of developing people. Heil, Bennis and Stephens (2000) comment on the difficulty of managing a performance management system that is both evaluative and developmental in nature as the manager straddles the role of both evaluator and coach. In this conflicting situation, they perceive the employee to be less open and candid about weaknesses and potential development areas thus leading to less effective developmental interventions and fewer learning experiences.

Finally, performance management subscribes to a philosophy of continual performance improvement of both the individual and the organisation (Armstrong, 2000; Williams, 2001). We must therefore ensure that the performance of people in the organisation is effectively leveraged in meeting organisational objectives. With this aim in mind, the effectiveness of performance management in adding value must be constantly monitored and evaluated at the individual, team and organisational levels (Armstrong, 2000; Brown & Armstrong,

1999; Griffith and Orega, 1997; Williams, 2002). As Hartle (1997, p.216) explains, 'evolution, revision and change will be necessary to achieve continuous improvement'. The system therefore also needs to be flexible so that it can meet the ever-changing demands of the business environment (Engelmann & Roesch, 1997). This need can partly be met by moving away from a system based on assumptions of bureaucracy to one that facilitates the empowerment and participation of employees. In this way performance management can become a flexible process that adapts to the demands of high-velocity environments (Stiles, 1999).

## RESEARCH DESIGN

### Research approach

This study is a quantitative study and a cross-sectional survey design was used to describe the information on the population collected. The study is also exploratory and descriptive as well as retrospective in nature. Elements of the research design are predetermined and in addition it is ex post facto and attempts to show causes and consequences after they have occurred.

### Research Methodology

#### Respondents

The participants included all permanent, non-broker staff at a life insurance organisation. A total of 615 questionnaires were sent out. Biographical characteristics of the population are summarised in Table 2.

**TABLE 2**  
**PERCENTAGE OF POPULATION DEMOGRAPHIC CHARACTERISTICS**  
**(MARCH 2005)**

	Male				Female				Total:
	Asian	Black	Coloured	White	Asian	Black	Coloured	White	
Specialist	1,25	0,36	0,72	3,40	0,89	0,54	0,54	3,04	10,74
Non-Supervisory	0,18	8,94	2,68	0,36	5,55	19,14	6,26	6,80	49,91
Supervisory/Manager	2,15	16,10	2,50	7,16	2,15	3,04	1,25	5,00	39,35
<b>Total:</b>	<b>3,58</b>	<b>25,40</b>	<b>5,90</b>	<b>10,92</b>	<b>8,59</b>	<b>22,72</b>	<b>8,05</b>	<b>14,84</b>	<b>100,00</b>

#### Measuring instrument

An online survey questionnaire was the main instrument used in the collection and analysis of data. The questionnaire was specifically designed to operationalise the criteria for success and philosophical tenets identified in Figure 2. Punch's (2003) methodology was largely used to operationalise the criteria and develop the questionnaire. In this regard, for each variable identified in the table, it was decided whether demographical, knowledge, attitudinal or practice information was required to measure the variable. Each variable was then also categorised as categorical or continuous in the way it was to be measured. The next step was deciding whether each variable was to be measured by a single indicator or by multiple items. The items that emerged were reviewed, refined and also evaluated against the ideal time that it would take respondents to complete the questionnaire. Less important items were discarded to decrease completion time and hopefully increase the response rate. Similarly, items evaluating the effectiveness of processes unique to the organisation of study were operationalised and added to the questionnaire. In addition, items measuring demographic characteristics were also included to allow for comparisons across demographic groups in the organisation. The questionnaire thus consisted of four main sections: General Information, Performance Management Philosophy, Current Practice in Performance Management, Overall Evaluation.

The questionnaire was then reviewed and approved for use by Statcon and by the organisation of study. The survey was then tested within the life insurance organisation and relevant changes were made. During this time, it was also piloted within a second organisation to ensure that questions were appropriate and meaningful to respondents, that it was quick and easy to use, that issues of confidentiality were identified and addressed, and to ensure that meaningful data was collected.

An interview with the HR manager was used to measure performance against criteria that could not be measured through the survey of employee perceptions. Policy documents were also reviewed and evaluated as part of this process.

#### *Procedure*

The request to complete the questionnaire was sent to exactly 615 full-time staff to whom the system applies via e-mail where they could access it via a link to the website containing the questionnaire. Responses were collected anonymously and all communications with respondents were directed through an independent company to ensure full confidentiality of the process.

