SAP SuccessFactors

**SAP White Paper**
Performance Management

# Transforming Performance Management
## 15 Lessons From 10 Years of Customer Engagements





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**I joined SuccessFactors, now an SAP company, in the fall of 2007. At that time, it was a small, fast-growing company focused on revolutionizing the field of human resources (HR) through innovative cloud technology solutions. Shortly after I was hired, I was asked to investigate a serious risk to the long-term success of the company: why did our performance management solutions work more effectively in some companies than others?**

"Performance management is **defined as processes** used to communicate job expectations to employees, evaluation of employees against those expectations, and utilization of these evaluations to guide talent management decisions related to compensation, staffing, and development."

S. Hunt, Common Sense Talent Management, p. 151, 2016.

# Why Do Some Performance Management Methods Succeed While Others Fail?

SAP® SuccessFactors® solutions were one of the first software-as-a-service (SaaS) offerings for HR. The financial success of SaaS companies depends on customer renewals. Every few years, customers decide if the value of the cloud technology is worth the cost of the licenses. Based on this, they choose to renew or cancel the SaaS contract. Back in 2007, there were large differences in how much value customers were getting from our performance management solutions. Performance management was the first process for which SuccessFactors created solutions, and the SAP SuccessFactors Performance & Goals solution continues to be our most widely used offering. When I first joined, some of our customers raved about our performance management technology. They talked about how it increased employee engagement, enabled better development conversations, and led to more accurate talent management decisions. Others were unenthusiastic about its value. They sometimes commented that they automated a process that had never worked to begin with, and now used cloud technology to efficiently waste people's time.

My goal was to determine why some customers got so much value from the performance management solution while others viewed it as a questionable investment. This is a cloud technology solution, which means every customer has access to the same features and functionality. Customers can configure the solution in different ways based on their company's needs and preferences, but anything one customer does can be copied by another. It could not be the technology itself that made the difference because every customer has the same technology. It was something about how customers used the technology that determined how much value they were getting. My role involved working with customers to understand what made some companies better at using performance management technology than others. Fast forward to today. I have now personally engaged with over 500 companies around the world exploring the intersection between cloud technology, workforce culture, employee behavior, and business performance. These engagements have grown to cover all manner of human capital management (HCM) topics, including social learning, machine learning, candidate sourcing, the future of work, and many more. But performance management continues to remain a common part of the conversation.

Over the past decade, the field of performance management has undergone massive transformation. This transformation is driven by a need to create more agile, engaged workforces. It has been enabled by advances in cloud, social, and mobile technology. My job has put me on the frontlines of this performance management revolution. I've seen great successes and catastrophic failures; experienced innovative transformations and idealistic but unrealistic attempts at change; and reviewed hundreds of performance management methods ranging from good to bad to just plain weird.

This paper shares lessons learned from 10 years of customer engagements studying performance management. It is a summary of opinions I often share when meeting with customers, but that I have not fully addressed in more formal research papers on the topic of performance management.[1] The lessons are listed below.

This transformation is driven by a need to create more agile, engaged workforces. It has been **enabled by advances in cloud, social, and mobile** technology.

1. Hunt, S.T. (2014), Commonsense Talent Management, Wiley Press; Pytel, L. & Hunt, S.T. (2017), Total workforce performance management, SAP SuccessFactors; Sherwood, J. & Hunt, S.T. (2017), Creating the Conditions for Continuous Performance Management, SAP SuccessFactors; Hunt, S.T. (2017), Creating Agile Organizations, SAP SuccessFactors; Hunt, S.T. (2011). Technology is transforming the nature of performance management. Industrial and Organizational Psychology, 4, 188–189; Hunt, S.T. (2015). There is no single way to fix performance management. Industrial and Organizational Psychology, 8, 130-139. Hunt, S.T. (2016). Rating performance may be difficult, but it is also necessary. Industrial and Organizational Psychology, 9, 296-304.

## 15 LESSONS ABOUT PERFORMANCE MANAGEMENT TRANSFORMATION

**1.** It is impossible to completely eliminate performance ratings.

**2.** There is no "one best way" to do performance management.

**3.** Performance management processes must be separated to be effective, but linked to be impactful.

**4.** Performance management is more about what you create than what you eliminate.

**5.** Goals lay the foundation for effective performance management.

**6.** Coaching conversations will not just happen by themselves.

**7.** The problem is not ratings, it is poor rating processes.

**8.** Structured conversations are more effective than structured forms.

**9.** Ignoring performance differences is unproductive and unfair.

**10.** Performance management involves three distinct types of ratings.

**11.** It is risky to give managers too much autonomy over compensation decisions.

**12.** The best way to improve performance management data is to use it for decision making.

**13.** More transparency is better than less transparency.

**14.** Performance management is about changing mindsets as well as changing processes.

**15.** The best performance management processes are never good enough.

# Lesson 1: It is Impossible to Completely Eliminate Performance Ratings

A question I get asked constantly is whether organizations are eliminating performance ratings. This is usually a result of some article a person read about some company getting rid of its rating process. To answer this question, it is critical to start by defining the term "rating." Rating involves placing employees in different categories based on perceptions about the contributions they provide to the organization. At the most general level, it is the act of comparing people based on the relative value of their skills, performance, or potential. Rating does not require the use of numbers, ranking, annual reviews, or structured forms. It simply means classifying some people differently from others based on their past behaviors and future capabilities.

If leaders in a company believe that 1) not everyone performs at the same level, and 2) employees who contribute more to the company should receive greater resources and opportunities, then that company rates its employees in some manner. I have never met a leader who did not feel that some employees are more critical to business operations than others. Leaders may not use formal performance reviews, numeric ratings, or rank ordering, but they all have some method to evaluate the relative performance of employees. Most performance ratings are probably done using leaders' general sense of intuition, rather than any structured rating process. As one person told me, "you can eliminate performance rating forms, but you can't eliminate people judging each other."

