The fundamental problem with performance management
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A quick internet search on the phrase "problems with performance management" returned over 21 million (!) separate entries. Dozens of pages described all the things that are wrong with performance management. How did a process like performance management become so broken? Performance management has been around at least since the 1950s and is used by almost every company. You would think that someone would have figured out how to fix it!

The fundamental problem with performance management, along with other traditional talent management processes such as succession, development, compensation and staffing, is they are extremely ill defined. Companies designing these processes often start creating forms, tools and process maps without clearly articulating what the processes are intended to do. It is common for companies to try to accomplish multiple, conflicting objectives with a single process. The result is a process that doesn't do anything very well, except give employees and managers something they can all complain about.

All talent management processes increase workforce productivity by doing three basic things:
1. Forecasting the kinds of employees the company needs to execute its business strategies.
2. Predicting employee behavior to guide staffing and job assignment decisions, and/or
3. Changing employee behavior to increase productivity and avoid unwanted turnover.
Talent processes achieve these things by creating methods that a. collect data to guide workforce decisions, b. evaluate employee performance, potential, and capabilities, c. encourage conversations between employees and managers to increase performance and retention, and/or d. support decisions related to staffing, promotion, development, and pay.

A problem with many talent management processes is they try to accomplish too many of these different functions at once, or they over-emphasize one function to the detriment of others. For example, succession management involves a mix of forecasting workforce needs, evaluating employee potential, developing and retaining high potential candidates, and making staffing and promotion decisions. Process steps that support one of these activities (e.g. staffing) may have little relevance to other activities (e.g. development). It is very easy to create succession processes that place lopsided emphasis on putting the right people in the right jobs vs. ensuring employees are getting the right development.

No talent management process suffers from the problem of "confused and convoluted objectives" more than performance management. As illustrated by the internet search, there is a lot of activity around fixing performance management. But these discussions usually overlook the fact that people expect performance management processes to support multiple activities that do not align well with each other. These activities include, but are not limited to:

> **Defining Performance Expectations:** Setting clear goals that will be used to evaluate performance contributions. The primary goal is to help employees prioritize what they should accomplish and create awareness around how they are expected to achieve it. This is best done through periodic goal setting meetings followed by ongoing review and adjustment of priorities

throughout the year. If done correctly, this activity will significantly influence performance even if no other actions are taken.

Coaching: Creating conversations that drive clarity around performance expectations, competencies and development opportunities. The primary goal is to increase workforce alignment and productivity. This is best done in a more informal, ongoing basis and usually does not include any form of formal performance evaluation or numerical rating.

Performance Evaluation: Accurately assessing and rating employees based on the contributions they are making to the organization relative to their peers. The primary goal is to take accurate stock of the talent levels in the company to guide staffing and compensation decisions.

Performance Evaluation Feedback: Letting employees know where they stand in terms of their performance and how they can influence future performance evaluations. The primary goal is to ensure employees feel they are being treated fairly and consistently and understand what is required to be successful in the company. It is worth noting that the process required to accurately evaluate performance are quite different from the processes required to effectively share the evaluations with employees. In fact, the accuracy of manager ratings often improves if the ratings are <u>not</u> going to be shared with employees.

Pay & Staffing Decisions: Ensuring that personnel decisions about staffing, promotions, and pay are influenced by employees' performance levels. The primary goal is to ensure personnel decisions are done in a way that strengthens the company's overall workforce capabilities. Employee performance is not the only factor that drives pay and promotion decisions, but it should be an important factor. But there are times when other factors may significantly reduce relationships between employee performance and pay or promotion decisions (e.g., when there is a salary freeze).

Efforts to design performance management processes benefit when companies approach these four activities as things that are inter-related but far from identical.   What does not work well is trying to combine all four activities into one annual performance management event.

The main problem with traditional talent management process is the objectives of these processes are not well defined. What "performance management" means to a person in one company may be much different from what it means to a person in another company. If the primary purpose of your performance management process is to evaluate employees, then call it a performance evaluation process. If it is to develop employees, then call it an employee development process. But don't try to create one process that attempts to do both of these things, and ends up doing neither well.