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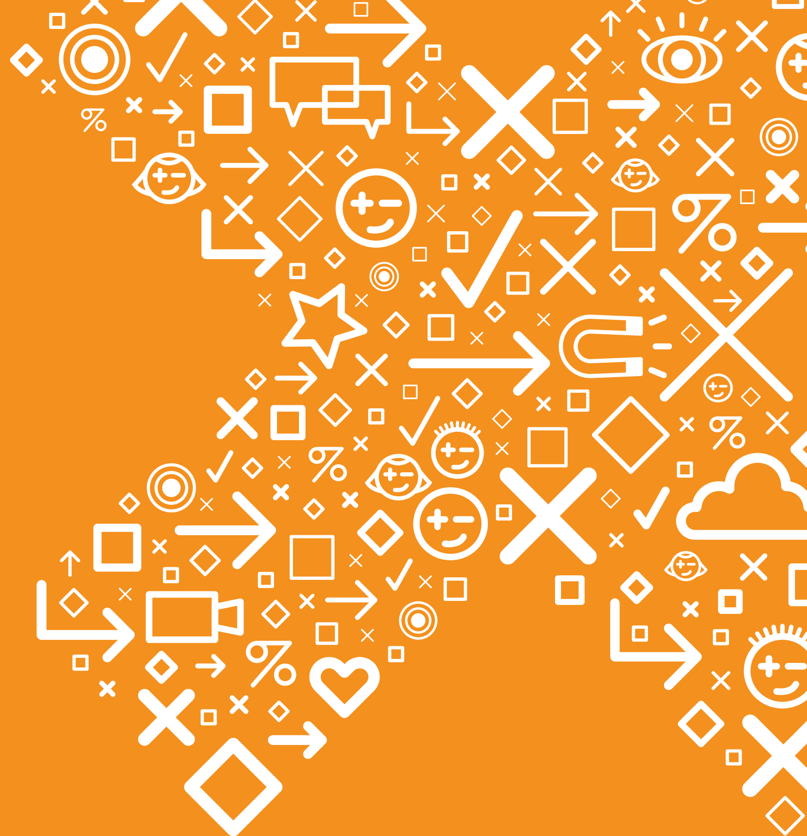

Doing Things the Right Way:

Using Performance Management to Increase Business Execution

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Abstract

This paper discusses how to use performance management to increase workforce productivity and capability. Performance management is broadly defined as processes that evaluate employee effectiveness to support actions related to coaching, staffing, compensation, and development. Many performance management processes are criticized as lacking business impact, creating unnecessary administrative overhead, and negatively effecting employee attitudes. But if done correctly, performance management is a powerful method for creating highly engaged, efficient, and productive workforces. The key lies in how performance management is designed and used.

This paper is based on empirical research[1] studying employee performance combined with SuccessFactors' experience with over 3,500 organizations implementing performance management technology. The paper is organized into four main sections. The first discusses the impact performance management has on business performance. The second discusses why performance management is difficult to do well and how to approach the topic of performance management at a general level. The third section discusses seven fundamental questions to consider when designing performance management processes. The last section discusses different levels of performance management process maturity and how to create a long-term roadmap for achieving performance management excellence.

This paper can be read as a single document or as a reference guide for specific performance management topics. A detailed table of contents is provided to quickly locate the parts of the paper that are most relevant to your particular needs. There is a reason this paper is so long. Designing and deploying effective performance management processes is not easy. It requires addressing highly sensitive topics related to measuring the contributions of individual employees and making decisions about pay, promotions, and employment. Creating a successful performance management program requires attending to multiple big picture strategic issues and a multitude of very specific process details to ensure it fits the culture and needs of your company.

There is no such thing as a neutral performance management process. People will either like it or dislike it. This paper addresses major issues that differentiate performance management processes that are used to drive business execution from those that are treated as ineffective, unpleasant, administrative exercise. The key lies in thinking through the questions discussed in this document and designing a process that makes the most sense for your company.

[1] For a sample of this research see "Performance Management: Putting Research into Action" by J. Smither & M. London. Hundreds of rigorous research studies investigating employee performance have been published in peer-review academic journals, but sadly most popular discussions of performance management pay little attention to this valuable source of knowledge.

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Doing things the right way: Using performance management to increase business execution

"Performance management" refers to processes used to communicate job expectations to employees, evaluate employees against those expectations, and utilize these evaluations to guide talent management decisions. Performance management is used to assess how much value employees contribute to the organization, support decisions related to workforce staffing, compensation and development, and provide employees with coaching to increase their effectiveness. Performance management encompasses a variety of activities including talent reviews, calibration sessions, pay for performance plans, performance feedback, and other methods that measure employees based on the degree to which their actions and accomplishments align with the expectations and objectives of the company. Performance management is fundamentally about ensuring employee are doing the right things the right way, and is central to driving business execution in any organization.

Performance management is not a new concept. Systematic processes for evaluating and improving employee performance have been used for centuries. Ancient writings suggest that King Nebuchadnezzar used a form of performance management in the 5th century BC to build the Hanging Gardens of Babylon. Despite or perhaps because of its long standing use, performance management is frequently criticized as a process that is neither enjoyable nor effective. A recent Google search on "problems with performance management" returned over 21 million (!) separate entries. Many criticisms level particularly harsh accusations at performance appraisals. This is the portion of performance management focused on evaluating individual employee contributions. Some critics urge companies to abolish performance appraisals and scrap performance management altogether. Such extreme condemnations of performance management are misguided (for more discussion see the sidebar "Why claims to abolish performance appraisals are wrong and dangerous"). Nevertheless, it is reasonable to ask why people have such negative attitudes toward performance management. It's been around for thousands of years and is used by almost every company. You'd think by now we would have all figured out how to do it well!

There are two reasons why performance management is so hard. The first has to do with the basic goal of performance management. To be effective, performance management must differentiate between more and less effective employees. Deciding whether someone is doing their job the right way is an extremely sensitive topic. It is probably the most sensitive topic in all of human resources. Rather than explaining the psychological reasons for this, let us do a quick self-reflective exercise. Imagine you were given the following feedback by your boss (for the record, I am not advocating that these statements represent highly effective, constructive feedback):

a. "You are not getting the job you applied for because it does not seem like the right fit."

b. "You are not focusing on the things that matter most to this company."

c. "You are not performing your job effectively compared to your co-workers."

d. "You need to develop these skills and experiences to move to the next level of performance."

Of these statements, which one would you least like to hear from your supervisor? My guess is all of them felt somewhat unpleasant. Yet all four statements reflect the kinds of comments that will arise from the use of rigorous performance management at one point or another. Performance management is fundamentally about creating processes that allow managers and employees to have discussions around these types of topics in a way that makes people feel engaged, motivated, and fairly treated. This is not easy.

The second basic problem with performance management is the actual concept of performance management is poorly defined. Performance management programs mix multiple, conflicting objectives related to coaching, evaluation, compensation, staffing and development altogether into a single process. This can lead to processes that don't do anything particularly well, except giving employees and managers something they can all complain about. The key to designing effective performance management processes is to clarify exactly what the process is expected to accomplish. Only then can companies make appropriate design decisions to ensure that performance management does what it is intended to do.

