Performance Management Orientation Guide 2014

This Roadmap focuses on the changing terrain of employee performance management, and will help get you started.

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Roadmaps are a form of content that will help you navigate key areas of people management. Each Roadmap includes an Orientation Guide that gives a high-level overview of the subject as well as articles and other resources that provide more detailed directions on how to find your way to success. This Roadmap focuses on the changing terrain of employee performance management. The Orientation Guide below will get you started, and we invite you to use the rest of the Roadmap by visiting workforce.com/roadmaps (http://www.workforce.com/roadmaps).

An effective employee performance management program will improve retention of your best employees, more quickly identify your lowest performers, and ensure everyone in-between gets the coaching, guidance and development opportunities they need to do their best work.

Unfortunately, most performance management program fall far short of these goals.
'Executive leadership commitment is one of the key drivers of an effective performance management process.'
—Lori Holsinger, Mercer

A mere 3 percent of organizations say their performance management system delivers exceptional value, while almost half (48 percent) say their overall approach to performance management needs work, according to Mercer's 2013 Global Performance Management Survey (http://www.imercer.com/uploads/imercerReports/pdf/mercer_global_pm_survey_exec_overview.pdf). The report also shows that many aspects of the performance management process — including linking assessments to succession planning and pay-for-performance rankings — are viewed as ineffective.

So Let’s Get Rid of Them

“There is widespread recognition that the traditional performance management process is not working,” said Elissa Tucker (http://www.apqc.org/speakers/elissa-tucker), research program manager for business benchmarking firm APQC. “And in many cases it has a negative impact on employees.”

This isn’t news to Donna Morris (http://www.adobe.com/leaders/donna-morris/bio.html), senior vice president of human resources at Adobe, the digital media and marketing company. Prior to 2012, Adobe had a traditional performance review process, complete with end-of-the-year reviews and a forced ranking system that placed all employees on a 1 to 5 scale using a bell curve to determine pay-for-performance raises.
The process was painful and time-consuming. Morris’ research shows managers and employees spent 80,000 hours a year completing the reviews, and that voluntary attrition of high performers actually spiked in the weeks following the review process. “It was clear that the program wasn’t adding value, so we decided to change it,” she said.

**Why Is Good Performance Management Important?**

Failing to assess and coach your employees well can cost you money. Good performance management can engage employees and invigorate your company’s financial performance. It can:

- Inspire greater employee commitment and help reduce unwanted turnover.
- Enhance your reputation as an employer of choice.
- Clarify roles and responsibilities and hold workers accountable.
- Improve company performance and generate financial success.

In 2012, the HR team eliminated the annual review process and ranking system, replacing it with a more frequent and subjective “check in” process. Managers now set performance goals for their people at the beginning of the year, and check-in with them every two to 12 weeks to make sure everyone is on track to meet their goals, and to offer coaching if they need help.

Adobe still gives end-of-the-year raises, but these decisions are made by managers based on individual performance rather than the forced-ranking process dictated by HR, Morris said.
The new system has already had a positive effect. Voluntary attrition among high performers is at an all-time low, while involuntary attrition has increased, which Morris sees as a positive because it means poor performers are being identified sooner. “It tells us that employee performance is being managed on an ongoing basis rather than once a year,” she said.

The company now uses its performance management process as a selling point to attract job candidates. “We see it as a positive feature of our company that our competitors are starting to emulate,” Morris said.

**Kinder, Gentler Performance Management**

This frequent feedback approach has become a growing trend in performance management, said Stacia Sherman Garr (http://www.bersin.com/Services/Content.aspx?id=12183), an analyst at Bersin by Deloitte. “A lot of companies are moving away from rating systems, and making stronger connections between performance and coaching,” she said.

Online retailer Zappos.com, is among the trendsetters. Performance management at Zappos revolves around the company’s 10 core values, which include delivering “Wow” service and showing humility. The focus is on self-improvement, and employees are rated on how well they embody the company values. Assessments happen throughout the year and if an employee scores low in a key category, like “be passionate and determined,” that worker can take a free on-site class to improve.

