Fixing performance management: we won't solve the problem by ignoring it.

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When I ask business leaders in large companies what they want from performance management systems, the answer usually includes "identify the top performers in the company". To meet this goal a performance management system must provide some way to determine how employees are performing relative to their coworkers. Yet there is currently a trend in HR to "fix" performance management by eliminating the use of methods that compare employees based on performance. This makes no sense since this is the very thing senior business leaders want from performance management!

Most performance management methods can be placed into two broad categories.

Classification: Assessing employee performance to support decisions about where to invest scarce resources such as pay, promotions, or limited development opportunities (e.g. job assignments, expensive training courses).

Development: Assessing employee performance to provide feedback and coaching that will increase employee engagement, performance and career growth.

Both categories require evaluating employee performance but not in the same way. Classification involves comparing employees to guide workforce management decisions related to staffing, compensation and succession. Development focuses on describing each employee's relative strengths and weaknesses, and avoids comparing people against one another as these comparisons can trigger defensive responses that limit learning. The performance criteria used to guide development should be aligned with the criteria used for classification, but development evaluations by themselves do not enable companies to accurately identify high performers.

Classification is the most difficult part of performance management because it deals with the reality that some employees perform at a higher level than others. It would be much easier if everyone performed at the same level or never felt threatened by critical performance reviews. But all people do not perform at the same level and many people do react emotionally to performance evaluations. It is important to ensure employees do not feel like "losers" just because they received a lower performance rating than some of their peers.

Using performance management to classify people based on performance can be difficult and employees may not like it, but the things we find difficult and don't enjoy are often the things that are ultimately good for us. Nevertheless, many people in HR are suggesting we abandon efforts to rate employee performance because it is hard to do well. These people argue that classifying employees based on performance can trigger unhealthy, "ego threatening" responses in employees. It is true that being told you are not in the top 10% could be somewhat unpleasant. But most employees, particularly the ones you want to keep, have strong enough egos to accept that not everyone gets a trophy all the time provided they understand the process used to award trophies and believe it is fairly and consistently followed.

Companies that clearly define the rules of the game are the ones that truly allow employees to take control over their own careers. People working for companies that use well-designed methods for classifying employees based on performance don't have to wonder "what do I have to do to be successful in this company?" They know what they need to do to be successful. Note the emphasis on well-designed classification methods. Poorly designed classification methods create more trouble the

value, and it can take a lot of work to create truly effective methods for evaluating performance. But just because something is hard doesn't mean we can or should avoid doing it.

Performance management systems that do not identify which employees are high performers ignore the reality that from a corporate standpoint some employees are more valuable than others. Ultimately this reality cannot be ignored, even if it makes people uncomfortable. If a company adjusts pay so some employees receive more than others then the company rates employee performance - even if it does not call them performance ratings. Many employees and managers will view the compensation process as the performance evaluation. Most companies that are said to have eliminated performance ratings haven't actually eliminated them. They've just hidden them in the back room so employees no longer understand how their performance is evaluated.

Recommendations to abandon performance management methods used for classification and just focus on development are about as sound as recommendations to improve your health solely through exercise while completely ignoring what you eat, drink or smoke. If we want to fix performance management, we must create methods that accurately classify employees based on past performance in a way that maximizes their future performance and retention. We will know we have truly fixed the performance management problem when company leaders are able to accurately identify the most valuable employees in the organization, and can explain this decision to other "less valuable" employees in a manner that inspires them to improve their performance and does not lead them to give up hope, quit, or call their lawyers.

Fixing performance management: how some companies are addressing the problem.

What I'm seeing companies do effectively is separate performance management into three distinct processes that are aligned around common performance criteria (whether its goals, skills or competencies).

- Employee development discussions where managers and employees agree on employee's current accomplishments and capabilities and focus on how to build on these for future career success.
- Talent Calibration sessions between managers where they compare employees based on their relative contributions to the organization
- Workforce management session where decisions are made on to ensure scarce resources like pay and promotions are given to those employees who will provide the greatest return on these investment.

What is critical is that employees and managers understand how these three processes fit together, and that they be based around some common and well communicated definitions of performance.