Performance Management System

BUSINESS STRATEGY

Donald J. Olson | Organizational Development Series | February 1, 2021

Performance Management System

Performance management matters — it touches the core of every business — but the success of these initiatives hinges on designing and deploying programs that address employee needs and the culture of the organization.

As professional HR leaders revisit their performance management strategies, conflicts emerge as to whether performance ratings should be kept or scrapped. We are of the mindset, 'if it can be measured ~ it can be managed' and so performance metrics matter.

Performance management can be regarded as a systematic process by which the overall performance of an organization can be improved by improving the performance of individuals within a team framework. It is a means for promoting superior performance by communicating expectations, defining roles within a required competence framework and establishing achievable benchmarks.

According to Armstrong and Baron (1998), Performance Management is both a strategic and an integrated approach to delivering successful results in organizations by improving the performance and developing the capabilities of teams and individuals.

The term performance management is also related to **total quality management** (TQM) programs received utmost importance for achievement of superior standards and quality performance.

Tools such as job design, leadership development, training and reward system received an equal impetus along with the traditional performance appraisal process in the new comprehensive and a much wider framework. Performance management is an ongoing communication process which is carried between the supervisors and the employees throughout the year. The process is very much cyclical and continuous in nature.

Performance management can be regarded as a proactive system of managing employee performance for driving the individuals and the organizations towards desired performance and results. It's about striking a harmonious alignment between individual and organizational objectives for accomplishment of excellence in performance.

"To be sure, the fundamental task of management remains the same: to make people capable of joint performance through common goals, common values, the right structure, and the training and development they need to perform and to respond to change." — Peter F. Drucker

Organizations recognize the strategic value of an effective performance management system (PMS) as a way of attaining operational alignment and a means of optimal performance; Yet, many still struggle with correctly implementing a PMS solution that is effective and human resources driven.

strategix.xyz
Your Strategy.   Our Expertise.

Culture of Excellence

The correct focus for a performance management system is to develop a **culture of excellence**.

Culture is critically important to business success; in fact, research findings also suggest strong correlations between the success of performance management programs and whether culture was leveraged in the performance management process; pointing to the need for a more culture-oriented approach to continuous improvement.

However, there is a clear disparity between the way business leaders view culture and the way they actually address it. Many organizations are not effectively managing culture, and most need a major cultural overhaul to improve performance management programs.

Based on a recent study by Strategix.xyz, we learned that more than half of the employees (54%) felt that their company's performance management system was not effective. In other words, performance is not well-managed.

This perception is likely to demotivate employees, creating feelings of anguish or frustration that negatively affect their performance, which ultimately defeats the whole purpose of designing and setting up an effective system in the first place.

Organizational leaders can take steps to enrich cultural attitudes toward high performance and increasing effectiveness and more effectively leverage their culture. The objective is to create a culture of excellence.

Performance management is a process by which managers and employees work together to plan, monitor and review an employee's work objectives and overall contribution to the organization.

Much more than just an annual performance review, performance management is the continuous process of setting objectives, assessing progress and providing on-going coaching and feedback to ensure that employees are meeting their objectives and career goals.

"A positive attitude causes a chain reaction of positive thoughts, events, and outcomes. It is a catalyst, and it sparks extraordinary results." - Wade Boggs

Culture

Assumptions → Behavior → Results

- The assumptions and beliefs of employees drive behavior.
- The collective behavior of employees determines results.
- The results measure performance and indicate if strategic business objectives have been achieved.

Culture of Trust

The fundamental goal of performance management is to promote and improve employee effectiveness. The system also should encourage collaboration, teamwork, and communication.

An effective performance management system starts with a thorough goal-setting process, followed by regular feedback and reviews/appraisals. It also identifies employees' developmental needs and includes robust reward and recognition practices. Key to a successful PMS is to develop an organizational **culture of trust**.

It is a continuous process where managers and employees work together to plan, monitor and review an employee's work objectives or goals and his or her overall contribution to the organization.

When developing a new performance management program, an organization can strike up a committee made up of employees and managers to increase buy-in, understanding and support for the process. Management support to act upon the outcomes of the performance management process is also necessary to ensure that good performance is recognized and rewarded.

High-performing employees contribute superior performance, giving the organizations they work for a competitive advantage, and their extra effort differentiates great organizations from merely good ones. It's crucial for businesses to have systems in place to identify, recognize, reward, and retain their top performers to achieve sustainable growth.