#### *Statistical analysis*

Statistical analysis focused on the identification of latent variables of the instrument by means of exploratory factor analysis and the estimation of the reliabilities (Cronbach Alpha) of the identified latent variables. The results of the 94-item questionnaire were subjected to both a first-order (factors rotated by means of Varimax rotation) and subsequent second-order (factors rotated by means of Direct Obliman method) factor analysis. In both cases, factors were extracted using the Kaiser criterion (the number of eigen values greater than unity) and Principal Factor Analysis (PFA) was used.

Diagnostics included Bartlett's Test of Sphericity and the Kaiser Mayer Olkin (KMO) Measure of Sampling Adequacy (MSA). Bartlett's Test of Sphericity is a statistical test for the presence of correlations among variables. Hair, Anderson, Tatham & Black (1998) say in this regard that the test provides the statistical probability that the correlation matrix has significant correlations among at least some of the variables. The KMO quantifies the degree of intercorrelations among the variables and the appropriateness or applicability of factor analysis. MSA values were also determined per item to determine whether the specific items should be used in the factor analysis. A cut-off point of 0,6 was used throughout. According to Hair et al. (1998) this measure can be interpreted with the following guidelines: .80 or above, meritorious; 0,70 or above, middling; 0,60 or above, mediocre; 0,50 or above, miserable; and below 0,50 unacceptable. It is also important to note that the MSA increases as (1) the sample size increases, (2) the average correlations increase, (3) the number of variables increases, or (4) the number of factors decreases.

Analysis of variance and t-tests were utilised to test the significance of categorical data and eta was calculated to determine effect size. A post hoc test (Sheffe) was also carried out to determine where differences lay. Regression analysis was used to determine the strength of the relationships on continuous variables.

## RESULTS

The response rate was fairly low with only 149 (24,2%) staff members responding to the questionnaire. However the sample size was large enough to carry out meaningful statistical analysis and was fairly representative of the population.

#### **Level of staff**

Responses were obtained from non-supervisory staff (36,2%), supervisory or management staff (52,3%), and specialists

(11,4%). Proportionally more managers responded than non-supervisory staff when compared to population statistics. No significant differences were found between any of these levels on any criteria or on the philosophical tenets.

**TABLE 3**  
**FREQUENCY AND PERCENTAGE OF RESPONDENTS**  
**BY ORGANISATIONAL LEVEL**

Non-supervisory	54	36,2%
Supervisory/Management	78	52,3%
Specialist	12	11,4%
<b>Total</b>	<b>149</b>	<b>100,0%</b>

#### **Race**

The racial composition of the sample was 28,9% Black, 14,1% Coloured, 14,4% Indian/Asian, and 35,6 % White. Some respondents (7,4%) did not respond or preferred not to respond. Although no significant differences were found between the racial groups, proportionally less black than white employees responded to the questionnaire when compared to the entire population.

**TABLE 4**  
**FREQUENCY AND PERCENTAGE OF RESPONDENTS BY ETHIC ORIGIN**

Black	43	28,9%
Coloured	21	14,1%
Indian/Asian	21	14,1%
White	53	35,6%
Other	1	0,7%
I prefer not to respond	9	6,0%
Missing	1	0,7%
<b>Total</b>	<b>149</b>	<b>100,0%</b>

#### **Academic qualification**

The majority (43,0%) of respondents had academic qualifications up to and including a Matric; 20,1% had a Post Matric Certificate; and 36,2% had a Degree, three year Diploma or Post Graduate Degree. No significant differences between these groups were found.

**TABLE 5**  
**FREQUENCY AND PERCENTAGE OF RESPONDENTS BY**  
**HIGHEST ACADEMIC QUALIFICATION**

Grade 12 or below	64	43,0%
Post Matric Certificate	30	20,1%
Degree/3 year diploma/Post Graduate	54	36,2%
Missing	1	0,7%
<b>Total</b>	<b>149</b>	<b>100,0%</b>

#### **Gender**

The majority of respondents were also female (67,1%) which, although slightly elevated, corresponded fairly well with the gender distribution within the organisation. No significant differences were found between these groups.

