Performance management transformation:
Changing mindsets vs. changing processes

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Rethinking process design is to improving performance management methods. But having observed hundreds of companies using cloud-based, mobile technology to rethink the design of their performance management processes, I am convinced that process design is the easy part. The real challenge is changing the mindsets of employees, managers and leaders toward different aspects of performance management. The best process will fail if people approach it with the wrong frame of mind. Conversely, people with the right mindset can often creatively overcome process limitations.

The following are some shifts in mindset that are associated with highly successful performance management transformations.

- **Evaluation and development are complementary.** Some people have suggested that to increase ongoing development conversations companies need to eliminate the use of formal methods to evaluate employee contributions. These arguments stress that development and evaluation are two very different processes, and many traditional performance management methods over-emphasized evaluation. But there is difference between changing how people are evaluated, and pretending people are not evaluated at all. Employees know they are going to be evaluated in some manner. And acting as though employees are never rated in some manner is disingenuous and unsettling. As one person told me, "knowing you will be rated is stressful, but knowing you will be rated and not knowing how it is done or how you can influence it is even more stressful". If you want people to engage in ongoing development conversations with their manager then tell them when their performance will be evaluated, the purpose of the evaluation, and how it will be carried out. Employees are more comfortable talking with managers about development when they know how these conversations will influence decisions related to pay and staffing that impact their careers.

- **How people are evaluated influences how they develop.** The development strategies employees use often reflect the evaluation processes their companies uses to judge their performance. Companies that have poorly structured evaluation processes are likely to have employees who use poorly structured development methods. Companies that use confrontational performance evaluations such as forced ranking that pit employees against one another are likely to have employees who focus more on competition, impression management and risk avoidance than open discussion of developmental needs. Companies that have transparent evaluation processes that stress clearly defined criteria and constructive discussions of employee contributions are likely to have employees who engage in open and constructive discussions around self-development.

- **Goals are primarily a tool for ongoing communication and role clarification.** Many companies have historically used goals as though they were a form of "employment contract". Employees agreed to accept goals at the beginning of the year with the understanding that these goals would be used to evaluate their performance twelve months later. The assumption was goals would not change over the year. This is the wrong way to think about goals. Goals should be viewed as a tool to communicate, update, and clarify priorities throughout the year. Goals should be expected to change as the nature of the business changes. While goal accomplishment does influence how people's performance will be evaluated in the future, that is not their primary purpose. Their primary purpose is to align employees and managers around the things that are important right now.

- **Managers must manage, or they shouldn't be managers.** Most managers were not promoted to manager because they are good at managing people. They were promoted because of their technical skills, career ambitions, and past performance as individual contributors. Managers often struggle when it comes to core managerial activities such as clarifying role expectations, providing ongoing coaching, and having honest and effective conversations about employee performance and potential. Many managers actively avoid these activities, viewing them as unimportant and difficult. If companies want to create effective performance management methods, managerial tasks must be treated as a core part of the role of managers. Managers need to be trained on how to perform these tasks, rewarded for doing them well, and held accountable if they do them poorly.

- **Rating methods are a tool for understanding employees.** The most effective performance rating methods do not focus on the ratings themselves. They focus on discussing the accomplishments, behaviors, development needs, and future goals of the employees being rated. Ratings are merely an outcome of much richer exploration of employee contributions and capabilities. As one customer told me, "even if managers agree on ratings assigned to employees, we spend time talking about the employees to ensure we agree on the reasons why those ratings were assigned". This last mind-shift is probably the most challenging to achieve. Sadly, we live in a society where "different" is frequently interpreted as "better" or "worse". Getting leaders, managers and employees to a point where they can discuss differences in performance without implicitly labeling people as winners and losers is a truly transformational change in organizational culture.

Changing these mindsets can be difficult. It can also be transformational. Many managers and employees do not come from backgrounds where performance and goals are openly discussed in a supportive, collaborative and forward focused manner. Their default reaction toward performance management topics tends to be "how is this going to hurt me?". A key part of transforming performance management is transforming people's view of performance management from a method primarily used to point out people's shortcomings, to a method that ensures employees are fairly treated and provided with information needed to control and chart their own careers.

