

Fact sheet – Formal methods of performance management

There are a number of methods you can use to manage performance. Smaller businesses might find it useful to consider the SMART principle (Specific, Measurable, Attainable, Realistic and Time-based) in developing performance management systems. Here is some information on a number of formal methods of performance management that may be used by small business.

Process	What is it?	Best used ...
Management by objectives (MBO)	A collaborative method, the MBO defines goals and future targets by consultation. Future tasks, behaviour and productivity, for example, are discussed and a SMART plan is created so that both the manager and staff member are aware of what needs to be achieved, to what standard and by when.	Where people are results driven. Where the business uses formal processes to manage performance and where outcomes can be measured accurately.
360-degree appraisal (recognised best practice)	Often used for managers and supervisors, this method gathers feedback from different parties to give an all-round picture of performance. It can give a valuable insight into how the person's work and behaviour is seen by a range of other business stakeholders, not just by the manager. While the principles of this method are very useful, it can be administratively overwhelming for small businesses. If this method would be useful for your business, consider taking the principles and implementing a less formal 360-degree process where informal feedback can be used.	Where time, effort and funding is available. Where it is important to get several perspectives on a person's performance, for example in customer service roles or where the person works across teams.
Self assessment	Just as the name suggests, the individual assesses their own performance to set criteria. This is a good method for identifying where the business's opinion of performance and the individual's opinion are different.	Where there is an interview-style performance management process.
Competency based assessments	Components of competency (skills and abilities) are assessed in this method. Competency can be harder to define in jobs with a high level of ambiguity or where outcomes are not clearly identifiable, such as managing relationships with staff or customers.	Where skills and abilities can be readily identified and quantified. Where there are task-orientated jobs with little or no ambiguity or decision-making responsibility.