**TABLE 6**  
**FREQUENCY AND PERCENTAGE OF RESPONDENTS BY GENDER**

Male	48	32,2%
Female	100	67,1%
Missing	1	0,7%
<b>Total</b>	<b>149</b>	<b>100,0%</b>

#### Item analysis

The first 12 items of the questionnaire, which related to the philosophical tenets of the model, were subjected to a First-Order Factor Analysis using Principal Factor Analysis. None of the 12 items were excluded from the initial factor analysis as all the MSA values for these items were greater than 0,6. The KMO statistic for the correlations among the 12 questions was 0,877 ( $>0,6$ ) and Bartlett's test was significant ( $p\text{-value}<0,05$ ), indicating that the correlation matrix can be factor analysed. Three first-order factors were extracted based on the Kaiser criterion, accounting for 62,83% of the variation in the original 12 items. An orthogonal rotation (Varimax) was used to improve interpretability of factors. The reliabilities of all three factors exceed 0,7 and are thus considered reliable. Table 7 shows the items in each first order factor together with the reliabilities of these scales.

**TABLE 7**  
**ROTATED FACTOR MATRIX AND COEFFICIENT ALPHAS FOR PERFORMANCE MANAGEMENT PHILOSOPHY**

Items	Factor		
	1	2	3
The organisation does not tolerate poor performance	0,604	-0,407	
The organisation believes that its people are important in achieving the objectives of the company	0,580	0,462	0,374
The organisation recognises and rewards excellent performance of individuals	0,559	0,348	0,242
The organisation is proactive in retaining good performers	0,538	0,165	0,311
The organisation recruits talented people	0,420	0,135	
The organisation values the expertise I bring to my job	0,364	0,646	0,321
I am involved in decisions taken in my department	0,117	0,623	0,221
The organisation recognises my contribution to the organisation	0,430	0,597	0,421
I have control over the way in which I do my work		0,266	0,120
The organisation recognises the importance of developing individuals	0,233	0,258	0,900
The organisation strives to improve the performance of individuals	0,431	0,326	0,575
The organisation provides me with the right skills so that I can manage my work autonomously		0,297	0,442
Reliabilities (Coefficient Alpha):	0,69	0,72	0,77

A second order factor analysis was conducted using the same methodology, from which a single factor was extracted, according to the Kaiser criterion. This factor was found to explain 70,93% of the total variance and proved to be reliable with a reliability coefficient of 0,85.

First-Order Factor Analysis using Principal Factor Analysis was also utilised on the items relating to the criteria in the model. Items were first analysed in terms of response rates and those with low response rates ( $n<100$ ) were excluded from the analysis to reduce the impact of systematic error. In this way, eight items were excluded from the analysis. All remaining

items had MSA values of greater than 0,6 and were therefore found to have significant correlations for each first-order factor analysis that was done. Two first-order factors were extracted based on the Kaiser criterion from the six items relating to the criterion 'Communication of organisational strategy and team/individual objectives to employees', accounting for 73,73% of the variation. The overall reliability coefficient of this criterion was found to be 0,84. Similarly, four first-order factors were extracted for the 23 items related to the next main criterion, 'HR system and processes support organisational strategy/objectives', which account for up to 73,32% of the total variance. The overall KMA statistic for these items was 0,92. The four factors had acceptable reliability coefficients ( $<0,7$ ). A second order factor analysis resulted in a single factor that accounted for 64,85% of the total variance and had a reliability coefficient of 0,95. A First-Order factor analysis done across all the criteria related to the second philosophical tenet was conducted, from which a single reliable factor emerged. The factor accounted for 55,83% of the total variance and has a Cronbach Alpha coefficient of 0,88.

First-order factor analyses were conducted on two questions related to criteria named 'Performance appraisal'. One factor was extracted from the items relating to the effectiveness of different types of appraisal. This factor accounted for 60,75% of the total variance and had a reliability coefficient of 0,83. A factor analysis on the statements relating to specific performance appraisal activities and outcomes also resulted in a single factor. This factor accounted for 70,57% of the total variance and had a reliability coefficient of 0,92.