Leaders will always rate employees one way or another. The question is not whether employees are going to be rated, but whether employees are rated in an accurate, fair, and effective manner. Companies claiming to have gotten rid performance ratings have usually replaced ineffective annual numeric rating and forced ranking methods with more-effective rating techniques that emphasize having conversations over filling out forms. These companies often relabel performance ratings as something else to encourage people to think about performance management differently. For example, instead of using the term "performance ratings", a company might describe a process as assessing employee impact, talent, and capability in order to encourage a more constructive and forward-focused attitude toward talent management overall. But the process still involves ratings.

In a few cases, I have encountered companies that sought to eliminate all formal, structured rating processes. Leaders are left to rate employees however they want without any clear guidance or transparency. This approach is very risky. Allowing leaders to rate employees with no defined process is a formula for making bad talent decisions, increasing workforce inequity, and generating employee disengagement. It often leads to leaders creating separate "shadow rating" processes using private spreadsheets. Or using highly questionable data, such as rating people's performance based on how much they are paid. I have never seen attempts to totally eliminate ratings end well. In some cases, they have had disastrous consequences with potential legal ramifications.

In my opinion, far too much time has been spent talking about getting rid of ratings. It is impossible to eliminate ratings entirely. The problem is not ratings, it is bad rating processes. A company does not need to pretend it is getting rid of ratings to have an effective performance management process. What it needs to do is provide employees with honest, transparent communication about how their contributions will be evaluated and rewarded, support employees through ongoing dialogue and discussion about performance expectations, and take steps to ensure performance evaluations are done in a fair, accurate, and equitable manner. Which is what the rest of this paper is about.

It is impossible to eliminate ratings entirely. **The problem is not ratings,** it is bad rating processes.

# Lesson 2: There is No "One Best Way" to do Performance Management

Over five thousand companies use SAP SuccessFactors Performance & Goals, but no two customers use it exactly the same way. And many use it in radically different ways. The solution has been configured to support processes ranging from highly structured methods that make extensive use of annual goal plans and numeric ratings, to loosely structured methods that use ongoing dialogue and discussion instead of predefined forms. What I've learned from talking to hundreds of customers using this solution is that there is no "best" way to do performance management. Methods that work in one company can fail in others. And methods that work for a company now might not work for that same company in the future.

The effectiveness of performance management design depends on the objectives of the process and nature of the company. Performance management can be used for many different things, including complying with legal regulations, defining job expectations, identifying high-performing employees, addressing issues of low performance, guiding compensation and staffing decisions, and increasing employee development. The first step to creating a good performance management process is being very clear about what you want it to do. The second step is looking at the business environment where it will be used. The effectiveness of different performance management methods changes depending on a company's culture, the level of expertise it has available to support different performance management techniques, the technology it uses, and the nature of its workforce. The best performance management processes work well in the specific companies they were designed for, but are likely to fail if used in different companies with different workforce capabilities, organizational cultures, and business needs.

The impact of company culture on performance management methods was made particularly clear to me during a series of "performance management throwdowns" held by SAP in 2015. These were contests where four companies participated in a friendly but intense competition to see who had the best performance management process. The winner was voted on by an audience consisting of HR professionals from other customer companies using SAP SuccessFactors solutions. There were four regional throwdowns held across the United States followed by the National Championship Throwdown at the SuccessConnect® event in Las Vegas. What became apparent during the throwdowns was how unique the best performance management processes were to each company's specific needs, resources, and constraints. Methods that worked in one company would not work in others. The following themes describe three of the companies that participated in the throwdowns.

- **Clarity, transparency, and ongoing improvement.** This consulting company emphasized the value of clear and direct discussions about role expectations, goal accomplishments, development needs, and career opportunities. It stressed constructive dialogue about people's performance and value to the organization, including openly sharing people's salary levels. It has a measurement-oriented culture where people believe that performance is a temporary state that can stay constant, improve, or decrease over time. People are compared, recognized, and rewarded based on their past contributions, but know that last year's accomplishments neither constrain nor guarantee next year's successes. Every year is a new chance to be successful.

- **Constant conversations to support continuous development**. This consumer goods company invested heavily in tools, training, and resources to create a feedback-rich, supportive learning environment for employees. Its process was designed to work with a large blue-collar workforce with little turnover. Managers are given considerable leeway in deciding how to engage employees about performance, but are measured and held accountable for providing employees with regular coaching support. Performance ratings are viewed primarily from a perspective of learning. They are not about what employees have accomplished in the past, but about what they could do better going forward.

- **Every day is playoff day – high performance is necessary, expected, and rewarded.** This high-tech company works in a fast-paced market where companies can gain or lose large segments of market share in a matter of months. Innovation is constant, relentless, and accelerating. Its performance management process emphasizes communication of clear team-based and individual-based goals tied to specific corporate objectives. Employees know exactly what they must achieve to be successful, and they know great things happen when they succeed. They also know what will happen if they fail to meet expectations. There are no surprises. People are treated fairly, consistently, and with respect regardless of the outcome.

Each of these companies have radically different performance management methods reflective of their company culture, the nature of their business, and the characteristics of their workforce. What they had in common is a willingness to constructively acknowledge and address the challenges associated with managing performance in their unique business environment. They understood that fairness is not about pretending that employees all perform at the same level. Nor does it come from forcing managers to make ratings they do not believe in. Success comes from putting in the effort to create performance management processes that effectively communicate expectations, encourage coaching discussions to support employee growth, and accurately identify top performers without making lower performing employees feel inferior.

# Lesson 3: Processes Must be Separate to be Effective, but Linked to be Impactful.

At its core, performance management requires balancing two types of activities.