This paper discusses core design principles and questions that underlie effective performance management. The paper contains several "best practice" guidelines for elements of performance management design such as rating scale structure, use of competency models, and conducting calibration sessions. But as we will see, there isn't just one best way to conduct performance management. The best performance management process is the one that best matches the unique business requirements and cultural aspects of your company Section 1 starts by discussing why companies need performance management processes and what is required to build high performance work environments. Section 2 discusses the fundamental conflicts inherent in performance management design and how to balance them. Section 3 reviews seven critical questions for designing and implementing performance management processes. This includes critical training and change management issues that must be addressed for these processes to be effectively adopted. Section 4 describes five levels of performance management maturity and methods for achieving each level.

Section 1. Why do we need performance management?

Performance management is used to ensure people are performing their jobs in the right way. Performance management involves collecting information about employee' past behavior and achievements and using it to motivate, coach, develop, promote and retain high value employees while addressing issues with underperforming or counterproductive employees. Every company practices performance management, even if they do not have an official performance management process. Without some form of performance management a company would simply be hiring people and hoping they did their jobs effectively. The question is not whether your company uses performance management, it is whether your performance management methods are appropriately designed, clearly defined, consistently applied, and effectively utilized to support the needs of your organization.

A good performance management process allows companies to make critical talent decisions in a way that is transparent, consistent, and well-aligned to the company's values and strategic goals. If a company says "we don't value performance management", what they are actually saying is they don't value having well defined beliefs, standards and methods to make critical decisions about who to pay, promote, develop, and fire. They still make these decisions – but they do not clearly define and communicate how these decisions are made. And in all likelihood, how these decisions are made is probably inconsistent, highly subjective and varies widely from one manager to the next.

Research has shown that companies that use rigorous, well-defined performance management processes to evaluate and make decisions about employees tend to be more successful (see the sidebar "Why claims to abolish performance appraisals are both wrong and dangerous"). The value of performance management is rooted in one of the most basic laws of psychology: to effectively increase performance people need feedback on how their past behaviors and accomplishments are similar or different from the behaviors and accomplishments that define optimal performance. This feedback can be given directly based on a person's past performance or indirectly by allowing employees to observe what actions influence the performance of their peers. There are many methods for collecting and delivering performance feedback, some which are more effective than others. But consistently providing some form of performance feedback is necessary to increasing workforce productivity in an effective and sustainable manner.

The main benefit of performance management comes from increasing workforce productivity. There are also significant risks associated with not having well designed performance management processes. Companies that lack effective performance management processes lose top talent because they fail to recognize and reward high performing employees. They are also likely to suffer financial losses resulting from allowing people to perform their jobs in an incompetent or counter-productive manner. Last, companies that do not use standardized performance management methods to guide pay, promotion, and termination decisions often place themselves at considerable legal risk [2] (Auguinis, 2007).

[2] Aguinis, H. (2007). Performance management. Pearson Prentice Hall: Upper Saddle River, New Jersey. Eichinger, R.W., Lombardo, M.M., & Ulrich, D. (2006). 100 things you need to know: best people practices for managers & HR. Lominger

In sum, performance management helps maximize workforce productivity, minimize costs associated with employee underperformance, and manage risks associated with fair and consistent personnel decisions. Companies need performance management to systematically and effectively:

- Increase productivity by ensuring employees are given feedback and incentives that help them learn from experience and motivate them to increase their effectiveness.
- Identify and address employee behaviors that may be limiting or damaging organizational productivity and draining organizational resources
- Attract and retain high performing employees through encouraging, recognizing and rewarding performance contributions.
- Provide a clear, consistent, and defensible set of standards for making decisions that impact employee welfare such as pay and termination.
- Comply with legal requirements and cultural expectations related to fair and consistent evaluation of employee contributions.

Effectively achieving these results depends on appropriately designed and deployed performance management methods.

Section 2. Balancing the conflicting goals of performance management

Maximizing business execution requires implementing processes that ensure the right people are in the right roles doing the right things in the right way to deliver a company's strategic initiatives. Performance management plays a central role in business execution by providing employees with clear performance expectations, accurately evaluating employees against those expectations, and guiding decisions about staffing, compensation, and development to maximize workforce productivity. At its core, performance management is about making sure people are doing what they have been hired to do and investing in them according to the contributions they have made to organization. Performance management plays a central role in an integrated talent management process by providing tools to communicate expectations, evaluate behaviors and accomplishments, and support decisions based on employee job performance. Performance management begins with evaluating past performance to ensure people are doing the right things the right way. It ends with ensuring the right people are in the right jobs and getting the right development for what the company needs them to do tomorrow.

If performance management is so critical to business execution, why do people constantly complain about performance management processes? The difficulty of performance management design is it requires attending to a wide range of issues each of which can significantly undermine the value of overall process. The single biggest challenge is companies want performance management to support different activities that don't necessarily align well with each other. These include:

- **Evaluating performance** to take accurate stock of workforce quality and capabilities. Evaluating performance is about accurate measurement. It requires using well structured, consistently defined methods to rate and categorize employees based on their performance levels. The most accurate performance evaluations are done by people other than the person being evaluated. Most of us simply aren't good at objectively and accurately evaluating our own effectiveness, particularly when it involves comparing ourselves to others. This is the reason most companies do not allow employees to evaluate their own performance without some form of manager review.
- **Sharing performance feedback** so employees know how well they are performing and understand the gaps the must address to increase their effectiveness.
- **Coaching employees** to increase workforce alignment and productivity. Coaching involves creating dialogue and discussion between managers, employees, and their co-workers. It is best done on an ongoing basis, without a formal performance evaluation or numerical rating.
- **Talent management** to ensure decisions about staffing, promotions, pay, and terminations take into account employees' performance. Linking pay and staffing decisions to performance helps strengthen the company's overall workforce. It is rooted in the belief that companies should invest more in those employees who contribute the most to the company's success. Allocating resources based on performance drives engagement and retention of high performing employees, inspires average performing employees to strive for higher levels of performance, and drives low performing employees out of the organization.

Supporting all four activities through a single performance management process is difficult because it requires balancing competing interests. The most challenging conflict is creating performance management processes that emphasize evaluating and identifying high and low performers, while simultaneously giving all employees a positive, constructive coaching experience. The goal of sharing performance feedback and coaching employees can directly conflict with the goal of evaluating performance. In fact, the accuracy of manager evaluations of performance often improves if their evaluations are not shared with employees. Performance management would be easy if everyone

performed at the same level, or if people were coldly logical and never felt insulted or threatened by low performance ratings or acted overly entitled because they received a high rating. But people do not perform at the same level and it is important to differentiate between employees based on their relative contributions. Similarly, people do react emotionally to performance evaluations and it is important to ensure employees do not feel like "losers" just because they received a lower performance rating than some of their peers.