Visa versa, inadequate performance results in the necessary support and/or training to improve performance and consistently poor performance results in a change of responsibilities or termination, as appropriate. Employees will adopt the performance management program with positive regard if they are included in the decision and design making process.

Culture helps shape the soul of a company – its beliefs, actions, attitudes, workflow, reputation and more. A strong company culture increases employee loyalty, fosters team work, increases productivity and reduces negative behavior.

It helps a company attract and retain the right employees, which leads to greater commitment, higher employee satisfaction and better customer relations.

"Trust gives you the permission to give people direction, get everyone aligned, and give them the energy to go get the job done. Trust enables you to execute with excellence and produce extraordinary results. As you execute with excellence and deliver on your commitments, trust becomes easier to inspire, creating a flywheel of performance." – Douglas Conant

Culture of Achievement

High performance teamwork is achieved on purpose … it is 'What' we do!" We are high achievers.

If it can be measured, it can be managed. Actions aligned with strategy achieve objectives and position an organization for sustainable success. Develop a **culture of achievement**.

Managing people and motivating them to achieve a company's goals are the most difficult parts of being in business. Culture is something that a company 'has' rather than 'is' and can be influenced in order to improve performance.

Attitudes are difficult to change. Therefore hiring good people is important because without any other guidance their personalities will set the culture of the business. The key lesson as a leader is to address problems with performance quickly and directly as it has a contagious effect on other staff.

Staff watch the behavior of their managers very closely and this has important implications for both the respect the managers' command and the expectations that the staff have about their own performance.

Culture has an intangible quality to many people but it is very real when you are inside a business. It is the deliberate conclusion of many interactions and decisions that starts at the top but resonates through every layer of the corporate framework. These form the foundations of trust and empowerment that motivate employees at all levels to excel at their roles and reinforces the employees' belief that they are key stakeholders in the success of the business.

Culture is inclusive of team members' values, goals, attitudes, and assumptions. Each of these attributes plays a role in the ability of leaders to motivate individuals and teams to achieve the organization's vision. The leader must know how to manage the factors that impact organizational culture in order to effectively support the needs of team members.
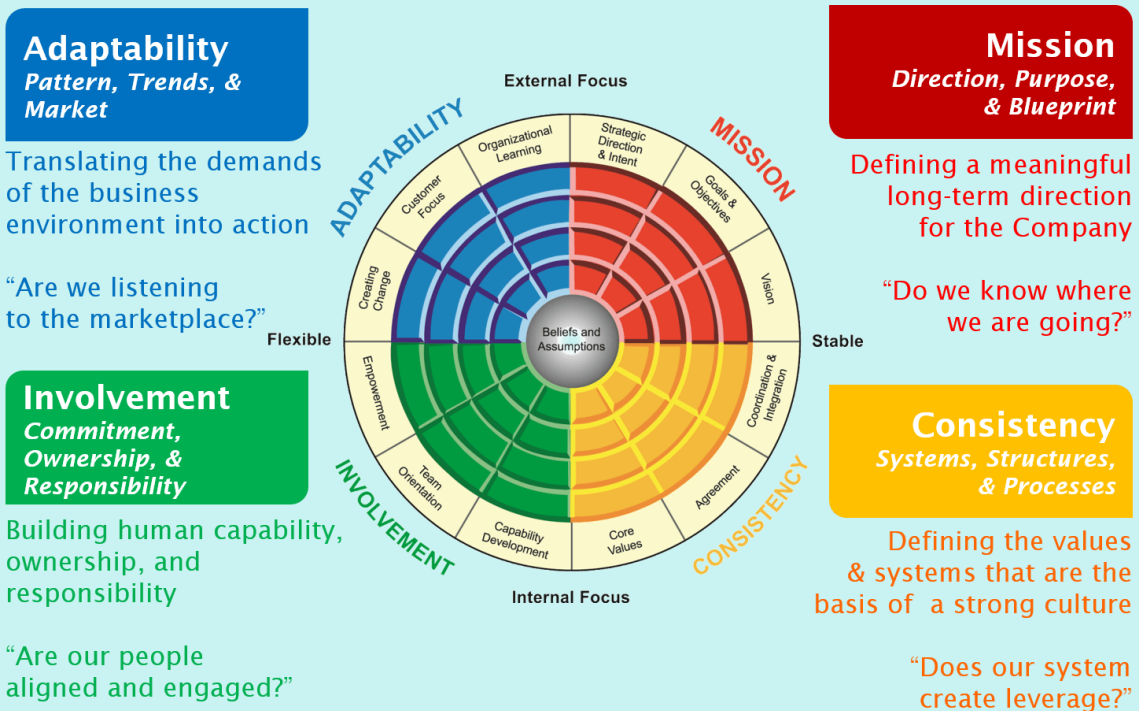
To build an organization of mutual respect and understanding, leaders must understand behavioral patterns that contribute to the desired culture. In this case, he or she will continue efforts that build unity within the organization. This may include contests and employee recognition programs.