- **Workforce management:** making decisions about where to invest limited resources such as pay, promotions, job assignments, or training courses to maximize overall workforce productivity

- **Employee development:** providing coaching, feedback, and advice to increase individual employee performance

Both require assessing employee performance, but not in the same way. Workforce management involves assessing an employee's past performance to guide future decisions related to staffing, compensation, and succession. This requires comparing employees with each other based in part on their past behaviors and accomplishments. Employee development involves assessing an employee's past actions to provide feedback and coaching to improve their future performance. It often avoids comparing people against one another, as this can trigger defensive responses that limit learning.

Workforce management is rooted in the belief that one of the best predictors of future behavior is past behavior, and people should be given future opportunities based on their past actions. Employee development is rooted in the belief that past behavior does not define future behavior, and people's future opportunities should not be limited by their past actions. These two beliefs about the influence of past behavior on future behavior directly conflict with each other. Both beliefs are also true, to a point. Balancing these conflicting beliefs is something I refer to as the "performance management dilemma."

Performance management is difficult because it involves evaluating and making decisions about employees based on their past contributions to the company, while also engaging and encouraging employees to improve their performance. Assessment methods that focus on comparing employees based on their relative performance can decrease employee engagement. Many people do not like being treated as though they are better or worse than their colleagues. But assessment methods that do not compare employees against each other provide little value for guiding staffing and compensation decisions where not every employee gets the same outcome. So how do we solve this? The answer starts by recognizing that performance management is not one process. It is a series of independent processes that must be linked together without becoming overly intertwined.

Performance management can be divided into three distinct parts: setting expectations, discussing progress, and assessing contributions. Each part involves a different set of activities and impacts performance through a different set of psychological pathways. At the same time, the way one part is conducted directly influences the effectiveness of the other two parts.

### PART 1: SETTING EXPECTATIONS AND ALIGNING GOALS.

This is about ensuring employees understand what they must accomplish and why these actions are important for the success of the organization and for achievement of their career goals. Do employees understand what goals they are expected to achieve and what behaviors they are expected to display? Do they know how their contributions to the company will be formally measured?

**PART 2: DISCUSSING PROGRESS AND SUPPORTING DEVELOPMENT.**
This is about helping employees understand how their current actions are influencing longer-term outcomes, and assisting them in changing their behaviors to be more successful. It is largely a function of how frequently and effectively employees and managers communicate about progress against expectations and review strategies to improve performance. This includes updating formal goals and job expectations to reflect changes in the company strategy. These discussions do not require making an overall evaluation of employee performance. But they must provide adequate performance feedback, so employees have a clear understanding of whether they are meeting, exceeding, or failing against different job expectations. Occasionally, they should include conversations about future career growth opportunities. Otherwise, employees may become disengaged due to a lack of focus on longer-term career development.

**PART 3: ASSESSING CONTRIBUTIONS AND MAKING TALENT DECISIONS.**
This is about ensuring decisions on where to invest compensation, staffing, and training resources are based in part on the contributions employees make to the organization. Investing more in employees who contribute more to the company is both fair and intelligent. And the best way to predict future employee contributions is to look at past performance. It involves defining how the company assesses performance contributions and clarifying how this information is used to motivate and retain talent, address counter-productivity, and guide actions to build the workforce. It also involves taking steps to ensure that pay and staffing decisions that tangibly impact people's careers are communicated to employees in a fair and meaningful way.

These three parts might be described as "tell me what you want me to do," "help me do it," and "recognize me for what I did." From a psychological perspective, the three parts serve very different functions. Part one is about focusing attention and creating motivation. Part two is about increasing self-awareness, building confidence, and enabling change. Part three is about making accurate decisions and communicating them in a way that increases feelings of engagement and equity.

Although these three parts are related and should influence each other, it is important to treat them as separate activities. A particularly common problem with many performance management processes is they link parts one and three too closely. Goals are treated primarily as a tool to guide future compensation decisions. The result is that employees set goals based on what they want to get paid as opposed to what the company needs to accomplish.

On the other hand, companies also encounter problems when there is no clear link between the different parts. This is particularly common for parts two and three. Many companies do not have well-defined, clearly communicated methods for making promotion and compensation decisions. If employees do not know how pay and promotion decisions are made, they can be reluctant to have coaching conversations with their manager, lest the information be used against them. Rather than actively engaging in discussions with their manager about how to address performance concerns, employees hide their developmental needs from their manager.

A key to effective performance management is striking the right balance between setting expectations, discussing progress, and assessing contributions. For example, the primary purpose of goals is to provide employees with role clarity and a sense of ownership over their work. Having clear goals also provides a foundation for effective feedback. In addition, there should be a connection between employee goal achievement and workforce management decisions related to compensation and staffing. However, employees should not feel the best way to get a pay increase is to set goals that are simple to achieve. Employees must be confident that the best way to achieve career success is to set difficult goals and then actively work with their manager to achieve them.

Many of the problems associated with performance management are a result of people treating it as a single process. It is actually three different processes that serve very different functions, but that must be connected to each other to be effective. Achieving the right balance of "separate but linked" can be difficult. The more people understand how the three parts of performance management are different yet related, the more effective they will be at managing performance overall.