A recurring theme through this paper will be finding ways to balance the need to have accurate measures of performance that compare employees against one another against the desire to create non-threatening coaching dialogues between employees and managers that emphasizes development over evaluation. The best way to do this is to approach performance management as a series of interconnected sub-processes. Part of the process focuses on evaluating employees as accurately as possible, while another focuses on providing employees with performance coaching and feedback to support development. A third part focuses on using performance data to guide how the company invests it financial resources in terms of staffing and compensation decisions. Methods used to support employee coaching and feedback should not be totally independent from methods use to guide employee evaluation, pay and staffing decisions. However, there are times when steps supporting one performance management objective should be clearly and intentionally conducted separately from steps supporting a different objective.

Sidebar: Why claims to abolish performance evaluations are wrong & dangerous

Most attempts to achieve weight loss through dieting fail. Does that mean dieting is an ineffective way to lose weight? Should people ignore their diet and just focus on exercise? No, of course not. Many people struggle to follow healthy diets and so this weight loss technique doesn't always work well for them. But just because it's difficult to manage what we eat, does not mean we should ignore our diet altogether. This analogy applies directly to claims that performance evaluations do not work, are hated by employees and managers, and should be completely abolished and replaced by performance coaching methods.

Do performance evaluation processes improve organizational performance?

Rigorous empirical research shows that performance evaluation processes do work when they are appropriately designed and deployed. The following is a small sample of evidence from researchers who have studied this topic[3]. With the exception of Eichinger et al., these are from academics that to my knowledge have no financial interest in what sort of talent management process or technology your company chooses to buy. Some excerpts are taken from peer review journals and have some-what confusing language and terminology. But it is important to present these quotes verbatim to emphasize that these are research findings – not personal opinions.

[3] Aguinis, H. (2007). Performance management. Pearson Prentice Hall: Upper Saddle River, New Jersey.
Eichinger, R.W., Lombardo, M.M., & Ulrich, D. (2006). 100 things you need to know: best people practices for managers & HR. Lominger Limited Inc: Minneapolis, MN.
Scullen, S.E., Bergey, P.K., & Aiman-Smith, L. (2005). Forced Distribution Rating Systems and the Improvement of Workforce Potential, Personnel Psychology, 58, 1-32.
Bloom, N. & Van Reenen, J. (2007). Measuring and explaining management practices across firms and countries. Quarterly Journal of Economics, 122, 1341-1408.

"A performance management system can make the following important contributions: motivation to perform is increased, self-esteem is increased, managers gain insight about subordinates, the definitions of job and criteria are clarified, self-insight and development are enhanced, administrative actions are fair and appropriate, organizational goals are made clear, employees become more competent, there is better protection from lawsuits, better and more timely differentiation between good and poor performers, supervisors' view of performance are communicated more clearly, organizational change is facilitated."

Aguinis, 2007 page 4.

"Researchers have begun to try to determine the return on investment of... using better selection methods, better training and development, and better performance management applications...at this time, the order from most to least is rigorous performance management, then training and development, then selection... So the fastest way to improve performance of any unit is to set rigorous performance standards and get rid of those who do not measure up."

Eichinger et al., page 208.

"Results suggested that forced distribution rating systems of the type we simulated could improve the performance potential of the typical organization's workforce and that the great majority of improvement should be expected to occur during the first several years."

Scullen et al., page 24

"The practice evaluation tool [measures the use of] eighteen key management practices... The monitoring section focuses on the tracking of performance of individuals, reviewing performance (e.g., through regular appraisals and job plans), and consequence management (e.g., making sure that plans are kept and appropriate sanctions and rewards are in place)... better management practice are strongly associated with superior firm performance in terms of productivity, profitability, Tobin's Q, sales growth, and survival."

Bloom & Van Reenen, pages 1361 & 1391

Research shows that a well-designed and implemented performance evaluation process is a key part of a high performance organization. But research also shows that performance evaluation is a "double edged sword".

"Some negative consequences associated with low-quality and poorly implemented systems [include] increased turnover, use of misleading information, lowered self-esteem, wasted time and money, damaged relationships, decreased motivation to perform, employee burnout and job dissatisfaction, increased risk of litigation, unjustified demands on managers' resources, varying and unfair standards and ratings, emerging biases, unclear ratings system."

Aguinis, 2007 page 7

A well-designed performance evaluation process significantly improves workforce productivity, but a poor process can severely hurt productivity. The key question is not whether to do performance appraisals, but how to do them in an effective manner.

Should we stop doing performance evaluations because people don't like them?
Claims that we should do away with performance evaluations because people don't like them are misguided. First, it is misleading to say that people hate performance evaluations. To the contrary, many employees express frustration when their company delays or fails to conduct their performance review. People want to know how they are performing on the things that impact their career success. What is more accurate is that people don't like poorly designed performance evaluation processes. This is not the same as not liking any performance evaluation process. Second, just because some people may not like something is not adequate reason to stop doing it. Most people I know don't particularly like going through the financial budgeting process, but that doesn't mean we should stop creating budgets. Whether people like it or not, having a consistent performance evaluation process is critical to effective, efficient, and fair workforce management.

Should companies replace performance evaluations with performance coaching?
Performance evaluations are an important component of an effective performance management system, but they are only one component. Another equally critical component is performance coaching and dialogue. Just because a company has a good performance evaluation process, does not mean it has a good overall performance management process. Companies need both accurate evaluations and effective feedback and development to maximize workforce productivity. Just like you need to focus on both diet and exercise to maximize your health, performance evaluation and performance coaching are two separate but interdependent processes that both contribute to workforce productivity. Each is valuable in different ways, and one should not be used to replace the other. The best results are achieved through using both in a coordinated fashion.

Can performance evaluations be improved? Absolutely! Are many performance evaluation processes currently used by companies causing more harm than good? Probably! Should companies invest more energy into creating better performance coaching and dialogue? Without a doubt! But this doesn't mean performance evaluations don't work. Recommendations to eliminate performance evaluations are misguided and harmful. Performance evaluations add tremendous value when they are appropriately designed and implemented. The focus should not be on abolishing or replacing them. The focus should be on how to improve their design, use, and impact.

Section 3. Critical performance management design questions

There is no one best way to do performance management. What works well for a regional healthcare organization might be inefficient for a multinational software company. Processes appropriate for front-line hourly retail employees would be totally ineffective for senior executives. Organizations with rapidly growing workforces and expanding markets may need different methods than organizations with aging workforces or shrinking markets. Fully leveraging the power of performance management requires designing a process that make the most sense given your particular business needs, organizational culture, employee population, and resource constraints.

Companies that have effective performance management methods have spent a lot of time thinking through a variety of questions about process design. This starts with a appreciating the impact performance management has on the company's bottom line. Performance management guides influential decisions about pay, promotion, and employment that have a major impact on workforce productivity and engagement. Getting performance management right requires looking at the big picture and the small details. These range from high level concepts like "how should performance evaluations influence pay decisions" to detailed features like "how many points should we have on the performance rating scale". The reason many companies struggle with performance management is they simply haven't put enough time critically thinking through key process design questions. Creating the right performance management process requires spending time thinking about what "right" looks like for your company.