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Goals are the foundation for effective performance management

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I am often asked what the best place is to start transforming performance management. The answer depends on a company's business goals and the state of its current processes. But one area that is often overlooked is ensuring employees have clear and meaningful goals.

Providing employees with meaningful, challenging yet achievable goals is fundamental to creating a high performing organization. It is not very engaging to show up to work and not know what you are supposed to do or why it matters. Goals give employees a sense of purpose, clarity, and strategic direction. Goals also provide the foundation for providing effective feedback and making accurate talent decisions.

Most companies have some method for setting goals, but these methods are often more about process compliance than clarifying job expectations. Rather than focusing on communication and role clarity, many goal setting processes emphasize filling out forms. At a minimum, goal setting processes should strive to meet the following criteria:

- ✓ **Goals should be defined through dialogue**. Most people want to know what they are supposed to do at work, but few people like to be told what to do. The key to resolving this conflict is to use dialogue to establish goals. Goal setting should be approached as a two-way conversation between the manager and employee to align what the company needs to accomplish, what employees want to achieve in their careers, and what employees are able to do. This does not need to be an extensive discussion. But it is important that employees have some influence over the nature and definition of their goals. Otherwise employees may not feel a strong sense of ownership, control or commitment to their work.
- ✓ **Goals should be tangible**. Goals should define specific accomplishments or outcomes that demonstrate the contributions the employee is making to the organization. Even if someone never saw an employee perform their job, it should be possible to determine the contributions the employee has made simply by looking at the goals they accomplished.
- ✓ **Goals should be public**. There should be no secret to what people are striving to accomplish at work. Employees cannot effectively collaborate without knowing each other's goals. The more public people are about their goals the more accountability they will feel toward achieving them, and the more credit they will receive when they are successful. Note that is possible to keep goals public while still hiding confidential information when necessary.
- ✓ **Goals should be expected to change over time**. There are few jobs where an employee's goals will stay exactly the same over twelve months. Managers and employees should set goals with the expectation they will be refined and modified over time based on shifting business demands and strategies.

Goals set the foundation for every other part of performance management. If employees do not have clear goals then managers and employees will struggle to have effective coaching conversations since it will be unclear what to talk about. And the organization will struggle to make effective talent management decisions since it will be difficult to assess what employees have accomplished. If a company can only do one thing to improve performance management, it should probably be ensuring that employees have concrete, inspirational, and business relevant goals.

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Why managers do not coach employees, and how to fix it

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One objective of most performance transformations is to improve manager-employee coaching conversations. Creating effective manager-employee coaching conversations is one of the more challenging parts of performance management. Relatively few managers were promoted to manager positions because of their coaching skills, and as a result coaching does not come naturally to a lot of people who hold managerial roles. Furthermore, effective coaching is not something that can be created using structured forms or calendar drive performance reviews. It requires changing ongoing habits and behaviors that occur through the year.

There is no magic formula for improving ongoing manager-employee dialogue. But companies that have effective performance management programs have usually addressed the following five questions:

1. Do managers know what coaching conversation is? Managers tend to divide employee conversations into two general categories. "Check in" conversations where they discuss tactical issues related to job activities, and "development planning" conversations focused on the long-term career direction of the employees. Check-ins are often held daily or weekly. Development planning conversations are held a few times a year, if at all. Many managers do not understand that a coaching conversation is a third type of meeting. The focus of coaching conversations is not on day to day tasks like a check-in, nor is it on long-term career development planning. The focus is on revisiting and clarifying expectations about the employee's current role. The main question asked in check-ins is "what have you completed?" The main question in development planning conversations is "where do you want to go in your career?". In coaching conversations, the main question is "how is your current role going in general?".

   A coaching session might start by reviewing the employee's job goals to see if they need to be revised based on changes in the broader business or company strategy. It could also focus on general challenges the employee may be facing regarding their role. The key to effective coaching conversations lies in having them often enough to address performance concerns before they become problems, and to identify opportunities for improvement before they have passed. Or as I like to put it, "it's a relaxed discussion of issues before they become issues".