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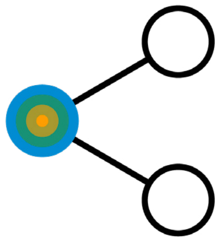

# Lesson 4: Performance Management is More About What You Create than What You Eliminate

I have seen a lot of impressive performance management transformations, but not all performance management transformations I have seen were successful. Many failed transformations had one thing in common: they focused more on what the company was eliminating than what it was building. The typical scenario would go something like this. HR leaders would tell employees they were getting rid of the company's performance rating process. These messages tended to be very specific about what was going away, but relatively vague about what was replacing it. Employees and managers initially responded positively since in the short-term it meant less work for them. Many managers also liked not having to hold difficult conversations with employees about performance. But over time employees became frustrated by the lack of clarity around how the company made decisions that impacted their careers. And leaders struggled to manage the workforce without any clear way to identify which employees were high performers. Before long, leaders started creating "shadow ratings" on spreadsheets or used compensation levels as a proxy for performance ratings. After about three years, the company reinstated a method to rate performance. In the mean time they had wasted a lot of resources, generated considerable confusion, and damaged employee confidence and engagement.

Performance management transformations are most likely to succeed when companies focus on what to create, not what to eliminate. This starts with recognizing that all companies carry out performance management in one way or another. Every company sets goals, provides ongoing coaching, and makes performance-based evaluations, even if these things are not done consistently or effectively. Companies with the most effective performance management processes tend to be those that thought through each part of performance management and identified changes that support their business objectives and culture. This involves addressing questions such as:

- How are goals currently set for employees? How should they be set going forward?
- What sort of coaching do managers provide to employees? How could this be improved?
- How does the company ensure decisions about pay and staffing are made in an effective and transparent manner? How is this decision-making process communicated to employees?

After addressing these questions, these companies provide managers and employees with the tools and resources needed to conduct performance management effectively – and then hold them accountable for using these tools appropriately.

Creating an effective performance management process is inevitably more about what a company creates than what it removes. Do not talk about what you are stopping. Talk about what you are starting.

# Lesson 5: Effective Goals Lay the Foundation for Effective Performance Management

There is a reason why setting expectations is the first of the three parts of performance management. 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 to effectively perform the other two parts of performance management – discussing progress and making talent decisions.

Most companies have some method for setting goals, but these methods are often more about process compliance than clarifying job expectations. The best methods for setting goals vary depending on the type of job and culture of the company. 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.** What people are striving to accomplish at work should never be a secret. 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 it 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.

# Lesson 6: Coaching Conversations Will Not Just Happen by Themselves

An objective of most performance transformations is to increase employee engagement and development. One of the best ways to achieve this is by improving manager-employee coaching conversations. However, creating effective manager-employee coaching conversations is one of the most challenging parts of performance management. Relatively few managers were promoted to manager positions because of their coaching skills, and coaching does not come naturally to a lot of people who hold managerial roles.

Aspects of performance management related to setting goals and making talent decisions tend to involve structured activities tied to external business processes, such as strategic planning or financial budgeting. Because they are linked to specific events, it is fairly easy to see if people are doing them effectively. In contrast, creating effective employee-manager coaching conversations is about ongoing habits and behaviors. The best coaching conversations tend to occur organically and flexibly throughout the year. The form they take and the frequency at which they occur often changes based on the needs of individual employees. Because coaching conversations involve ongoing weekly and monthly activities that are somewhat unstructured, they are more difficult to establish. It's a bit like the difference between joining an exercise class at a gym versus improving your diet. It is relatively easy to commit to actively participating in a weekly exercise class. It is far more difficult to ensure we make healthy food choices throughout the day. This is because one is about following a structured process, while the other is about changing ongoing habits and tendencies.

Like all aspects of performance management, there is no magic formula for improving the quality of ongoing manager-employee dialogue. However, most effective performance management programs have taken steps to address the following questions:

- **Do managers know what coaching is?** Managers may struggle to grasp how a coaching conversation is different from other conversations they are already having with employees. Managers tend to divide employee meetings into two general categories. "Check in" conversations where they discuss near-term 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. Planning conversations are only held a few times a year. When managers are asked to have more regular coaching conversations, they may assume this means they should have development planning conversations as often as they have check-in conversations. This makes no sense to them or anyone else.

Many managers do not understand that a coaching conversation is a third type of meeting that they may not have experienced very often in their own careers. Coaching conversations are somewhere between a check-in and a planning conversation. The focus is not on day-to-day tasks, nor is it on long-term career planning. The focus is on revisiting and clarifying expectations and performance in the employee's current role. The main question asked in check-ins is, "what did you get done recently?" The main question in development planning conversations is, "where do you want to go with 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 potential issues before they become actual issues."

- **Do managers know how to coach?** Many managers are anxious about coaching conversations because they think they involve awkward discussions about employee feelings, behaviors, strengths, and weaknesses. Coaching conversations can provide an effective forum for discussing these sorts of more sensitive topics. But most coaching conversations are more about role clarification and organizational support than employee behavior or attitudes. They often start with questions like, "Let's talk about the five or so major things you are working on. What is going well? What could be going better? What might we do differently to be more effective?" or "Are there any things going on in your job or in the organization that you do not fully understand or where you would like more clarity? Let's talk about some ways we might address this."

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. 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. It can also be beneficial if employees complete the same training on coaching and delivering feedback as their managers.

- **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. Few companies promote people to manager roles based on their coaching skills, and many companies put little emphasis on coaching when they evaluate the performance of managers. 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.

Employees also play an important role in setting expectations for their managers. Employees should be told that part of their manager's role is to provide them with coaching, and that employees are expected and encouraged to request coaching conversations with their managers. Most managers will try to accommodate requests from their employees for coaching conversations. And managers that do not do this should not be managers.

- **Are managers reminded to coach?** Most managers are expected to manage others and 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.
- **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 the most difficult objectives associated with performance management transformation initiatives. Most managers know they are supposed to provide coaching, but they struggle to do it. Many managers may not know what effective coaching looks like, since their own managers may not coach them. 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.