Leaders must also be attentive to detractors who may threaten the ideal culture. To gain awareness of attitudes and assumptions that may jeopardize organizational performance, leaders may implement focus groups or surveys to identify what team members need to create an improved culture.

Establishing a welcoming environment where employees are free to engage with leaders fosters open communication with team members for increased creativity and ingenuity.

One of the most important functions of leaders is to articulate the vision and create opportunities for team members to thrive. In doing so, leaders understand the organization's heartbeat and determine effective methods to influence employees to perform at optimum levels goal achievement.

"Positional leaders ignore the fact that every person has hopes, dreams, desires, and goals of his own. And leaders must bring their vision and the aspirations of the people they lead together in a way that benefits everyone." - John C. Maxwell

Adaptability
Pattern, Trends, & Market

Translating the demands of the business environment into action

"Are we listening to the marketplace?"

Mission
Direction, Purpose, & Blueprint

Defining a meaningful long-term direction for the Company

"Do we know where we are going?"

Involvement
Commitment, Ownership, & Responsibility

Building human capability, ownership, and responsibility

"Are our people aligned and engaged?"

Consistency
Systems, Structures, & Processes

Defining the values & systems that are the basis of a strong culture

"Does our system create leverage?"

External Focus

ADAPTABILITY — MISSION

Organizational Learning · Strategic Direction & Intent · Goals & Objectives

Customer Focus · Vision

Creating Change

Flexible — Beliefs and Assumptions — Stable

Empowerment · Coordination & Integration

Team Orientation · Agreement

INVOLVEMENT · Capability Development · Core Values · CONSISTENCY

Internal Focus

The Denison Organizational Culture Survey (DOCS) has increasingly become the cultural and organizational effectiveness assessment tool of choice. The DOCS is designed to assess an organization's strengths and weaknesses as they apply to organizational performance. Additionally, items that measure specific aspects of an organization's culture provides a measure of your organization's progress toward achieving a high-performance culture and optimum results.

The results allow us to develop action plans and set priorities and to correctly execute projects for disciplined and intentional cultural development; progress towards higher performance.

Denison™ Leadership Development 360 – Measures a leader's performance on a set of 12 leadership behaviors linked to high performing business cultures. Based on the Denison Model, this 360 degree assessment benchmarks an individual's leadership and management skills to those leaders in other organizations. Importantly, the Denison Leadership 360 is a developmental tool. By providing data-based feedback, this instrument allows leaders to compare their own ratings to those of coworkers and to identify gaps in perceived strengths, weaknesses and capabilities.

The data shows that the four culture traits Mission, Consistency, Involvement and Adaptability, with their twelve management practices, have a significant impact on organizational performance.