"Give examples of the type of behavior you want, and make sure they understand what would be considered a low, average and high performer."
— Elissa Tucker, APQC
Few companies link their company’s cultural values and performance so closely. In fact, only a quarter of firms align their performance management system to their culture, according to one recent survey. This is despite the fact that the vast majority of business leaders — 93 percent — believe that culture has an important influence on the effectiveness of performance management, according to the Hay Group.

**Ranking Has Its Place**

Such a personal approach to performance management makes sense for a highly collaborative culture, though it might not fly in a more structured, hierarchical environment. Many global organizations, including American International Group Inc., Ford Motor Co. and Microsoft Corp. still rely on ratings and forced-ranking systems. AIG actually implemented its performance management plan in 2010 in response to criticism that it was overpaying employees.

Proponents of this approach say it creates a high-performing, innovative culture. Though the Mercer study shows that only 5 percent of companies that implement a forced-ranking system believe it actually improved the effectiveness of their pay-for-performance program.

This may be because they don’t have measures in place to effectively implement the program, said Lori Holsinger, a principal at Mercer. “Only 4 in 10 companies who say they have a pay-for-performance philosophy, actually link performance ratings to merit increases,” she said. “That really surprised me.”

Even if measures are in place, critics say forced ranking undermines teamwork by pitting employees against each other as they compete for a top-tier spot and diminishes team accomplishments. “It’s one of the processes that people dislike the most,” Holsinger said.
Where Do You Fit?

Regardless of where you end up in what is likely to be an evolving performance management system, determining where your company falls on the performance management matrix will guide the development of your approach.

- **Collaborative-formal cultures** will tend to emphasize employee development with structured processes like regularly performance reviews.

- **Collaborative-informal cultures** also will likely focus on employee growth but may stress in-the-moment feedback over annual reviews.

- **Competitive-formal companies** may rank employees and allocate bonuses based on rigorous performance measures.

- **Competitive-informal companies** may seek to motivate workers with internal contests and emphasize ongoing coaching by managers.

GREAT EXPECTATIONS

- **Clarifying individual goals**: Poorly defined expectations can kill productivity and performance. You can't meet or exceed goals if you don't know what they are. Describe what each employee is supposed to accomplish— not how they are to accomplish it but the results that are expected.

- **Cascading organizational goals**: Communicate organizational goals and move them down through divisions, teams, and individuals by linking broader strategic aims with more specific goals.

- **Syncing goals**: Directly link individual or team goals with the organization's strategic business goals.

- **Avoiding bottleneck at the top**: Don't be stymied by leadership's failure to set and communicate goals. Sometimes division managers and teams know what needs to be done and should do it.
Getting started

While every company will have a different approach to performance management based on their culture, goals, and the behavior they want to foster, there are commonalities that can increase the value of these programs to employees, managers and the organization. Below are key elements of effective programs.

- **Clarifying individual goals:** Poorly defined expectations can kill productivity and performance. You can’t meet or exceed goals if you don’t know what they are. Describe what each employee is supposed to accomplish — not how they are to accomplish it but the results that are expected.

- **Cascading organizational goals:** Communicate organizational goals and move them down through divisions, teams and individuals by linking broader strategic aims with more specific goals.

- **Syncing goals:** Directly link individual or team goals with the organization’s strategic business goals.

- **Avoiding bottleneck at the top:** Don’t be stymied by leadership’s failure to set and communicate goals. Sometimes division managers and teams know what needs to be done and should do it.
• **Getting to know your employees:** Ask them about their greatest strengths and their biggest weaknesses and discuss ways to harness the former and address the latter. Learn about their career goals and aspirations so that you can help them succeed.

• **Getting C-suite support:** The backing of a CEO, chief financial officer, chief information officer or chief operating officer improves any project’s chances of success significantly.