# Lesson 7: The Problem is Not Ratings, it is Poor Rating Processes

Previously, I explained that a company can eliminate formal rating processes, but it cannot stop leaders from rating people. That said, a lot of traditional rating processes are worthy of being eliminated and replaced by something else. I have seen countless examples of poorly engineered rating processes. Some are overly complicated while others are overly simplistic. One thing they all have in common is they fail to effectively reflect the true value of employee contributions.

The underlying problem with many performance rating processes lies in how they are conceptualized. People often talk about performance rating as though it were a process of measurement. Truth be told, performance rating is a process for making social judgements. Ratings should be influenced by objective metrics, but ultimately the rating assigned to an employee reflects the perceived value the employee provides to the company. When people argue with me on this point, I sometimes ask if they could provide a set of objective metrics and measurement formulas that could be plugged into a computer to automatically judge the value of their worth without any human involvement. No one has done it yet.

The performance of every job includes elements that do not lend themselves to purely objective measurement. Many things companies prize about high-performing employees are inherently difficult to measure objectively. These includes things like being collaborative, creative, committed, resilient, and agile. Furthermore, the weight given to any objective metrics used to calculate performance ratings depends on the leadership values of the company. For example, is a sales person who exceeds their quota year after year but treats colleagues disrespectfully a truly high-performing sales person? Some leaders might say yes, while others would disagree. Whether someone is rated as a high performer is ultimately based on a social judgment of the value they provide, not a measurement calculation. It's a bit like evaluating the value of your friends. There are objective metrics that might influence your evaluation, such as how often they make you wait for them or whether they ask to borrow money. But the actual evaluation relies on your subjective views about what behaviors and contributions really matter for a good friendship. The same concept applies to rating performance of employees. If the CEO thinks someone in the company is a high performer, then to some degree they are a high performer in that company regardless of what other measures you might have for assessing them.

The best rating processes recognize that performance is an inherently subjective concept. These processes do no try to engineer performance ratings using complicated mathematical formulas and weights. What effective rating processes do is create consistency and clarity in how subjective performance evaluations are made. These processes start with defining observable behaviors, specific goals, and other tangible metrics that should be considered when evaluating performance. They also encourage raters to consider input from multiple sources when evaluating employees (for example, coworkers, peers, customers, and direct reports). And most important of all, they require raters to explain and justify their rating decisions to peers to ensure that the way an employee is rated reflects what the employee has actually done, and not the idiosyncratic beliefs and perceptions of the person rating them.

# Lesson 8: Structured Conversations are More Effective than Structured Forms

A customer once shared this observation about their performance management transformation: "Instead of managers and employees taking time to write information into forms, we now use that time to have them talk about the information they used to be writing down." This company still captured information related to goals and performance ratings on forms, but the forms were highly simplified. The main purpose of completing forms was to ensure performance-related conversations were happening between employees and managers, and to capture critical items of information that would be used to guide future conversations and decisions about people.

Historically, many companies seemed to use performance management forms as a substitute for conversation. It was as if they believed they could make goal plans and performance appraisal forms so detailed that they could effectively capture employee job expectations and performance contributions without anyone ever talking to anyone else. This concept never worked. And it is completely ineffective in a digitalized world where the pace of change keeps accelerating and 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 conversations and decisions. Forms should be designed to aid discussion, not replace it. They should only capture the minimum level of information needed to support future dialogue and decision making. Whether the focus is on goals, development, or performance ratings, forms should never ask for information unless there is 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.

A particularly troublesome problem with performance rating forms occurs when companies try to use them to force managers to create distinctions between employees. For example, a company may require managers to rank their employees from most to least valuable. It is true that not all employees perform at the same level. But 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. This is one of the reasons why five-point rating scales tend to be more effective than four-point scales. They provide the ability to categorize employees as meeting expectations, even if they do not necessarily exceed them.

It is also possible, albeit unlikely, that all the employees on a manager's team perform at the same level. This is could particularly be true if the manager has a small team. 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 each team member is having on the success of the company. But this challenge should be done through dialogue and discussion with leaders and peers. It should not be done by creating a form that forces managers to make evaluations that may not reflect their honest beliefs about their employees. 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.

One of the most positive transformations occurring in performance management is the trend to replace individual manager ratings with group-based ratings created through talent review meetings. Annual performance review forms in which managers rated their employees was a hallmark of traditional performance management. But it rarely worked well. First, managers have a limited view of employee performance. In particular, they lack insight into how an employee's behavior impacts other members of the organization outside of the manager's team. Second, managers, like all people, have inherent biases and assumptions that can skew how they rate people. To address these challenges, companies are replacing individual manager ratings with group-based calibration sessions. These sessions involve meeting with managers and other organizational stakeholders to discuss 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 effective 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.

# Lesson 9: Ignoring Performance Differences is Unproductive and Unfair

Performance management would be much easier if everyone performed at the same level, if no one felt threatened by performance evaluations, and if it made sense to manage high-performing and low-performing people the same way. But all people do not perform at the same level, some people do react emotionally to having their performance rated, and how people should be managed does change based on their level of performance. A good performance management process constructively deals with the reality that some employees perform at higher levels than others. It is also avoids making people feel like they are losers because they have not performed at same level as their peers.

Classifying employees based on performance can be difficult. Some people will not like it no matter what you do. But many things we find difficult and may not enjoy are often good for us. Some HR consultants have suggested abandoning the use of structured methods to rate employee performance because it causes more harm than good. They argue that classifying employees based on performance can trigger unhealthy, "ego-threatening" responses in employees. Being told you are not a top performer might 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." These employees can accept being rated provided they understand the rating process, believe it is fairly applied, and are confident they can positively influence how they will be rated in the future. As discussed earlier, the question is not whether companies rate employees, but whether they do it in an accurate and transparent manner. And as one customer told me, "It can be stressful knowing that your performance is going to be rated. But it is even more stressful knowing that your performance is going to be rated, but not knowing how or when it is going to be done."