The following questions are central to the design of effective performance management processes:

1. What are the primary objectives of your performance management process?
2. How do you define effective performance?
3. How will you evaluate performance?
4. How will you calibrate performance?
5. How is data from performance evaluations used? What is the relationship between performance evaluations, pay, promotions, development, and workforce strategies?
6. How frequently do you measure performance? How does performance management fit into your broader business cycle?
7. What training do managers, employees and human resources personnel need to effectively utilize your performance management process?

The answers to these questions depend on your company's particular business strategies, the nature of its workforce, and its current talent management processes. The answers vary considerably from organization to organization and failure to adequately address any of the questions can result in a sub-optimal performance management process. With that in mind, let's take a more detailed look at each question.

Question 1. What are the primary objectives of your performance management process?

Developing an effective performance management process requires balancing different and potentially conflicting process objectives (see sidebar "Evaluating performance for classification vs. development"). Methods that strongly emphasize identifying high and low performers can hurt efforts to support development of individual employees. Performance management processes designed to comply with legal regulations associated with pay, promotion, and termination decisions may have little impact on employee behavior or development. Performance management processes that provide rich, behaviorally descriptive data to support performance coaching can have little value for guiding pay for performance decisions.

The key to balancing different elements of performance management design is to

1. Prioritize the objectives you want to support through the process and make process decisions with these different objectives in mind.
2. Recognize that processes that support one objective may negatively impact another, and modify your process design decisions accordingly.

Table 1 illustrates trade-offs associated with performance management process design. No performance management process can support every objective in Table 1 equally well. If you want to increase alignment you need to sacrifice efficiency. If you want to maximize efficiency you need to make sacrifices to productivity, alignment, or scalability. The art of performance management design lies in balancing these tradeoffs based on your organization's business needs. This starts by ordering the goals of your performance management process from most to least important. Is the purpose of performance management to improve identification of high performers, support pay decisions, guide staffing and succession decisions, create coaching dialogue, support career development, ensure legal compliance, or something else entirely? How you answer this question will influence how you answer subsequent more detailed performance management design questions.

Table 1. Performance Management Process Objectives, Element and Tradeoffs

Objective If you want to increase:	Element …then emphasize	Tradeoff …but this may negatively impact
Alignment around common goals and strategies	• Processes for setting, cascading and aligning goals • Highly detailed competency models that provide clear, behavioral definitions of performance for different roles	• Process efficiency by adding time to the goal setting process and increasing the complexity of performance appraisals.
Productivity by maximizing individual performance	• Rigorously evaluating employees against well-defined standards • Calibration methods that compare employees against one another • Differentiating high from average and low performers through pay, promotion, staffing and development decisions • Rigorous use of performance improvement processes to manage out underperformers	• Process efficiency by adding time to the evaluation process • Scalability & Sustainability unless care is taken to also collect developmentally valuable performance data • Governance by increasing risk of complaints about unfair pay and performance decisions
Efficiency by streamlining processes	• Short, targeted definitions of performance • Minimal use of second level reviews and peer input • Eliminating requirements related to ongoing evaluations or providing developmental feedback	• Alignment by decreasing the information contained in performance definitions • Productivity by decreasing the rigor and accuracy of performance evaluations • Scalability and sustainability by removing developmental content and activities from the process
Scalability and Sustainability by retaining and developing employees	• Behaviorally descriptive competency models that define different levels of performance • Assigning business goals to employees based in part on developmental needs • Collection of qualitative, descriptive performance data • Extensive opportunities to create employee-manager dialogue	• Process efficiency by adding length and complexity to the performance management process • Productivity unless efforts are made to also collect rigorous evaluations that compare performance across employees
Governance by instituting standardized evaluation processes	• Simple, standardized and easy to follow performance methods • Clear definitions of effective and ineffective performance • Clear links between performance management data and pay and promotion decisions	• Scalability and sustainability by decreasing the emphasis on collecting qualitative, behavioral performance data • Productivity if managers are not allowed to significantly differentiate between employee pay and promotion decisions based on performance

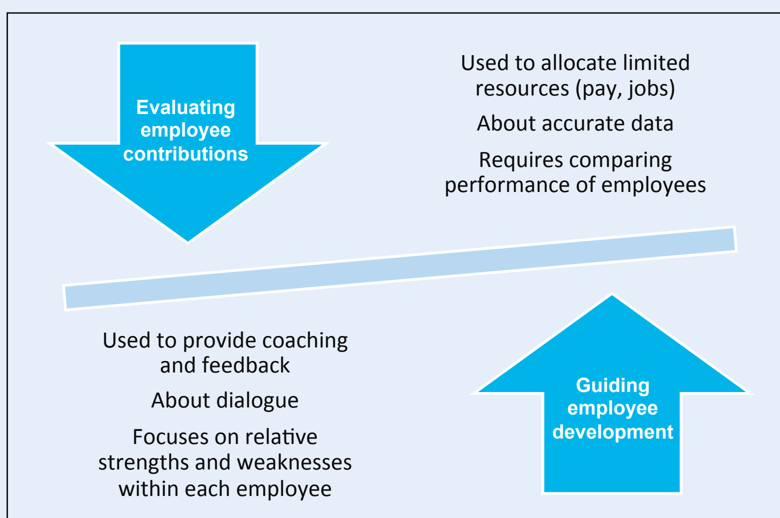
Sidebar 2: Evaluating performance for classification vs. development

Figure 1 illustrates a conflict that is central to performance management design. This conflict is rooted in the desire to use performance management processes for the following two related but somewhat conflicting goals:

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

Development: Assessing employee performance to provide coaching feedback and advice to increase effectiveness.

Figure 1. Balancing evaluation and development



Both objectives require evaluating employee job performance. But how employees should be evaluated is different depending if the focus is on classification or development.Classification decisions require comparing employees against one another to determine which employees deserve higher pay raises, development resources, or promotion opportunities. Performance evaluations used for classification emphasize ratings and normative assessments where performance is assessed by comparing employees against one another. This does not mean strict rank ordering of employees, but it does require recognizing that certain employees perform at a higher level than others. Performance evaluation methods that are effective for classifying employees use ranking, calibration, and expected ratings distributions to identify differences in performance levels between employees.

Developmental assessments are about letting employees know what they can do to be more successful. Performance evaluations used for development focus on helping employees understand their personal strengths and weaknesses to determine the best way to increase their individual effectiveness. Rather than comparing employees to find out who is the “best performer”, these evaluations emphasize differences within each employee. They may provide descriptions of employee behaviors with no overall evaluative information at all (e.g., “you have bias for action but may not spend enough time on planning”). These assessments are useful for development but provide no

information about whether one employee is better than another. For example, knowing that the weakest part of my golf game is driving and the weakest part of my colleague's golf game is putting does not tell you whether I am actually a better golfer than my colleague. But it does tell both of us how we can get better at the game.

Performance management methods that stress development tend to avoid normative evaluations like ratings and rankings that directly compare people against one another. There is evidence that normative evaluations of performance can actually hurt development. They may cause some employees to give up rather than trying to compete against their peers, create infighting among coworkers, and lead to a sense of entitlement for those employees identified as the best. On the other hand, purely descriptive, developmental evaluations will not help companies who are seeking to create fair, consistent, and accurate methods to categorize high or low performers for the purpose of compensation, development, or staffing.