2. Do managers know how to coach? It is important that managers be trained on how to have effective coaching conversations. This starts with ensuring they have a clear agenda about what these conversations are designed to cover. Managers should understand that most coaching conversations are more about discussing role clarification than discussing employee behavior or attitudes. They often start with questions like "Let's talk about the five or so major things you are working on, do any of these need to be updated or refined based on changes in the company or market? What is going well? What could be going better? What might we do differently to be more effective?". It is also important that managers have training to deal effectively with topics that might come up in coaching discussions. One topic that is particularly important is teaching managers how to deliver, receive and discuss performance feedback.

3. **Are managers expected to coach?** One of the reasons managers do not have effective coaching conversations is because it is not treated as a high priority by their companies. Managers are usually promoted and rewarded based on their technical expertise and their ability to achieve operational business goals. And very few companies promote people to manager roles based on

their coaching skills. Furthermore, many leaders fail to role model effective coaching to the managers that work for them. I believe most managers tend to manage their employees based largely on how they are managed themselves. If a company wants its managers to spend more time coaching their employees, then senior leaders in the company should spend more time coaching the managers who report to them.

4. **Are managers reminded to coach?** Most managers are expected to manage others and also perform their own role as individual contributors. Managers may forget to hold coaching conversations simply as a result of having hectic schedules. There is value in providing managers with tools that help make coaching a routine part of their schedules. This is where technology can provide a lot of value. Continuous performance management solutions can be configured to remind managers and employees to meet on a regular basis, track topics to address during the sessions, and capture notes about what was discussed so it can be revisited in future sessions.

5. **Are managers rewarded for being good coaches?** Coaching employees takes time. This time pays off by increasing employee engagement and development. Yet many companies do not reward managers for engaging and developing employees. For years, I have asked companies the following question: "how do you reward managers who encourage high potential employees to leave their teams to take on other roles in the company?" This is what good coaches do. Rather than horde talent, they develop and share it. But many companies do not reward managers for developing and sharing talent. To the contrary, they often punish these managers by not backfilling their roles. If companies truly want managers to coach their employees, then they need to recognize and reward the managers who excel at it.

Creating a coaching culture is one of the most common and most difficult objectives associated with performance management transformation. Most managers know they are supposed to provide coaching, but they struggle to do it. But coaching is not something that people will do just because they know it is the right thing to do. They need be trained on how to coach, reminded to hold coaching session, be held accountable for taking the job of coaching seriously, and be rewarded for doing it well.

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Shifting performance management from structured forms to structured conversations

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Use forms to make sure managers and employees talk about what they used to write about.

This comment is based on something one of SAP SuccessFactors customers told me, succinctly captures a significant shift in performance management design. Historically, many companies seemed to use performance management forms as a substitute for conversation. There seemed to be a belief that detailed goal plans and performance appraisal forms could effectively capture employee job expectations and performance contributions without anyone talking to anyone else. This concept never worked. And it is completely ineffective in fast moving digitalized world where anything written on a form may quickly become out of date.

Forms and checklists do provide value in performance management. But their value is mainly as tools to remind managers and employees to discuss job expectations, have coaching conversations, and capture information from these discussions to guide future decisions and dialogue. Forms should be designed to support conversation, not replace it. They should capture a minimal level of information needed to support future dialogue and decision making. Forms should also never ask people to provide information unless they have a clear understanding of who is going look at it, when they are going to look it, and how it is going to be used.

Most important of all, forms should never force a manager or employees to make a choice they do not believe in. This is a major problem with many traditional performance management forms that were designed to force managers to create distinctions between employees. For example, requiring managers to rank their employees from most to least valuable. A performance rating form should never force a manager to "pick favorites" between their employees. Nor should a form require managers to rate employees as being either above or below average. Remember, the performance of some employees truly is average. It is also possible, albeit unlikely that all the employees on a manager's team could perform at the same level. This is particularly true if the manager has a small team. In most companies, it is the manager who is expected to take accountability for performance ratings and communicate the ratings to their employees. It is unethical and unfair to force managers to make a rating they do not believe in.