The relations between philosophical tenets and corresponding criteria were tested. The first philosophical tenet had a moderate correlation ( $R=0,33$ ) with the criterion 'Communication of organisational and team/individual objectives to employees' and a large correlation ( $R=0,66$ ) with the criterion 'HR systems and processes support the organisation's strategy/objectives'. A significant correlation was also found between the second philosophical tenet and the criterion 'Employees are responsible for their own performance management' ( $R=0,24$ ). A small but significant effect size ( $Eta=0,23$ ) was found between the second philosophical tenet and a grouping of all the continuous variables across all the corresponding criteria. A one-way ANOVA revealed a significant and moderate effect size ( $Eta=0,35$ ) between the philosophical tenet and the criterion 'Commitment from top management'. A moderate and significant effect size ( $Eta=0,33$ ) was also found for the criterion 'Continuous feedback'. The eight items containing continuous variables relating to development and 360° feedback as well as to the criterion 'performance management driven by line management' had low response rates and resulted in unreliable data. For the same reason no significant correlation could be found between the third philosophical tenet and the criterion factor related to performance appraisal (evaluating the effectiveness of the type of appraisal). However, a significant correlation ( $R=0,47$ ) was found with the second criterion factor related to performance appraisal (detailed statement regarding performance appraisal activities and outcomes). A significant and moderate effect size ( $Eta=0,30$ ) was also found between the third philosophical tenet and the criterion of 'Organisational performance'.

A number of criteria were evaluated through the interview with the HR manager and by looking at policy documents. However, these criteria were not assigned numerical ratings and, as such, the correlation between these criteria and the corresponding philosophical tenet was not calculated.

## DISCUSSION

The results of the research indicate some changes to the theoretical model that was initially developed. These changes have been incorporated into a new model illustrated in Figure 3.

The arrows with the solid lines in the model indicate significant correlations or effect sizes between the philosophical tenet and each criterion that were found. Those arrows with broken lines indicate correlations that have yet to be verified. The specific criteria that have yet to be verified are also bracketed.

From the results, the philosophical tenets were renamed to reflect the new, more reliable factors that had emerged. When examining the items that loaded onto each of the factors, it was found that many items had not changed and that the basic definitions in the theoretical model still largely held true. Nevertheless, the literature was revisited in order to clarify and redefine the tenets in accordance with the changes that had taken place.

One of the factors that emerged had three of the six original items remaining of the first theoretical tenet. An additional two items relating to excellent and poor performance had emerged. The first tenet was thus adjusted to read as follows: 'Talented and high performing individuals have unique knowledge, skills, experience and personal style that are essential to achieving the objectives of the organisation, and these high performing individuals need to be recognised and rewarded.'

The second theoretical tenet emphasised empowerment of the individual. While the items relating to empowerment and participation remained, two items relating to the value that the organisation places on the expertise of the individual and recognition of the individual's contribution to the organisation were combined with the initial items. Additional research of the literature revealed that employees

not only need to have self-determination and control in the workplace to increase self-esteem and be motivated to perform, but also need to be recognised by others for meaningful achievements at work (Maslow, Stephens & Heil, 1998). The definition for the second philosophical tenet was thus expanded to read as follows: 'Empowerment and participation of employees in the workplace and recognition of their contribution is essential for employee well-being and for motivating employees to commit to the objectives of the organisation'

Finally, the third theoretical tenet focussed on a philosophy of performance improvement. While improving the performance of individuals remained an important feature of this tenet, items relating to the development of individuals were found to load quite strongly on to this factor. When reading through the above literature review, it was stated that McGregor (1960) felt that management's aim should be to facilitate the growth and development of its employees in order to leverage the potential of its human resources. For this reason, Armstrong (2000) and Williams (2001) stated that performance management subscribes to a philosophy of improvement. In defining the third theoretical tenet, the author neglected to incorporate the aspect of personal development. The third philosophical tenet should thus be defined as follows: 'Focus on development drives a philosophy of performance improvement'.

From the first main criterion 'Communication of organisational strategy and team/individual objectives to employees' two factors were extracted. The first sub-criteria remained as 'Knowledge of strategic objectives' while the other two sub-