It does not make sense to argue whether classification is more or less important than development. Companies must evaluate employees and develop them to create a high performance culture. The key is to build a performance management process that effectively balances both needs. This can be illustrated using an example from coaching youth sports. Imagine you are coaching a basketball team of 12 year old kids. During practice you constantly evaluate the performance of players to provide encouragement on what they are doing well and give tips on how they could improve their game. These tips are likely to be focus on what behaviors players can continue, stop, or start doing to get better without giving any evaluation of their overall performance. For example, "you're doing a great job running down the court but you need to use the backboard when shooting the ball". Good coaching feedback is highly descriptive and focuses on each person's strengths and weaknesses relative to their own performance. It also downplays or completely avoids comparing players against one another. A good youth basketball coach is unlikely to tell a player "you're the worst shooter on the team". Even if it is true, such a statement is not going to inspire or help the child become a better player. In fact, it is more likely to make them give up completely.

Now imagine you are asked to select two players for an all-star team. Selecting less effective players will create frustration for the other players. Placing players on this team who cannot effectively compete could hurt their self-esteem and might lead them to quit playing entirely. Your player evaluations will shift from a focus on development to a focus on classification. You want to determine who the best players are on the team. You may start talking with your fellow coaches about who is the best shot, who is fastest, and who is the best all around athlete. If you are a good coach, you will not share these evaluations with the players. If a player who does not make the all-star team asks why you might tell them specific things they need to improve so they might make it next time, but you are not going to tell them they were the worst player to try out. It is one thing to tell a player "the best way to make the team next year is it work on your speed". It is quite another to say "you are slower than your team mates so that's why we didn't pick you".

This example illustrates a fundamental dilemma of performance management. How can you create a process that supports coaching players while also providing the data needed to make accurate decisions around who should be on the all-star team? The key is to start with an understanding that there are two basic types of performance assessments: assessments for classification and assessments for development Managers should use both types of assessments to evaluate performance, but there is a time to use one and a time for another. They key is knowing when and how to use them.

Question 2. How do you define effective performance?

Performance is often treated like common sense. Everyone assumes we know what it is, but each person defines it in their own way and we often have vastly different concepts of what it looks like. For the purposes of this paper, performance will be broadly defined as "the degree to which an employee meets or exceeds the expectations of the organization given his/her role in the company". Most companies would accept this as a reasonable definition of performance. But it still leaves a lot of ambiguity around what employees must actually do to display effective performance.

Good performance management processes create a clear definition of high performance across the company. This sort of definition is a hallmark of high performance cultures. In a high performance culture, no one has to ask if someone's performance is effective. The criteria are clear and obvious to everyone. Consider environments like the Olympics or Navy SEAL training. People in these environments know what it is they are expected to do. There are few arguments over whether a person succeeded or failed to meet expectations. Performance in most organizations cannot be defined with the level of clarity that can be found in sporting events or military exercises. But companies can vastly improve performance clarity through more effective performance management.

Most companies define performance using some combination of the following criteria:

Achieving **Goals**: whether people accomplished the objectives assigned to them

Demonstrating **Competencies**: whether people display behaviors expected of people in their role

Building **Skills**: acquisition of knowledge, experience, and expertise associated with their role.

These three criteria correspond to the core elements of an integrated talent management system: what you accomplish on the job (goals) is a function of how you act (competencies) which depends in part on who you are (skills). Creating clear definitions of performance starts with ensuring managers understand the difference between goals, competencies, and skills. Most managers are fairly good at distinguishing goals from competencies and skills. But it is common to confuse the difference between skills and competencies. Part of performance management may include training to ensure managers and employees understand why it is important to treat skills and competencies as related but separate concepts (see sidebar "The importance of clear performance definitions").

Sidebar 3: The Importance of Clear Performance Definitions: Comparing Competencies and Skills

People often discuss employee performance using very vague terms. Many of these terms sound emotionally powerful, but lack any common, agreed upon meaning (e.g. passion, team spirit, A player). Managers who discuss performance using these sorts of terms are likely to frustrate employees. There is nothing motivating about being told to "work smarter, not harder" or "give 110%". All it does is tell people that they are doing something wrong, without giving any insight into what they actually should be doing.

Effective performance management requires that managers and employees talk about performance using clear, well-defined language. This includes understanding the difference between competencies and skills. Competencies describe categories of employee behavior that drive success within a job or work environment.Competencies, like behavior, are not something employees "have". They are things an employee displays or has displayed in the past. The concept of competencies calls attention to the unique influence that employee behavior has on job success. It reinforces the fact that job performance is a result of many behaviors, and there are many ways to succeed and fail in a job.

There are very concrete differences between employee competencies and employee skills. Table 2 lists ways that competencies and skills differ from one another. Skills reflect knowledge and capabilities that people acquire through formal education or on-the-job training and experience. Skills determine what you know how to do, and competencies reflect how you use that knowledge to get things done. Employees may have skills associated with certain competencies, but you can never know if an employee will actually display a competency until you observe them in a job. One way to test if you are talking about a competency versus a skill is to consider if someone would ever say "I don't know how to do that". People are willing to admit to not having different skills. In contrast, people may admit to being less effective at different competencies, but it is unlikely for someone to say they simply do not have the knowledge or experience a competency requires. For example, you can imagine someone saying "I don't know how to use Excel", but it is hard to imagine someone saying "I don't know how to Build Relationships".

The distinction between competencies and skills is important because methods used to assess and develop competencies are much different from methods used to assess and develop skills. Many competencies are associated with inherent personality and ability traits that are influenced by genetics and are difficult to change or develop. Training methods that can effectively develop employee skills often fail when used to change employee competencies. Competencies are primarily developed through providing people with job experiences that increase their self-awareness and self management with regard to behaviors related to the competency. In contrast, skills can be effectively developed through providing people with formal training, instruction and education. Skills can be evaluated to some degree by observing on the job behavior, but they can also be evaluated using standardized tests or job simulation exercises.

Simply making managers and employees aware of the difference between competencies and skills can significantly improve the quality of performance conversations. Managers will be able to more accurately evaluate employee performance and provide more meaningful coaching advice to employees. Employees will better understand what is required to act on this advice.

Table 2: Comparing competencies and skills

Competencies	Skills
Behavioral categories that influence job performance such as “building relationships”, “managing stress”, or “planning & organizing”	Knowledge & experience required for jobs such as “C++ programming”, “employment law”, or “post-merger integration”
People are “effective or ineffective” at competencies	People “know or don’t know” skills
Less than 100 competencies can describe the jobs in most large companies	Over 1000 skills are needed to describe the jobs in most large companies
Competencies associated with jobs tend to stay the same over time; they do not change much	Skills needed for jobs can change significantly as new ones are created and others become outdated
Competencies are primarily developed as a result of on-the-job learning	Skills are developed through a mix of formal training, education & experience
People struggle to assess their own effectiveness with regard to competencies	People can assess their own skills if given clear definitions for proficiency levels

When designing a performance management process it is necessary to decide how much emphasis to place on goals, competencies and skills when evaluating employees. Most companies define performance as a balance of goals and competencies, and do not put any direct emphasis on skills. For example, 50% of an employee’s overall performance evaluation will depend on whether they have achieved their goals and 50% will depend on the degree to which they have displayed key job competencies. This ensures people are evaluated based on both what they accomplished (goals) and how they accomplished it (competencies). By balancing these two concepts, companies seek to ensure that performance is about “doing the right things the right way”.