This does not mean it is okay for managers to always rate everyone as being the same. Managers should be challenged to critically compare the relative impact that team members are having on the success of the company. But this challenge should be done through dialogue and discussion with their leaders and peers. It should not be done by creating a form that forces them to make evaluations that may not reflect their honest beliefs about their employees.

One of the most positive transformations occurring in performance management is the trend to replace annual performance rating forms with group-based talent review sessions. These sessions involve managers and other organizational stakeholder talking about the relative performance contributions of different employees within a department or group. Having managers discuss, defend and justify ratings increases the accuracy of performance evaluations, ensures people are using the same definitions of performance across the company, and provides greater knowledge and sharing of talent across teams and departments. As one customer put it, the main value of these sessions does not come from rating employees, but from talking about how employees are being rated and discussing the implications this has for future employee management and development.

There is a place for forms in performance management. They help with setting goals, structuring ongoing coaching sessions, and managing differences in performance levels within teams. They can capture critical information the company may need to guide broader workforce management decisions. Forms also provide metrics to make sure managers are being effective managers by indicating whether managers and employees are talking about different issues. But forms should not be the focal point of the performance management process. They are merely tools to support more effective conversations and decisions about talent overall.

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The best way to improve performance management data is to use it

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People often criticize the value and accuracy performance data. Performance management data is frequently seen as being too subjective or incomplete to be useful. These are valid concerns for a lot of performance management data. One of the best ways to address these concerns is somewhat counterintuitive. It is to start using the data despite its imperfections. When customers ask me how to increase completion of performance management activities related to setting goals or providing ratings, one of my first questions is “who will look at this information other than the employee and their manager?”. If no one else looks at this data, then why should managers and employees put it into the performance management system? Conversely, when managers and employees know performance management data will be used by other people in the company to guide decisions that could impact their lives, then they put more effort into ensuring the data is as accurate as possible.

The following are a few ways performance management data can be used to guide workforce management decisions:

- **Tracking turnover by performance level.** Knowing whether high performing employees are leaving the organization faster than average or low performing employees provides tremendous insight into workforce health. It also drives constructive conversations around what defines high performance and what factors matter most for engaging high performing talent.
- **Tracking associations between performance, compensation, and promotion.** It can be insightful to look at relationships between employee performance, pay and promotion in different areas of the company. This includes analyzing whether certain aspects of performance have stronger links to pay and promotions. For example, are employees with strong relationships skills more likely to be promoted or paid more compared to people with strong analytical skills? It is important to remember that compensation and promotion decisions are influenced by many factors other than employee performance. But there should be some association between what people contribute and how the company makes pay and career decisions.
- **Diagnosing workforce strengths and development needs.** Data on employee performance, goals, and development objectives can be analyzed to surface general trends related to workforce strengths and weaknesses. This can guide organizational development and training strategies.
- **Measuring managerial effectiveness.** Performance management data can be used to evaluate how effectively managers are engaging their employees to set expectations, clarify roles, plan development and address performance concerns. It provides a way to measure if managers are doing the things required to be good managers.
- **Identifying talent potential.** Data reflecting different performance capabilities, skills and development objectives can be used to identify employees who might potentially be moved into roles with greater impact and responsibility within the company.
- **Predicting attrition.** Companies are increasingly leveraging advanced analytical techniques that use performance management data to predict attrition and proactively address retention risks.
- **Evaluating staffing effectiveness.** Performance data can be used to assess the quality of candidates hired into the organization from different recruiting sources or based on different selection criteria. This can be used to improve the value of staffing methods.

The more companies use performance management data, the more the quality of the data will improve. And the more the data quality improves, the more people in the company will want to use it. But a company needs to start using the data to create this positive cycle. This means accepting that the initial data is likely to have some serious issues. When people in the organization complain about the accuracy of performance management data just remind them that much of the data came from these people themselves. If leaders, managers and employees want the company to use better quality performance data to make workforce management decisions, then these same leaders, managers and employees must provide better quality data about performance.

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