Ratings, when done well, do not focus on making some employees feel less valued than others. They focus on helping employees understand how well they are doing and ensuring that employees who are providing disproportionate value to the organization are recognized for it. The best rating methods avoid strict forced ranking, top grading, or other techniques that emphasize identifying and "weeding out" low performers. Instead, the best rating methods focus on identifying and understanding what drives high performance. These methods do not ignore issues of low performance when they occur. They also assume that it is possible to have a workforce where every employee is valuable, even though some employees are inevitably more valuable than others. And they provide ways to address employee under-performance without necessarily forcing employees out of the company.

Transparent and clearly defined rating methods help define the "rules of the game" by clarifying how the company makes decisions about pay and staffing that tangibly impact people's lives. Communicating rating methods allows 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 about what they need to do to be successful in the company. They know how they will be evaluated, who will evaluate them, and what data will be used to guide their evaluation. Note the emphasis on well-designed classification methods. Poorly designed classification methods can create more trouble than 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.

To be fully effective, performance management methods must include some form of rating. But the time and effort spent rating employees should vary depending on the type of job. Relatively time intensive, group-based rating methods are valuable for skilled jobs where high-performing employees often deliver multiple times the value of average employees. It is important to identify high performers in these jobs so they can be appropriately recognized, supported, and engaged. Similarly, it is critical to constructively address underperformers whose actions are negatively impacting the profitability of the company and the morale of their team mates. In contrast, the use of simple manager rating forms may be adequate for jobs where there isn't that much difference between high performers and average performers. This is often true in unskilled jobs or highly structured jobs where average length of service rarely exceeds a year (for example, many call center, frontline retail, and unskilled manufacturing jobs). There is no reason to place employees in different performance categories if it is not going to significantly change how the employees are managed. Although even in unskilled jobs, there is value in having methods to identify and address issues of under-performance. There may also be value in having methods to identify high-potential employees who might be promoted to higher level positions.

Ratings are a key part of a good performance management system. But they should not be the primary focus. Ratings are a bit like the scoreboard during a soccer game. What's on the scoreboard matters in terms of defining the outcome of the game. Players should be aware of the numbers on the scoreboard. But the scoreboard is not the focus when playing the game. The focus is on what's happening on the field, since the only way to influence the scoreboard is to influence the game itself. But do not pretend that the score doesn't matter.

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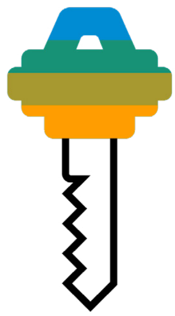

# Lesson 10: Performance Management Involves Three Distinct Types of Ratings

There is no value in classifying employees into performance categories unless it will change something about how the employees are managed. In fact, there are many reasons not to categorize employees unless it is necessary. That said, there are three specific reasons why companies need to categorize employees. Each requires using its own specific rating designed to support a distinct set of talent management activities.

### RATING PERFORMANCE: MANAGING DIFFERENCES IN EMPLOYEE IMPACT

The performance of employees reflects the impact they are having on the company's success. Some employees have greater impact than others. Some employees may even be negatively impacting the business. Rating performance provides data necessary to build a workforce that supports the needs and strategy of the company. This includes making talent decisions related to staffing and compensation, actively engaging employees who are positively impacting company success, addressing issues where employees are negatively impacting the organization, and using data to evaluate and improve hiring and training methods. Rating employee performance is critical to business success, but it can also be difficult. Performance is a complex concept. It can be defined in different ways based on past accomplishments, quantitative results, knowledge and skill levels, or any number of behaviors. Managers vary in how they evaluate employee performance and address performance issues. Many managers struggle when dealing with differences in employee performance, opting instead to treat all employees as though they had the same impact on the company. Performance rating methods help address these problems by defining common definitions and processes for assessing performance, and by fostering conversations that provide guidance about how performance differences are to be managed.

### RATING POTENTIAL: SUPPORTING EMPLOYEE DEVELOPMENT

To maintain organizational performance over time, companies must effectively support and invest in the potential of their employees. Accurately measuring employee potential is critical to guiding decisions related to training investments, job assignments, and retention incentives. Like performance, the concept of potential can be difficult to define. It depends on a range of factors associated with past performance, internal motivation, personal aptitude, and job qualifications. Structured rating processes help ensure assessments of potential are based on a common, organizational definition and not simply the untested judgment or "intuition" of individual managers. Using group-based calibration sessions to rate potential can also increase the visibility of high-potential employees and help identify opportunities to develop their capabilities.

### RATING FINANCIAL INVESTMENT: ALLOCATING COMPENSATION AND REWARDS.

It is appropriate to invest resources into employees based on the value they provide to the company. Rewarding performance and potential through merit increases, stock options, bonuses, spot awards, and other forms of financial investment can significantly increase workforce performance and employee retention. But performance and potential are not the only things that affect financial investment decisions. Current pay levels compared to the market, pay levels between employees in similar roles, previous pay increases, and perceived retention risk are all reasonable factors to consider when making ratings related to compensation. Ratings of performance and potential should influence financial investment ratings, but they should not be treated as the same thing. Compensation and reward processes should be kept distinct from processes used to rate performance and potential, yet remain linked to some degree.

There are several reasons to have different processes to categorize and rate employees based on performance, potential, and financial investment. First, people tend to make better decisions when they are focusing on one type of decision at a time. It creates confusion when people are asked to simultaneously judge an employee's impact in their current role, future potential in the organization, and how much money they should be paid. It may be efficient to rate multiple things at once, but the efficiency comes at the price of accuracy and effectiveness. Second, having different processes makes it possible to tailor rating methods to one specific purpose. This includes changing the individuals making the rating decisions, the criteria used for ratings, and the timing and steps in the overall process. For example, it may make sense to have one group of individuals rate employee performance, but have a different group rate employee potential. Or have a quarterly process for making decisions related to financial investment of bonuses, but a yearly process for rating employee potential. Third and most important, it makes it easier to establish a clear connection between ratings and how they will be used. People are more comfortable with ratings when they understand exactly why the rating is being made and how it will affect employees and the organization.

