Performance Management – A Bad Process or a Broken Promise

Transforming Annual Appraisals to an Effective Business Process

By Angelita Becom and David Insler
n too many companies, the next formal event following your acceptance of the offer is the annual performance review. At that point, you may have felt, as many employees report, that the review was nothing more than an empty process, an HR requirement — worse yet, a one-sided critique that you viewed as biased and inconsistent across the organization. This was probably true even if the process was technology-enabled.

Research conducted throughout the past 10 years, regarding the State of Performance Management1, has consistently shown that the high-performing companies use the performance management process to keep the following promise:

“Meet or exceed the expectations of your job and contribute to our mission, and we will meet or exceed your career and reward expectations.”

In accepting the position, each employee, consciously or not, promises to perform and contribute to the best of his or her ability — subject to the organization’s formal and informal parameters. High-performing organizations build upon the promise through a culture of frequent and open conversations that occur throughout the year. They build trust between managers and employees, and create specific links that tie employee performance to outcomes, such as developmental and financial rewards.

An effective performance management process is a critical characteristic that sets high-performing organizations apart from low-performing organizations. However, as you may have experienced, many organizations believe they have an ineffective process. Research on the State of Performance Management indicates a high number of organizations consider performance management as ineffective.

The research also indicates the percentage of organizations that give their performance management system an “A” has not exceeded 5 percent, with the most recent study resulting in only 3 percent of respondents rating their performance management system as an “A”.

Despite this prevalence of ineffective performance management processes, an effective performance management process, when done correctly, can work and improve both engagement and organizational results. High-performing organizations consider performance management as a true dynamic business process that enables performance and drives organizational and individual success — not as a static yearly appraisal process.

The remainder of this article will explore how organizations can keep the promise of recognizing high individual performance with better opportunities and rewards, and along the way, improve business results.

Effective Performance Management (EPM)

Effective Performance Management is built on three key principles:

- **Leadership** — Organizational leaders support and self-model the performance management process
- **Program Design** — A comprehensive business process, including technology enablement, integration into the business calendar, setting expectations, providing coaching and feedback, conducting evaluations, planning for improvement and development and aligning the reward system to outcomes
- **Execution** — The use of skill building, technology and social media to facilitate the way in which managers coach employees, deliver messages, and manage for results; employees use the process as a tool for driving long-term career development, achieving results and earning rewards.

Too frequently, organizations focus just on the design and particularly just the performance review form itself. Other areas of focus typically include: How many ratings are appropriate? What should the form look like? What should it measure? How can the form be automated? While important, focusing on the form will only get an organization part of the way to making performance management effective. Without a focus on the other two areas, — leadership and execution — performance management will continue to be marginalized. Companies that transition to a state-of-the-art online tool, without changing the underlying business process,
Leadership

In the most recent State of Performance Management Study, only 12 percent of all responding organizations indicated that their organizations’ top management views performance management as influencing business results. Without leadership support and effective execution, performance management is seen as just an HR process or annual event versus a process that is business critical and ongoing.

Effective performance management starts from the top. In companies where leaders support and model the process, managers and employees view performance management as more relevant. But what does leadership support mean?

• Leaders act as champions of performance and role models of how to get it done. In essence, they “walk the talk.” Not only do they expect performance management be done for their direct reports and their direct reports’ direct reports, but they make sure that they themselves are part of the process. Even the chief executive officer or president is reviewed on an annual basis by the board or other form of leadership review.

• Leaders set goals for their organization, cascade those down and ensure goals are aligned from the top of the organization to each individual. Individuals not only support their department or function, but the overall company.

• Leaders set performance norms in terms of what they expect as a distribution of performance. This does not mean a stack and rank, but it provides general guidelines for what is expected. Not everyone will be a top performer; most fall somewhere in the middle and are valuable, important contributors to the organization.

Effective Performance Management – Purpose and Management Steps

The purpose statement may suggest that EPM:

• Drives organization performance through goal setting and alignment (for all levels “goals” become performance expectations)

• Defines the management process including performance criteria (what is being evaluated as performance), critical conversations, cycle-time and evaluation sources (e.g. upward feedback, competency assessment tools, 360 feedback assessments, etc.)