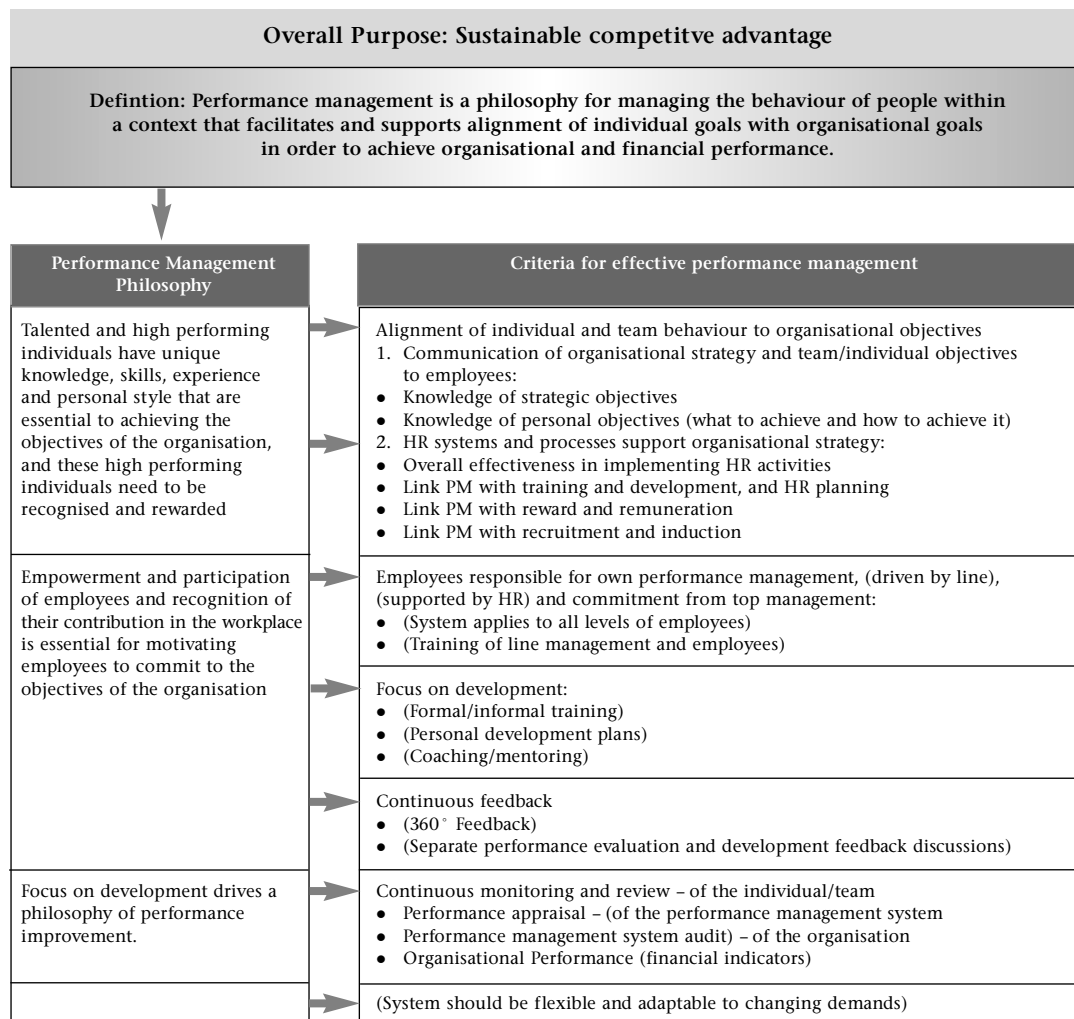


Figure 3: A new model of performance management philosophy and criteria for effectiveness



criteria were combined to form a new criterion named 'Knowledge of job objectives (what to achieve and how to achieve it)'.

Four factors were extracted from the items relating to the next criterion 'HR system and processes support organisational strategy/ objectives'. Here, an additional sub-criterion had emerged from the data that was not in the original theoretical model. Three of the factors had items relating to the linkage of certain HR activities to the performance management system. The fourth factor loaded on items that dealt with the effectiveness of general HR activities. This factor was named 'Effectiveness in achieving the objectives of HR activities'. The other three factors were named 'Linking performance management with training and development, and HR planning', 'Linking performance management with reward and remuneration', 'Linking performance management with recruitment and induction'.

Low response rates on the items relating to development and 360° feedback resulted in unreliable data and non-significant relations. However, non-applicable responses on these items were data in themselves in that they indicated that these activities do not frequently take place for a large group of individuals in the case study organisation. Nevertheless, a single reliable factor emerged from other items related to other related criteria and it was decided to include these variables in the model.