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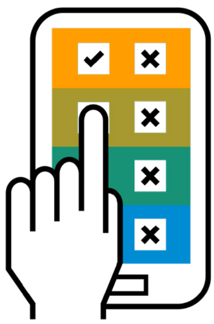

# Lesson 11: It's Risky to Give Managers too Much Autonomy Over Compensation Decisions

Any effort to improve performance management must address the topic of compensation at some point. Compensation decisions are a form of performance rating, since they involve placing employees into categories based on their perceived value to the organization. If you pay some employees more than others, then you are rating them. And companies cannot make effective decisions about pay without some standardized way to assess employee value.

I have encountered several companies that give managers a compensation budget and let the manager decide how to allocate pay across their direct reports with little-to-no supervision. Managers are not asked to make any rating of performance, nor are they required to explain how they make pay decisions. These companies are not able to measure whether manager pay decisions reflect actual employee contributions because they do not have any measure of employee contributions. The supposed benefit of this approach is that it is simple and avoids tensions caused by rating employees. But this approach is likely to create far larger problems. The following are a few reasons why allowing managers to make pay decisions without any formal oversight or justification is a bad idea.

- **Enabling poor pay decisions.** Allowing managers to make compensation decisions without justifying how they make them can result in bad pay decisions. If managers do not have a consistent and accurate process for evaluating employee performance, then they probably do not have a fair and equitable process for making pay decisions either. And the company will never know how bad these decisions are because they have no way to determine if manager pay decisions are associated with employee job performance.

- **Avoiding difficult conversations.** One thing managers think about when making pay decisions is how employees will react when they learn what increase they are receiving. Difficult discussions can occur when employees do not get what they feel they are entitled to receive. Strong managers accept these conversations as a necessary but challenging part of being a good leader. Weak managers try to avoid these conversations. If managers don't have to justify pay decisions based on performance criteria, then they may make pay decisions that make their lives easier in the short term, but lead to bad long-term outcomes. Consider the following scenario. A manager has two employees, Bill and Sue. Sue is a high performer who often exceeds expectations. She also keeps her calm and does not overly complain when things don't go her way. Bill is a solid employee with specialized technical skills. His work is important for the company, but his performance is about average. He is also difficult to get along with when things do not go his way. The manager knows Sue deserves a higher raise than Bill. The manager also knows that Bill is going to cause trouble if he does not get the raise he believes he should receive, even if he does not deserve it. In contrast, Sue will probably not complain if she does not get the raise she is hoping for. Her willingness to look past disappointment is one reason she is such a high performer. Will this manager make the right long-term decision and give Sue more than Bill, even though it means having a tense conversation with Bill about his mediocre performance and negative attitude? Or does the manager make the easy short-term decision to pay Bill and Sue the same amount and keep things calm? If the manager is not held accountable for paying for performance, then just giving the same increase to everyone is the easier way to go. The result is that Sue may eventually quit to join a company where managers will recognize her contributions and she will no longer have to put up with Bill's poor behavior.

- **Frustrating high performers.** Most high performers like being rewarded for their contributions. Removing the formal connection between performance and compensation is likely to demotivate these people. Even if high performers do not desire a lot of personal recognition, they may still be frustrated if lower performing colleagues are getting pay raises equal to the ones they receive. In contrast, low-performing employees may prefer a compensation process that does not link pay to performance. In sum, failing to pay for performance decreases engagement and retention of high performers while increasing engagement and retention of low performers. This is not a good formula for increasing overall workforce productivity.

- **Creating biased pay decisions.** Research has shown that people often have an implicit bias to pay women less than men, and that women tend to be less willing to argue for higher pay compared to men. The best way to avoid a pay bias against women, or any other demographic group, is to ensure pay decisions are based on clearly defined performance criteria. Allowing managers to make pay decisions without some method to ensure these decisions reflect actual employee value greatly increases the risk that compensation levels will be biased based on employee age, race, or gender.

It is surprising that companies allow managers to make pay decisions without any method to ensure these decisions reflect actual employee contributions. Given the costs associated with compensation, one would think company leaders would want to make sure this money was being spent effectively. I have worked with several companies that are exploring ways to ensure this is happening. The most extreme example of this are companies where managers do not make pay decisions at all. Instead, pay decisions are made by leadership teams that look at recommendations made by managers along with other factors related to the company's long-term business strategy and internal and external pay equity. Two interesting things happen when leadership teams make compensation decisions instead of individual managers. First, pay decisions reflect a more holistic view of the workforce and the company's long-term strategy. Second, managers do not have to defend compensation and staffing decisions to their employees. They may have to explain the decisions, but they can remain on the same side as the employee in this conversation. It is a bit like conversations managers and employees have about obtaining budgets to fund work projects. The manager and employee both want to get the resources they believe they need and deserve, and they work together to provide information to the company to justify their request. But neither the manager nor employee ultimately makes the decision. As a result, discussions about compensation are less likely to devolve into tense arguments between employees and managers. One company that took this approach talked about managers being "advocates" who argue in support of their employees' interests and career goals. Managers can fully embrace this role because they do not have to make compensation decisions that require favoring one employee's goals over another's.