• Provides performance and development planning, commitments, and action steps to support employee career growth (what’s in it for me?) to enhance engagement

• Aligns reward decisions that minimize entitlement, reinforce consistent messaging and increase retention

The purpose can then be translated into seven management steps:

1. Determine organization or company goals based on strategic vision or desired future

2. Cascade goals to functions and/or departments and set goals at the next level in the organization

3. Set and align the goals of employees with the goals of the organization

4. Set individual performance expectations such that those goals can be met and career aspirations achieved

5. Provide feedback and guidance on goals (e.g. progress toward achieving goals, resource requirements) through performance evaluation discussions and ongoing coaching opportunities to continually improve and develop employees

6. Confirm a career path or development plan with employees to further support their goals, needs of the business or organization, improvement and development needs

7. Align employee performance with rewards in each component and step, including

   – Annual performance review with salary
   – Results from goals and objectives with Annual Incentives
   – Competencies and organization impact with promotion and career opportunities (LTI and stock if applicable)
   – Tenure with service awards and recognition

A case in point: In a large medical device company, the CEO sets strategic and annual goals with his executive team and translates these into individual executive priorities. In turn, these executives do the same thing for their direct reports. Quarterly, the CEO and executives “report out” to all employees results against the company’s, their division’s and their individual goals. During semi-annual talent assessment reviews, goal performance of the next tier down is reviewed against developmental needs and opportunities.

Program Design

Program Design of an effective performance management process is critical and it does not just mean buying and implementing a performance management software tool. In fact, the most success is seen in organizations that design their process first and then find the technology solution that supports their design. This helps them create a process that works for them and their unique specifications and requirements of the culture and the people. Design development includes assurance that performance management outcomes are linked to other processes such as promotions, succession planning and compensation. Design also requires a strategic definition of criteria, e.g. job duties, goals and objectives, competencies and desired behaviors, as well as review of the rating scale, forms, evaluation sources, etc.

How many rating levels a performance management process should have is often debated. Research indicates that the most popular trend over the last 10 years is a four- or five-level rating scale. However, high-performing organizations have figured out ways to make the rating scale meaningful and the results differentiated, so not everyone is rated as a high performer or as exceeding expectations. High-performing organizations have also become creative with the rating scales used, and encourage the use of different terms so that there is not a notion that if someone is rated at the middle level, they are “just average.” This enables greater differentiation and thus greater rewards for high-performing individuals.

While technology is not the only answer, in today’s workforce, a process not supported by technology will have many challenges in
achieving full effectiveness. Employees want the convenience of an online tool, but need it to be user-friendly, simple-to-use, and easy-to-understand as well. Other critical aspects of an online tool is a system that enables the cascading of goals, a process for gathering peer and/or upward feedback and a system that provides reminders at key points during the performance year. Many companies are experimenting with social media techniques to enhance the collaborative input and feedback process.

Another critical aspect of design is a clear purpose for effective performance management. In the box on page 42, these statements reflect a clear business purpose for performance management.

Neither the purpose nor the management steps described previously necessarily change for different employees. However, it is important to remember that one size won’t fit all. Job levels and generational differences are just two considerations for adapting both performance criteria and the process for segments of the workforce.

Execution

The effective execution of a performance management process brings attention to how the process is carried out, how messages are delivered, what systems are in place to ensure consistency, fairness in the process, and enabling differentiation of rewards. Execution focuses on:

- Enhancing manager skills in relationships established with employees
- Enabling employees to own their performance and career development within an organization
- Calibrating performance ratings within units and across the organization
- Measuring and monitoring performance management through the use of a visible organizational scorecard
- Linking results to outcomes

Manager skills include building the right relationships with employees through a series of conversations. These conversations address five critical interactions that are always in play:

- Building trust
- Aligning organization and individual expectations
- Measuring and monitoring performance
- Coaching for success
- Evaluating development and results
- Recognizing and rewarding success

Closing

Many organizations find that “what gets measured gets done.” A performance management scorecard, made visible at leadership team meetings or year-end strategy and planning discussions, can increase the effectiveness of the process by consistently reporting results as part of the business discussion. Scorecard metrics can include average ratings, ratings distribution and link to merit increases, goal completion rates and promotion percentage—all relative to division or department performance. This level of transparency is motivating to both employees and to leaders: for employees they know that leadership is actively reviewing the outcomes of performance management; and for leaders as the visibility of outcomes encourages them to conduct the process more effectively in their functional areas.

Performance management does not have to be a broken promise or the once-a-year dreaded activity. An effective performance management process reinforces a high-performance culture. It also encourages high-performing and potential employees knowing that the organization does not tolerate mediocre or sub-level performance. Organizations have figured out how to make effective performance management a critical business process through a holistic and integrated focus on leadership, design and execution. P24

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