Some companies place more emphasis on goals than competencies since results are felt to be more valuable than behaviors (e.g., 70% weighting of goals vs. 30% weighting of competencies). The decision to emphasize goals more than competencies can reflect the company culture and the nature of the job. For example, many sales and manufacturing jobs strongly emphasize goals because the jobs can be linked to very clear and measurable outcomes. Some companies also argue that employee performance should be based entirely on goals since they more directly impact business results. Companies have developed effective performance management processes that base employee evaluations entirely on goal accomplishment. But this can create a culture that rewards employees for “doing the right things the wrong way”. Including competencies in addition to goals help ensure employee carry out their jobs in a way that is both effective and supports the company’s norms and values.

Another benefit of competencies is they tend to be relatively consistent across different situations and over time. Competencies that are important for one job are usually important for other jobs as well. And if a competency is important this year, it will probably be important several years from now. For example, if a competency like “building relationships” is important in one job in a company, it is probably important in other jobs and is likely to continue to be important in future years. This makes competencies useful for predicting long-term employee performance and assessing employee potential to perform other roles. In contrast, goals change considerably from one job to another and from one year to the next. Just because a goal was important this year or in this job, does not mean it will be important next year or another job. One more advantage of including competencies in performance management is the key role they play in employee development by providing language to support effective coaching conversations (see sidebar “the role of competencies in performance management”).

Many companies exclude skills from the performance evaluation based on a belief that performance is defined by what you accomplish and how you act, not what you know. Performance may be influenced by the skills you have, but how you perform is purely a function of how you apply your skills to achieve job objectives. This approach makes sense for many jobs, but there are positions where there is value in including skills as an element of the performance definition. These are usually jobs where employees must demonstrate skill proficiency to be qualified for certain functions. For example, insurance jobs where people must pass licensing certifications to sell specific products, or healthcare jobs where employees are legally required to demonstrate certain knowledge and skill qualifications. Companies might also include skills in the performance definition if they are trying to encourage employees to build their capabilities for future roles and job demands. When skills are included as part of the performance evaluation, they tend to be weighted much less than evaluations of goals and competencies (e.g., basing 10% to 25% of an employee's overall evaluation on skills acquisition).

Sidebar 4: The role of competencies in performance management

Competencies define behaviors employees are expected to display in a job or company. Because the best predictor of future behavior is past behavior, measuring competencies provides insight into what employees are likely to do in the future either in the same job or if they are moved into a new role. Competencies also helps create more effective dialogue between managers and employees by:

1. Clarifying the behaviors that define what it means to be a "high performer"
2. Illustrating the values of the company in observable, behavioral terms
3. Giving employees specific feedback on behaviors they need to "start doing" or "stop doing" to be more productive
4. Defining the different behavioral requirements between an employee's current role and other jobs they may be interested in pursuing

Competencies are particularly valuable for coaching employees. Managers tend to describe employee performance in terms of goals they have achieved or using broad adjectives or adverbs about their attributes. For example, managers will talk about employees being "top performers", "A players", "problem cases", or "people who don't have what it takes". These terms may mean something to the manager, but they are highly subjective and provide little useful information to guide employee development and performance. Well developed competencies help managers become better coaches by giving them descriptive, behavioral language to support performance management discussions. This enables managers to provide employees with specific guidance around what behaviors they can "do more of" or "do less of" to increase their effectiveness.

To illustrate the value of competencies, consider this exchange between a manager and his employee before and after the introduction of competencies into the conversation.

Manager: "You aren't hitting your goals"

Employee (to himself): *"thanks for telling me something I already knew"*
Employee (to manager) "any suggestions on how I can be more successful?"

Manager: "you need to work smarter, not harder"

Employee (to himself): *"So I'm a failure because I haven't hit my goals, and I'm an idiot because I don't work 'smarter' whatever that is?"*
Employee (to manager): "Is there anything I can do differently to be more successful"?

Manager, now using competencies: "I suggest you get some training on "planning and organizing" your territory so you can spend more time "building relationships" with customers".

Employee (to himself): *"Finally, some feedback that makes sense and doesn't just make me feel bad. Now I know how I should change my behavior to be more successful."*

This example is not that far off from conversations managers and employees have every year during performance reviews. The tone and results of these conversations can be quickly and vastly improved by using performance management methods that incorporate competencies into the discussion.

Building competency models

The first step in defining performance is deciding on the emphasis to place on goals, competencies, and skills for different roles in your organization. The next step is to determine what specific goals, competences and skills are relevant for each job. Because competencies play a particularly critical role in performance management, we will spend some time discussing competency modeling techniques. For information on how to define goals and skills please see the white paper "Doing the right things: using goal management to drive business execution" and "Putting the right people in the right jobs: using staffing to drive business execution".

A competency model is a pre-defined set of competencies that describe behaviors that drive performance for a specific job, group of jobs, or organization. The best competency models focus on critical behaviors that "make or break" performance. Competency models should not list every behavior employees must display to be effective. They should only highlight behaviors that distinguish high performers from average or low performers. As one HR manager told me, "competency models highlight the differences between employees that make a difference."

What does a well-defined competency look like? Figure 2 provides an example of a well-defined competency. The competency is defined using observable, job relevant behaviors. These behaviors are things that people could be asked to "stop" or "start" doing. Clearly defined, behavioral competencies provide several advantages for performance management. First, they communicate what people are expected to do (or not do) in their jobs. Second, they provide a set of criteria to

assess performance which help create more consistent performance evaluations across managers. Third, competency definitions contain content that can be used by managers to provide constructive behavioral feedback to support employee coaching. To achieve these benefits, competency descriptions must emphasize observable behaviors and should avoid subjective adjectives or adverbs whose interpretation might vary across people.

Appendix 1 contains a library of competencies that can be used to build competency models. This library is based on research studying behaviors that influence job performance across a wide range of jobs. Competency libraries provide an efficient way to build performance definitions. Rather the developing new competencies, companies can select, mix and match content from competency libraries to quickly configure competency models that make sense for their particular jobs. No single job requires all of the competencies in this library. However, the library is likely to contain the competencies that make or break performance in most jobs and organizations.

Figure 2. What a well defined competency looks like

Supporting Change Enthusiastically participates in new change initiatives and programs; focuses on reasons why changes will work and how they will be beneficial	
Negative Behavioral Anchors	**Positive Behavioral Anchors**
• Views changes as ineffective or unnecessary • Demonstrates resistance toward change; clings to existing methods and practices • Focuses on reasons why changes will not work • Views change from perspective of how they will “take things away” or otherwise be unfair	• Embraces and encourages new ideas and initiatives • Looks for positive aspects of changes; focuses on reasons why changes will work and how they will be beneficial • Enthusiastically participates in new change initiatives and programs • Abandons outdated or obsolete practices; willing to try new things

How many competencies should be in a competency model? It is ideal to limit competency models to between 5 and 10 competencies. The most effective models tend to have around 8 competencies. Research shows that managers struggle to differentiate between long lists of competencies and competencies start to blend together if a model contains more than about 10 competencies. Competency models with more than 10 competencies are also difficult and cumbersome to use. It takes managers too long to evaluate performance against so many competencies. Conversely, models containing fewer than 5 competencies are likely to overlook key dimension of job performance or may contain competencies that are so broadly defined they lack clear meaning.