• **Leading by example:** Make sure that leaders model the behaviors they want employees to demonstrate.

• **Offering consistency:** Performance management tools are only as good as the people using them. Be consistent.

• **Being flexible:** Situations change, so acknowledge that and be prepared to adapt.

• **Using ongoing dialogue:** Feedback is not just a process but also a conversation.

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**A Plethora of Practices and Tools**

Once you’ve pondered the larger questions about your company’s culture and goals and accounted for critical components to successful performance management, you’re ready to get down to brass tacks — to build your program. To do so, thoroughly examine the tools and practices available and think about which ones make sense for your organization.
The tools and methods that can make up a performance management system range from the hands-on, like one-on-one conversations, to the high-tech, like social media tools for providing feedback and kudos, and cloud-based software that collects and measures data. Picking the right ones and tailoring them for your workforce is critical.

You want to make sure the technologies don’t get in the way of your performance objectives, Tucker said. “Technology decisions should always come last, so you can be sure the tool supports your strategy.”

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<tr>
<th>TOOLS &amp; PRACTICES</th>
<th>HOW IT WORKS</th>
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<tr>
<td>Performance planning</td>
<td>Manager and employee sitting down to discuss and set goals.</td>
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<td>Performance reviews</td>
<td>Documented appraisals that happen at least once a year. Ideally, these assessments are done quarterly or on an ongoing basis.</td>
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<td>Rewards and recognition</td>
<td>Rewarding and recognizing people for exceptional contributions through various methods such as pay, gifts, public recognition, etc. These are designed to motivate, recognize and reward exemplary employee behavior. The link between pay and performance is one of the most misunderstood concepts in performance management. While most leaders believe that pay drives performance, some research shows that's not true. There is a human resources axiom that the opposite of job dissatisfaction is not job satisfaction and that no amount of pay will spur someone to greater achievement if they don't feel valued or challenged.</td>
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<tr>
<td>Performance improvement plan</td>
<td>Checking in to make sure progress is made.</td>
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<td>Coaching and feedback</td>
<td>Critical in developing confidence, knowledge and self-awareness but few managers know how to do this well. Training is key.</td>
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<td>360 degree feedback</td>
<td>Provides each employee with feedback from his or her supervisor and four to eight peers, reporting staff members, coworkers and customers. Employees typically respond through a self-assessment.</td>
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<td>Balanced Score Cards</td>
<td>A framework for linking strategic goals to measures and action plans and monitoring performance.</td>
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Technology

There are a number of systems that can automate different aspects of performance management like appraisals, succession planning or compensation. Companies are spending more on HR technology and business is booming for software developers like Halogen, Rypple (part of Salesforce.com) and SuccessFactors (part of SAP). Social media is also changing performance management by creating a way to get real-time, on-going feedback from managers and peers.

Where do you go from here?

When does performance management begin and end? Some say it’s when an employee starts the job and when the worker leaves your organization, but others argue that it starts when a need is identified and a job description is created. The latter theory recognizes that the process begins by understanding your company’s needs and goals and how each person can help to achieve them.

Traditionally, performance management has been viewed in a top-down fashion. But that approach may no longer be as effective. Engaging and empowering employees may be more successful in a business climate that requires greater innovation and agility. These days, what may be needed is a holistic approach that views organizational and individual growth as interconnected — one depending on the other.

Performance management is a contradiction, according to Gartner analyst Frank Buytendijk (http://www.gartner.com/AnalystBiography?authorId=17247), who explores that notion in his book “Performance Leadership.”

“Performance is all about motivation, dedication, teamwork and matters of the heart,” he said. “Management is more associated with plans, control, accountability and matters of the mind. All we focus on in performance management are the matters of the mind. Performance management is a contradiction in terms.”
The best performance management systems take both head and heart into account, and the best employers know which one resonates more for their employees.

Figuring out the approach that makes sense for your organization is a journey that you don’t have to take alone. There are plenty of resources to guide you, such as this Orientation Guide. Use it to get on your way.

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