The Denison model will provide evaluation of the four cultural traits—involvement, consistency, adaptability, and mission—and indicate the status of these characteristics which are positively related to perceptions of performance as well as to objective measures such as attitude and achievement. Organizational culture is found to be measurable and to be related to important organizational outcomes.
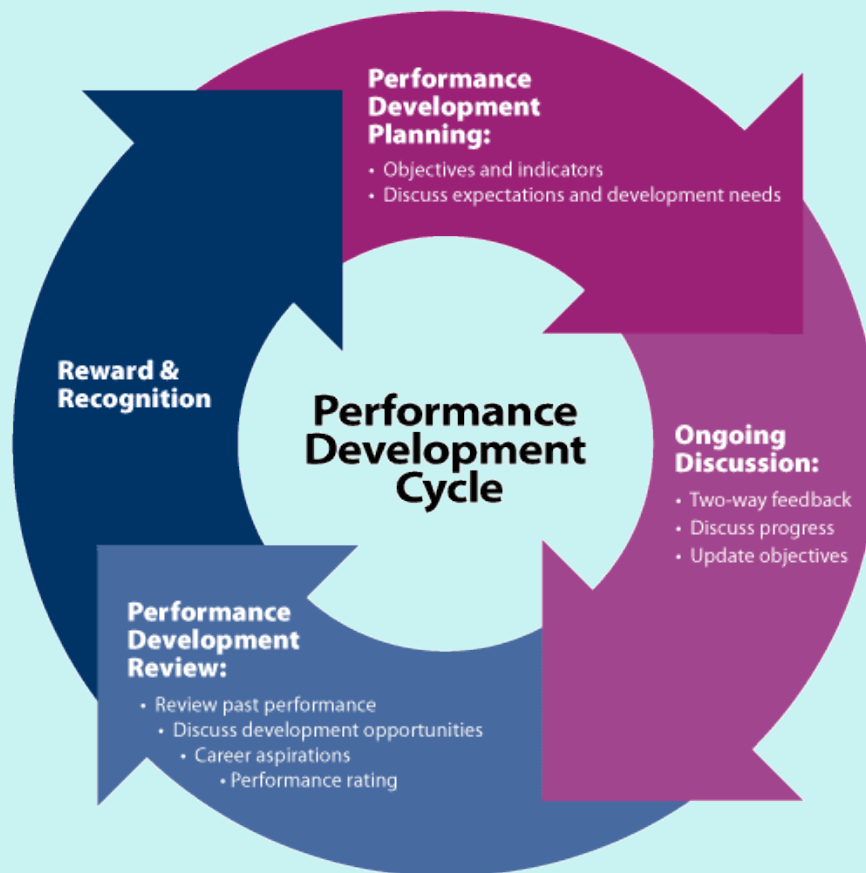
The ultimate purpose of developing a human resource strategy is to ensure that the objectives set are mutually supportive so that the reward and payment systems are integrated with employee training and career development plans.

The management of performance development is a shared process between supervisor and staff and is based on objectives and indicators, achievements and individual development plans.

The successful implementation of a performance development process is crucial to attain and sustain excellence, to validate selection and to help staff understand and take responsibility for their performance.

The Performance Development Framework Cycle consists of four (4) components:

1. Performance Development Planning

2. Ongoing Discussions and Development

3. Performance Development Review

4. Reward and Recognition

The overall goal of the performance management system is to ensure that the organization and all of its employees, departments and divisions are working together synergistically and in optimum fashion to achieve the mission, vision, objectives and goals of the organization.

In theory, the college of business will agree that organizations which do not have a strong performance management system can have a negative effect both on employees as well as their managers.

However, a well-designed performance management process can be rewarding for both the employee as well as the manager. People are selected and placed in positions that fit their skills, passions and talents and that align with the organization's objectives and culture.

A performance management process forces managers to discuss performance issues with employees. It is this consistent coaching that affects changed behaviors and employee development.

All employees are on a development journey and it is the organization's responsibility to be preparing them for increased responsibility.

If done well, an effective performance management system can help to identify employee developmental opportunities and can be an important part of a succession planning process.

Additional goals of the performance management of staff are to:

1. Encourage, recognize and reward employees

2. Clarify expectations and provide direction

3. Improve employee engagement

4. Hold all members accountable

5. Ensure healthy environment

6. Reduce costs and optimize resources

7. Build a culture of excellence, trust, achievement

8. Provide ongoing communication and feedback

When pay increases and/or bonuses are tied to the performance appraisal process, staff can see a direct correlation between performance and financial rewards. This motivates and encourages employees to perform at higher levels.

An effective performance appraisal process can help identify and document under-performers, allowing for a smooth transition if the relationship needs to be terminated. The head of the organization and the professional staff that operate the business aspects are held to the same standards of leadership and managerial competency as in the global business arena at a minimum.

Effective leadership and managerial competency will generate a business administration that is conducive to fulfilling the organizational mission, vision, and goals in an ethical manner.

Organizational Members want performance metrics that are fair, equal, and agreed upon with effective continuous development to ensure their optimal level of achievement

All employees desire the same things when going to work … regardless of job title or industry.

They want to participate in something 'bigger' than themselves, they want to make a valuable contribution, and they want to passionately put their talents toward achievement and progress.

They want to know what is expected of them, they need to be given the tools and resources to perform their job and they want to be recognized and rewarded for meeting expectations and achieving business objectives.

Implementing human resource best practices developed by successful organizations is imperative.