How many competency models does my company need? Some companies use the same competency model for every job in the organization. Others build many different models for specific jobs and functions. Deciding how many models to use is about two things. First, it is about balancing the value of accurately describing performance in individual jobs with the value of being able to compare performance of employees across different jobs. Second, how much a company values the simplicity of only having to build and support two or three models rather than dozens.

Figures 3 and 4 show approaches for managing the tradeoff between job specific vs. generalized competency models. The approach illustrated in Figure 3 breaks competencies into three different categories:

- ***Core competencies*** expected of all employees regardless of their position. These are competencies that drive success across the organization and reflect core company values.
- ***Level specific competencies*** that influence performance in jobs with different levels of responsibility (e.g., individual contributor, manager, senior director, executive).
- ***Functional competencies*** that influence performance for jobs in certain areas of the company (e.g., finance, sales, human resources).

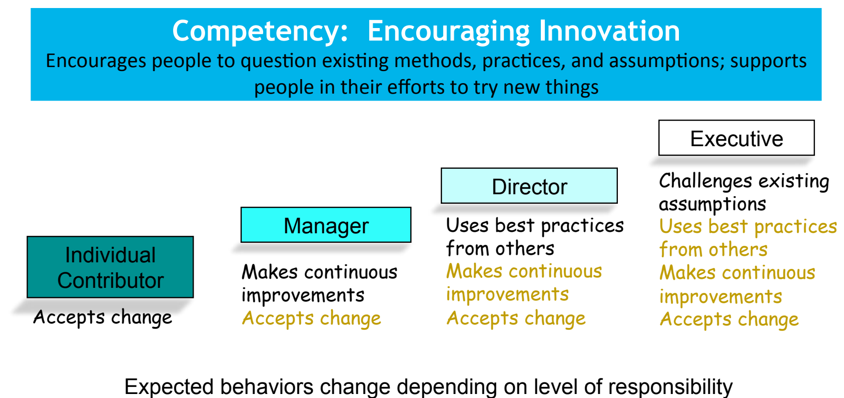
Figure 3. Mix & Match Competency Modeling Approach

Total Competencies per Role = **8** (ideal) to **10** (max)

Some companies evaluate all employees on the same set of core competencies and do not create level specific or functional competencies. Other companies create different models for different job levels or job functions. For example, many companies have a competency model for individual contributors, a model for managers, and another model for executives. Another approach is to mix and match competencies across the categories. The competency model for a specific job might include 3 to 5 core competencies, 2 or 3 level specific competencies, and 1 or 2 functional competencies. This mixing and matching approach allows companies to keep the total number of competencies to a manageable number, highlights similarities across different types of jobs, but also provides flexibility to ensure performance definitions capture critical level or functional specific competencies. If you choose to use this mix and match approach be sure to do it in a way so no employee ends up being evaluated on more than 10 different competencies total.

Figure 4 illustrates a competency modeling approach that shows how the nature of job expectations changes as people move into higher level positions. All employees are evaluated against the same core set of competencies. But the behaviors that define effective performance for each competency shift depending on the job level. In the example in Figure 4, the behaviors that define effective performance for the competency “Encouraging Innovation” are different for individual contributors compared to senior leaders. Individual contributors are expected to accept change while senior leaders are expected to drive change. This approach lets a company use a single competency model across the whole organization while still accounting for different levels of performance expectations based on job level. It also helps employees understand how job expectations change as you move into position with higher levels of responsibility.

Figure 4. Increasing Scope of Responsibility Competency Modeling Approach



Expected behaviors change depending on level of responsibility

The approaches in Figures 3 and 4 are both effective for developing competency models. Which one is preferable will depend on the nature of your organization and the goals you are seeking to achieve through performance management. If your primary goal is to accurately evaluate performance of people in their current roles, then the more job-specific approach in Figure 3 may be more useful. If you want to encourage career advancement then the multi-level approach in Figure 4 may be more effective. The key is it to think through what approach will allow you to achieve your performance management goals quickly, efficiently, and sustainably.

Companies can also build job specific competency models that are only relevant to one type of job. For example, creating a unique competency model for “Field Repair Technician” and a totally different model for “Product Sales Representative”. Job specific competency models provide highly detailed descriptions of behaviors that influence performance in specific roles. This makes them very effective for accurately evaluating current job performance and providing detailed coaching feedback. The problem with job specific competency model is they take a lot of time to create, do not allow comparing employees across jobs since each job has different competencies, and can be very difficult to maintain. It may make sense to build job specific competency modes when one or both of the following conditions exist:

1. the job is so critical to business performance that it is important to make very fine grained distinctions in performance levels (e.g. nurses in a hospital setting), or
2. there are large numbers of people in the job and most of them are unlikely to move into different roles (e.g., frontline retail or manufacturing jobs).

But in most cases the limitations associated with job specific competency models do not justify the benefits.

Once you decide how many competency models you need, the next step is to create the actual models. Entire books have been written on how to build competency models. Competency modeling processes can get quite complex often lasting over several months. On the other hand, companies have built very effective competency models through a single one day workshop. These workshops take subject matter experts through a structured process to identify and select the appropriate competencies from competency libraries such as the one in Appendix 1. What competency modeling approach to use depends on factors such as the size of your organization, the goals of your performance management process, and the limits of your budget. Whatever approach you use, make sure the final competency models provide clear, relevant, and meaningful behavioral descriptions of what “effective” and “ineffective” performance looks like for jobs in your company (see sidebar, “When building competency models the devil is often in the details”).

Sidebar 5: When building competency models the devil is often in the details

Competency models are a critical for talent management because they provide clear, behavioral based descriptions clarifying the difference between highly effective, average, and ineffective job performance. Effective competency models communicate what behaviors employees are expected to display and provide managers with a standardized vocabulary for discussing, evaluating, and coaching employee performance. Because the best predictor of future behavior is past behavior, competency models also give organizations a useful benchmark to assess employee potential to take on future job roles and assignments.

Creating competency models has become fairly easy with the development of standardized competency libraries. Rather than developing new competency descriptions, companies simply pick and choose from competency libraries to build competency models that highlight key behaviors that "make or break" success in a certain job or set of jobs. Many companies go one step farther by modifying the standardized content from pre-existing libraries to create tailored competency models that include language reflecting the unique culture and nature of their organization.

Considerable advantage can be gained from using competency libraries to build competency models. However, potential problems can also arise from this approach if they are not carefully managed. The following are four common problems associated with building competency models.

