The real performance management revolution is not about ratings

Steven T. Hunt, Ph.D.
Click to follow my posts: www.linkedin.com/in/steventhunt

After years spent complaining about performance management, companies are finally redesigning this critical yet much maligned part of human capital management. Here's a quick snapshot of what the real revolution in performance management is about based on my experience working with hundreds of companies. And it is not about ratings.

Performance management refers to processes used to communicate job expectations, provide ongoing support to help employees achieve those expectations, and make decisions about pay, promotions, and other scarce resources based on employee performance against expectations. The revolution taking place in performance management is a result of companies realizing that performance management is not a single activity. It is two distinct activities that must be kept separate to be effective but must be linked to be impactful.

Performance coaching: maintaining ongoing discussions about performance expectations.

Performance investment: accurately assessing employee performance and using this data to make decisions related to pay, staffing, and development.

Thinking of these two areas as separate but linked allows companies to make major advances in how they engage employees throughout the year while ensuring the company also invests its resources in a manner that reflects the level of contributions different employees make to the company.

The performance coaching revolution. Managers and employees should discuss performance throughout the year so there are no surprises at the end of year review. But managers and employees inevitably fail to hold these ongoing discussions. They either forget to have regular check-in meetings or they use the meetings for tactical problem solving instead of engaging in coaching conversations about goal alignment and performance expectations. Happily this is starting to change.

Companies are starting to seriously address managers whose behaviors, intentional or not, suggest they have little interest in the career success of their direct reports. It has long been said that employees don't quit companies, they quit lousy managers. In a scarce labor market companies cannot afford to lose talent due to poor management practices. To address this issue, companies are making use of innovative continuous performance management technology that helps managers and employees schedule and hold productive ongoing one-on-one coaching sessions. It reminds them to have the meetings, helps guide session agendas, and tracks data from the meetings that can be referred to over time. It also allows companies to measure whether managers are performing the core tasks required to be an effective manager (i.e., talking with direct reports about their jobs and careers). This technology might be likened to a "health app" for employee-manager dialogue. Instead of reminding you to eat right and exercise regularly, it reminds you and your manager to have clear goals and discuss them regularly.

The performance investment revolution. Despite claims about companies "getting rid of ratings", all companies rate their employees in the sense that they place them in different categories based on perceived performance contributions. I have yet to meet a business leader who didn't want to know who the high performers are in their company and who didn't believe there should be some link between pay and performance. Consequently, I have yet to see a company that didn't rate its employees in some manner. The question is whether those ratings are accurate and impactful.

©Steven T. Hunt, www.steventhunt.com

Historically, most companies had managers provide an annual overall rating of the performance of their direct reports. The problem is these ratings were often inaccurate, failed to differentiate between employees, and/or had limited influence on decisions related to compensation and staffing. People often viewed the rating process as an exercise in stress, futility, and bad data. Rather than continue using a flawed rating process, many companies have decided to eliminate ratings made by individual managers operating in isolation. The old annual ratings are being replaced by calibration sessions that stress collaborative discussion between managers and other stakeholders to determine which employees provide the greatest impact on company success.

Note that calibration is not the same as forced ranking. Calibration is about coming together to discuss and agree on the performance levels of employees. This may include placing employees into a pre-defined performance distribution, but forced distributions are not a necessary component of effective calibration sessions.

The shift to calibration is fueled by three things:

1. Companies are recognizing that the only way to develop a consistent definition of performance across managers and employees is to discuss what defines high performance in their group.
2. Second, companies are recognizing that how you evaluate someone's performance is heavily influenced by your perspective. When a manager evaluates their direct reports, they are primarily evaluating them based on their interactions with that person. To get a true picture of a person's performance you need input from multiple people who interact with them in different situations and settings.
3. Third, technology is making it easier to conduct calibration reviews. It used to take weeks to assemble the performance records and employee profiles necessary to hold a calibration session. The data was often out of date by the time the session was conducted. Companies can now access employee data in real time, enabling more frequent and focused use of calibration to gain insight into the strengths and weaknesses of the workforce.

Performance management is both difficult and necessary. Performance management is difficult because it addresses the reality of performance differences. Employees do not all perform at the same level and most people believe employees who contribute more to the organization should receive more in return. But addressing performance differences requires managing issues that can quickly blow up if not dealt with appropriately. Performance management is necessary because it impacts business-critical and legally sensitive decisions around pay, job assignments, and employment. Leaving managers to make these sorts of high stakes decisions based on intuition is not a good formula for long-term success. When you consider the sorts of activities and decisions involved in performance management it is little surprise companies have struggled to do it well.

The good news is there's a revolution going on in performance management. This revolution is about creating continuous performance conversations between employees and managers and using calibration sessions to gain accurate insight into employee contributions. Annual ratings are not going away due to this revolution. But they are playing an increasingly minor role as companies shift their emphasis from collecting performance ratings to creating more effective ongoing performance dialogue between employees, managers, and leaders.

It has been my privilege to work with many companies that are on the forefront of the performance management revolution. These companies are showing how technology enables us to rethink this important but historically troublesome HCM practice. And as part of the Q1 SAP SuccessFactors

release, SAP SuccessFactors Performance & Goals now includes Continuous Performance Management capabilities. For more information on how these new capabilities can help improve employee performance and engagement, please visit the newly launched digital hub. For videos with tips from me on how to improve one-on-one meetings, please visit these links for employees, managers, and HR professionals.

©Steven T. Hunt, www.steventhunt.com