Effective leadership and management can come from competencies which are developed and put into practice. Employees come to work and want to do a good job. However, they are often at the mercy of those who manage them.

Management leadership is responsible for designing work environments that empower and support employee productivity. This means providing good communication, removing barriers to getting the job done and reinforcing it all with rewards and recognition.

These small efforts can help employees stay engaged while performing at higher levels and achieving greater results. A quality improvement tool that many organizations use is Critical Success Factors (CSF) which are indicators that measure how well an organization is accomplishing its strategic plan and objectives.

Successful organizations have learned how to tie their CSF to their strategic plans and use business goals to accomplish them. This is all part of a well-designed performance management system.

Volunteer leaders do not have the authority of military leaders or the financial incentives of the corporate world; they only have leadership skills on which to rely.

To adopt best human resource management practices in the service of the organizational members.

The Objective: To realize a visionary, innovative, and transformative leadership framework that is visible, open, and transparent.

The ultimate purpose of developing a human resource strategy is to ensure that the objectives set are mutually supportive so that the reward and payment systems are integrated with employee training and career development plans. As an employee improves their performance, the overall capability of the organization to attain objectives should also improve.

The performance development cycle is a continuous process with ad hoc feedback and coaching, scheduled evaluation and goal setting, and performance reports and results.

Compensation is often tied to organizational performance and the value of an employee's contribution toward the performance outcomes. Salespeople often receive a commission for sales achievement. Pay for performance is an effective motivation to improve performance objectives.

However, if an employee does great, but the overall organization is not doing great, then the employee will have to seek a new employer to realize a deserved reward.

The key take-a-way here is to correctly implement an effective performance management system (PMS) that begins with practicing sound managerial competencies and earning the respect of staff who will participate in the PMS.

Some organizations have a weak HRM contribution toward operations; as they are little more than a personnel office. In the absence of a strong HRM influence, many employees don't receive adequate on-boarding; and thus, performance is low.

High performance teamwork needs three fundamental contributing factors:

1. Effective leadership among resources

2. Organized management of work

3. Clear performance expectations

A performance improvement plan (PIP) is a great way to give struggling employees the opportunity to succeed while still holding them accountable for past performance.

It is not always clear why an employee has poor performance; however, often he or she has not received appropriate or effective training, and does not understand the expectations of the job.

Therefore, it is critical to engage them in an open dialog and feedback from the employee to help determine whether the employee has been provided all the tools and resources necessary for him or her to be successful. PIPs may be used to address either failures to meet specific job performance-related issues or behavior-related concerns.

PIPs may lead to several different outcomes, including improvement in overall performance, the recognition of a skills or training gap, or possible employment actions such as transfer, demotion or termination. Alternatively, a PIP may be used for employees who may be new to a role as a tool to communicate performance expectations.

A recent Gallup study determined that about 80% of organizational managers are inadequate and unprepared for the management function. It is the duty of HR professionals to implement an effective Performance Management System, and develop PIPs for their management team.

The Current State of Performance Management

According to a 2017 Gallup study, only 2 out of 10 employees say managers actually manage their performance in a way that positively motivates them to do outstanding work; revealing that the traditional performance management system is ineffective.

The traditional performance management system (PMS) is a violation of our values; furthermore, ratings and evaluations don't drive performance one way or another. At best, they create stress and fatigue.

A traditional PMS has also espoused forced ranking, in which a specific percentage of workers were ranked from top to bottom, which, in turn, affected their promotions and bonuses.

To the contemporary worker, this doesn't align with how the contemporary professional environment should treat its employees. Honest, on-going communication and encouragement are welcome and valued.

As some companies continue to ditch the annual performance reviews, one HRM strategy suggests leadership should focus on their employees' potential for future achievements rather than critique their past efforts.

HR Performance Managers use technology to help employees track their contributions, measure their skills, plot out career moves and make connections, and help managers judge whether employee bonuses and pay raises are properly based on performance and dedication as fair and equitable.

Healthy organizations are a feedback-rich culture [constructive environment] to enable performance and success. One-on-one conversations, career check-ins, and team meetings can also drive the enablement process forward.

The move from performance management to performance enablement requires a change in organizational culture: Managers need to think of themselves as coaches, not bosses, and supervisors need to give feedback continuously (no surprises). Employees are ready for the change.

Managers must give employees the opportunity to contribute to the organization, empower their career aspirations, and help them grow their capabilities and deepen their connections.

GREAT PLACE TO WORK® FOR ALL