Factor analyses conducted on two questions related to criteria named 'Performance appraisal' revealed some interesting results. One factor was extracted from the items relating to the effectiveness of different types of appraisal. This factor accounted for 60,75% of the total variance and had a reliability coefficient of 0,83. A factor analysis on the statements relating to specific performance appraisal activities and outcomes also resulted in a single factor. This factor accounted for 70,57% of the total variance and had a reliability coefficient of 0,92. While both questions explain a significant proportion of the total variance and are both reliable, it seems as if the more detailed statements relating to performance appraisal activities and outcomes are a better measure of this criterion than generalised questions regarding the effectiveness of types of appraisal.

This new model was used to interpret frequency data results of the organisations actual performance against the tenets and criteria. Practical suggestions were then provided to the organisation. The results and practical suggestions have been briefly summarised below.

#### **Performance against criteria and practical implications**

The philosophical tenet 'Talented and high performing individuals have unique knowledge, skills, experience and personal style that are essential to achieving the objectives of the organisation, and these high performing individuals need to be recognised and rewarded' was rated the lowest among employees. It emerged that the organisation of study is effective in communicating a clear vision for employees in terms of what the organisation would like to achieve, and is effective in translating the strategy into individual job objectives and the behaviours that are required to achieve those objectives. In this way, it seems the organisation recognizes the importance of people in reaching organisational objectives.

However, recognition and reward of high performing individuals seems to be lacking in the organisation. In this regard, a proportion of respondents felt that their performance is not evaluated against these objectives. Almost 30% of respondents felt that the performance review and appraisal system was slightly effective or not effective while 43.5% stated that the outcomes of the process did not make them feel fairly rewarded. The lack of a clear link between appraisal and

reward was found to be the most problematic aspect by those who found the system to be ineffective. As respondents seem fairly confident of what is expected of them, the problem perhaps lies in their perceptions and expectations of the process, misalignment between the reward strategy and performance ratings, or in inefficiencies in manager's ratings of their subordinates. It is interesting to note that managers found using a rating scale to get to an overall evaluation one of the more difficult tasks in managing the performance of others. Managing others' expectations was also one of the more difficult tasks for managers. The use of forced-choice ranking strategies was suggested to assist managers in better differentiating the performance of their employees. Performance-related remuneration strategies that would help make the link between performance and reward clearer to employees were also discussed with the organisation. This action would realize the value of recognizing and rewarding high performing individuals. Training for managers on providing realistic performance feedback and setting realistic expectations was also suggested as a means of reinforcing the link and clarifying expectations.

A related issue is that respondents perceive that the organisation is not proactive in retaining good performers. In rating the effectiveness of the overall system, a fairly large proportion of respondents felt that high fliers within the organisation are not rewarded. Respondents also perceived a weak link between performance management and promotion decisions, leadership development, career development and succession management. In addition, the organisation was perceived to be the least effective in these activities. It therefore seems that there are no clear progression paths for employees to follow. In this regard, it was suggested that clear succession planning, career progression and talent retention strategies be put in place and communicated to employees. More specifically, a 'high fliers' programme was discussed that would be used to identify potential talent in the organisation, put those talented individuals through a programme of activities, assign them a mentor or coach and target them for future positions within the organisation. The programme could have the added benefit of acting as a non-monetary reward for high performing individuals.

The organisation obtained the highest rating for the philosophical tenet 'Empowerment and participation of employees in the workplace and recognition of their contribution is essential for employee well-being and for motivating employees to commit to the objectives of the organisation'. In this regard, employees stated that they had control over their work and readily took accountability for managing their own performance. However, only a moderate rating on this tenet was obtained. A lack of regular informal feedback, especially at the non-supervisory level, could account for this finding.

Gaining access to feedback and developmental advice was rated as the most difficult for respondents in managing their own performance. While formal training and development initiatives were seen to have a strong link to performance management and were found to be effective, access to other developmental initiatives seem to be limited for many respondents. Lack of feedback and coaching as well as career and personal development were found to be stumbling blocks for an effective performance management system within the organisation. It is interesting to note that when respondents are exposed to these initiatives, they find them generally effective in improving performance.

In addition, respondents seemed to assume personal accountability for driving their own performance and initiating development activities. Greater access to developmental activities over and above formal training programmes may provide further opportunities for employees to develop

themselves. For this reason, further access is advised for staff across all levels of the organisation. This process can be assisted and supported through the encouragement of regular informal performance feedback sessions. Once again, an initiative such as the 'high fliers' programme could provide opportunities for personal development and growth.