Methods that create a clear link between pay decisions and employee value increase workforce productivity by investing more resources in those employees who will provide the greatest return. It also increases employees' sense of engagement and equity because they understand how compensation decisions are made and how they can influence them. There are many ways to create links between employee ratings and compensation decisions. The most common is to have managers rate employee performance, and then create a recommended range for compensation increases based on different performance categories. For example, high performers might be eligible for 3% to 6% increase while average performers are eligible for a 2% to 4% increase. This creates a link between performance and pay, but allows leeway for pay to also be influenced by other factors unrelated to performance such as retention risk or market equity. Another method is to link rewards to the value of goals accomplished by employees, or make pay decisions using measures of employee potential and criticality for future business operations. Whatever methods are used, the key point is to demonstrate the relationship between how employees are paid and the contributions they make.

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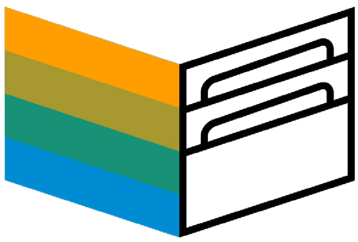


# Lesson 12: The Best Way to Improve Performance Management Data is to Use It

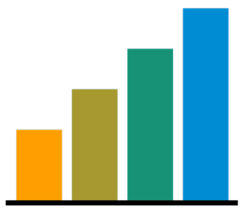
People often criticize performance data for failing to accurately capture employee contributions and capabilities. Performance management data is viewed as being too subjective or incomplete to be useful. These are valid concerns for a lot of performance management data. One of the best ways to address 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, 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 that data came from these people themselves. If leaders and employees want the company to use better quality performance data to make workforce management decisions, then they must provide better quality data about performance.

The more companies use performance management data, **the more the quality of the data will improve.**



# Lesson 13: More Transparency is Better than Less Transparency

Employees should understand how the company makes decisions about pay, job assignments, and promotions that tangibly impact their lives and careers. Yet it is common to hear employees admit to not knowing exactly what it is they are supposed to be doing at work or why it matters. And many employees are unable to explain how compensation and promotion decisions are made in their company. If people do not know how the company assesses job performance or how it makes decisions associated with staffing and pay, they cannot effectively manage their own careers. These sorts of problems can only be solved through greater transparency.

Transparency about performance management requires clarity and honesty. Clarity is needed around how the company defines people's roles and evaluates their contributions. And there must be honesty about how the company makes decisions related to pay and staffing. The reason many companies lack transparency is because they do not follow clear, consistent, and fair processes when it comes to evaluating employees and making pay and promotion decisions. This is one reason there are so many problems related to gender equity and bias. One of the best ways to improve performance management is to create a culture of transparency around how talent management decisions are made. This does not mean creating highly evaluative or competitive environments where people are pitted against one another. It just means being honest about how the company makes decisions about people.

If done right, transparency will increase engagement, collaboration, and commitment. Employees appreciate knowing that though they may be different, they are all evaluated using the same consistent, well-defined, and equal methods, and that achieving career success in the company does not depend on hidden politics and backroom conversations, but on honest and constructive discussions about what you contribute, how you act, and where you want to go.

# Lesson 14: Performance Management is About Changing Mindsets and Changing Processes

Process redesign is an important part of transforming performance management methods. But equally if not more important is changing the mindsets needed to make these new processes work. The following are four specific shifts in mindset that are critical to enabling successful performance management transformations.

- **Evaluation and development are complementary.** Some people in HR have suggested that to increase ongoing development conversations, companies need to eliminate or hide formal performance ratings. In my experience, the opposite is true. If you want people to engage in more 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 and interested in talking with managers about development when they know how these conversations will influence decisions related to pay and staffing that impact their careers. The development strategies employees use tend to reflect the kind of evaluation processes used 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 on 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 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."

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 as 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.

A key part of transforming performance management is t**ransforming people's view** of performance management

# Lesson 15: The Best Performance Management Processes are Never Good Enough

In my experience, any person that claims to have created a perfect performance management process probably does not have a very effective process. The process may look good on paper, but invariably its actual application is far less impressive than the person would have you believe. In contrast, people whose companies have some the best performance management processes I've seen tend to be the first ones to point out what they could do better.

We will have truly fixed performance management when company leaders are able to accurately identify and agree on 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 feel bad, quit, or call their lawyers. It is hard to imagine ever truly achieving such a challenging goal. Performance management is something every company can always get better at. And the better companies get at performance management, the more they tend to spot additional opportunities to improve. As a rule, companies with the best performance management processes constantly modify these processes.

The best performance management process for a company changes over time. Methods that work in a fast-growing company may not be as effective in a company going through a financial downturn. Changes in a company's business market, operational processes, or strategy can all trigger the need to adapt the methods used for performance management. Companies might also need to change their processes to reflect changes in the attitudes of employees caused by shifts in the external labor market. The use of forced ranking is a good example. Forced ranking methods were very popular during the 1990s. Their popularity was due in part to their use by two of the most successful companies during that era. The first was a software company and the other was global manufacturing company. The forced ranking methods used by these companies undoubtedly had flaws, but one would be hard pressed to say they were not working at all. Both companies were growing at record pace and had little trouble attracting and retaining talent. But as the economic conditions and labor markets changed, the forced ranking processes that worked for these companies in the 1990s became increasingly counterproductive. Leading both companies to replace them with less competitive forms of performance management.

Many people talk about HR processes using the analogy of building a house. We start by defining what the process should look like and then build it with the assumption it will not change much over time. I believe a much better analogy for performance management is cultivating a garden. We plan the major features in a garden, but a garden is not something that is ever finished. It is something that is shaped and grown over time. Occasionally we must make major changes to core features that cease to add the value they once did. A tree that no longer bears fruit may need to be removed, or we may need to cut back a vine that has grown too rigid and is limiting the growth of other plants. So it is with performance management. An effective performance management process is not something a company has, it is something that a company lives.

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