Finally, the organisation obtained a moderate rating on the philosophical tenet 'Focus on development drives a philosophy of performance improvement'. In evaluating the overall effectiveness of the process, a large proportion of respondents stated that they did not feel that the time spent on performance management justifies it. Many also stated that it was not successful in increasing their commitment to the organisation. The value of the performance management system thus needs to be demonstrated and marketed to employees. Respondents stated that the lack of clarity about the goals of performance management was a contributor to the ineffectiveness of the system. Making the purpose and goals of the performance management system clearer to employees through an awareness campaign may assist in enhancing their perceptions of the system.

A further point to consider is that although the majority of respondents felt that senior management is committed to the process, over 20% felt that management is only slightly committed or not committed at all. Feedback from the organisation was that middle management is not as committed to performance management as senior management is and that the more bureaucratic style that preceded performance management still exists to some extent at this level.

In response to these problems, a pilot project was suggested in which employees and managers are trained and closely monitored in conducting good practice in performance management under the supervision of a consultant. Performance measures would be closely monitored and hopefully, as a result of good practice, improvements in performance over time could be demonstrated. Critical learning points, success stories and performance improvements could then be shared with the rest of the organisation. The aim of the project would be to demonstrate the value of performance management and to gain buy-in from middle management and employees alike.

## CONCLUSIONS

The new model proved to be a useful tool in analysing the performance management system of the case study organisation. The evaluation of the organisation's performance against both philosophical tenets and criteria for effectiveness provided a complete picture of the status of the organisation's performance management process. While the organisation has seemingly evolved from the punitive and bureaucratic process that preceded the performance management system, there is still room for improvement. More specifically, a culture of accountability appears to have arisen but aspects of trust, development and growth have yet to be fully developed. The criterion results highlighted specific areas for improvement in this regard and practical suggestions have been made. Though the use of the model, another cultural aspect has been found to be problematic in the organisation. The recognition and reward of individuals for their performance against job-related criteria is a key area to work on in this organisation. It is suggested that recognition and reward of high performing individuals should be made an explicit value of the organisation and practical interventions addressing this problem should take priority. In this case, the model proved useful in highlighting the specific goals and values of the organisation as well as identifying an additional value that could enhance the overall success of its performance management system.

It is further suggested that the model could be used in a similar fashion in a number of other organisations in a variety of

industries. By using the model as a framework for analysis, a complete picture of the organisation's general realisation of the underlying philosophy of performance management as well as specific problem areas can be obtained. With this information, practical interventions can be identified that will hopefully assist the organisation in implementing performance management effectively and ultimately lead to improved organisational performance.

## LIMITATIONS

A major limiting factor of this study was the fairly low response rate coupled with extremely low response rates on some questions. The low response rate could have a potentially biasing effect on the results (McBurney, 2001; Punch, 2003). It also affected the reliability of some of the items and hindered subsequent analysis. A related problem is that numerical ratings were not obtained on all criteria. For this reason, the model has not been fully validated. The survey questionnaire will have to be re-evaluated to rectify the problem of low response rate on some items and perhaps obtain measures on additional criteria. Items may also have to be added, deleted or adjusted in order to increase the reliabilities of some dimensions. A complementary rating form may have to be developed in order to capture ratings on dimensions that could not be obtained through the survey on employee perceptions.

Structural Equation Modelling (SEM) also could not be performed due to the nature of the data. As such, the direction of the relationship between philosophical tenets and criteria could not be examined.

## SUGGESTIONS FOR FURTHER RESEARCH

This last point provides an indication of further research to be conducted, that is, to explore whether the philosophy and resulting culture of performance management inform and support the criteria for effectiveness or whether performance against criteria results in a cultural change and a move towards the philosophical ideals of performance management. A third, more likely, possibility could be that each supports and reinforces the other.

Research in other organisations from different industries would also be useful in refining and validating the model. It would also be interesting to monitor the future performance of the case study organisation to determine whether significant improvements in individual and organisational performance takes place as a result of the interventions suggested. In this way, the relationship between business goals, the context created by performance management and the ultimate performance of the organisation implied in the definition of performance management can also be investigated and validated.

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REVIEW PANEL

**REVIEW PANEL EDITION 4.1 (2006)**

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