Missing the mark. This happens when competency models fail to capture key behaviors that impact performance. This often occurs when companies focus too much on defining what effective performance looks like but do not pay adequate attention to the behaviors that limit or derail success. It can also be the result of not having the right subject matter experts involved in building the model. I saw an example of this when developing a competency model for a sales job. Much attention was paid on the behaviors that made high performers successful. Then a veteran manager noted one of the main sources of performance problems was a failure to complete administrative tasks to support sales forecasts and process contracts. As he said, "it doesn't matter how good they are at building relationships if they don't file the contract before the end of the quarter". His comments emphasized that poor performance is not just the opposite of effective performance. In fact, sometimes poor performance is a result of overusing certain performance strengths (e.g. the sales person who is too assertive in his/her efforts to drive results). The best way to avoid "missing the mark" is to ensure you have the right mix of subject matter experts in the room, and make sure they look at both effective and ineffective performers when building competency models.

The kitchen sink. This happens when companies are unwilling to prioritize what competencies are truly the most critical for performance. Rather than creating a few well-defined competencies, they create models with vague or extremely heterogeneous competencies. These competencies contain so many different types of behaviors that no employee could possibly be good at all of them. A single competency may even contain behaviors that contradict each other. I have seen models with competencies like "Getting Things Done: focuses on the big things but also manages the details and little things". This sort of competency does not give

managers clear, easy to use language for accurately describing performance. It is likely to create inconsistent performance evaluations since employees can be rated high or low on these sorts of competencies depending on what behaviors a manager chooses to emphasize.

The generic model. This occurs when companies use “off the shelf” competency libraries and do not modify the content to fit the company’s unique culture. The language used in generic models may have little resemblance to the words managers and employees actually use when discussing performance. I saw a notable example of this when working with a Norwegian company that adopted a competency model based on a library created by a US consulting firm. One of the competencies was called “Learning on the Fly”. When reading this title a manager responded, “what does this mean – it’s so John Wayne American”. The key to avoiding generic models is to make changes to competency titles and definitions so they sound like the language used in your company. Often changing just a few words will significantly impact people’s acceptance of the model.

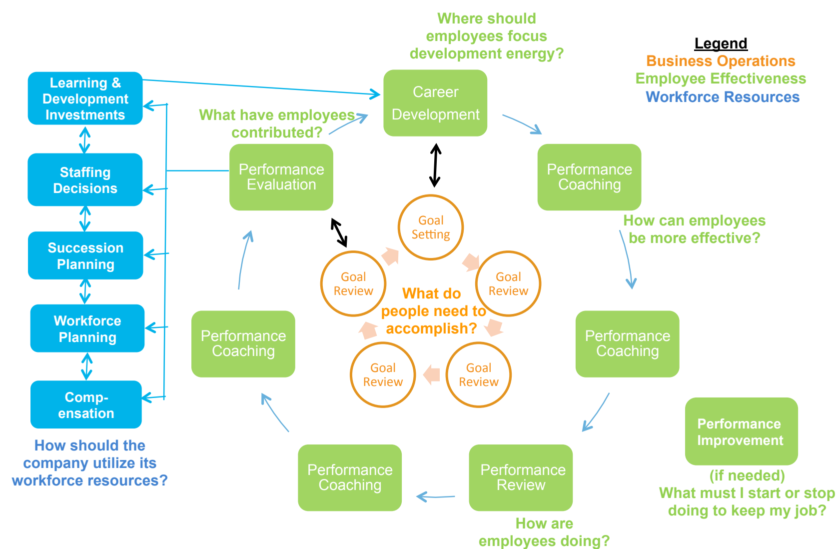
Emotional but meaningless. Many leaders give competencies emotionally laden titles and definitions that sound inspiring but lack behavioral detail. While the language may be inspiring, it provides little value for accurately evaluating performance. Imagine the following scenario. A company determines that one of the competencies needed for a job is “Responding quickly to customer issues”. The CEO says this sounds too boring and changes it to “Passionately pursues customer excellence”. When this model is rolled out managers and employees begin making jokes about starting romantic liaisons with customers to show them more passion. While a little inspirational language is fine when developing competencies, it has to be backed with definitions outlining clearly observable, job relevant behaviors.

When building competency models, always think about how the competencies will ultimately be used. Managers will sit down with their employees and use these competencies for serious and often difficult conversations about performance, pay, and career growth. The managers may have personally recruited, hired and worked with these people for years. Some of these direct reports will be close friends. Others are people the managers value but find somewhat difficult to work with. In most cases, they will be people the manager wants to treat with dignity and respect. The managers will want to appear confident, serious, and credible when engaging in conversations with these direct reports about their performance, pay, and future career prospects. Now look at the actual words in your competency model. Are these words you can imagine a manager using when explaining why employees are not getting a raise or are being let go due to an organizational change? Does the model contain behaviors that truly “make a difference” between poor, average, and great performance? The reality test I use for competencies is to imagine a manager looking a long-term employee in the eye and saying “I am not giving you a raise this year because you don’t <insert the actual words from the competency model>”. If your competency model does not contain the right terms to support this sort of serious conversation, or contains cute or emotional terms that would sound silly used in this context then change the model. The power of a good competency model lies in its ability to provide behaviorally meaningful words that define what performance is – take care to make sure these words are the right ones.

Question 3. How will you structure your performance management cycle? When will you evaluate performance?

Figure 5 illustrates steps found in a performance management cycle and how they ideally relate to each other. Performance management is best thought of as three inter-related cycles. The innermost cycle focuses on ongoing goal management. The next cycle focuses on assessing employees' behavior and providing coaching feedback to increase effectiveness in their current role. The outermost cycle focuses on evaluating overall employee contributions to the company and making decisions about how to invest in their career development including whether to promote them or pay them more. These cycles reflect three separate but interdependent processes: managing business operations (goals), managing employee effectiveness (performance), and managing workforce resources (compensation, staffing, development). We will discuss each cycle in more detail.

Figure 5. Performance Management Cycle



Managing business operations. The performance cycle starts with the manager defining what business objectives need to be accomplished by his/her team. The manager then works with employees to agree on the specific goals they can achieve to support these objectives. The most frequent performance management activity involves tracking and updating goals so employees have a clear sense of whether they are accomplishing what the company expects them to achieve. This is usually done through daily, weekly, or monthly operating meetings. This goal management cycle focuses on whether the company is on track to achieve its business objectives. It is about staying focused on what is important.

Managing employee effectiveness. The second cycle of performance management involves assessing employee performance and providing coaching advice and feedback. It is about increasing employee awareness of what behaviors to "start, stop, or continue doing" to be more effective in their jobs.

Informal performance coaching should take place throughout the year, although it occurs less often than discussing goals. Companies also need to periodically conduct more formal and systematic assessment of employees' contributions to the organization. This is usually done on an annual basis, although for some jobs it makes sense to do it more frequently. There are four reasons why it is important to formally schedule performance assessments to occur at certain times during the year:

1. Measurement Accuracy. Performance management is used to measure the contributions employees are making to the organization. The foundation of accurate measurement is consistency. Part of consistency involves standardizing time frames used to measure employee performance. Performance appraisals can be influenced by environmental factors such as current company performance and manager's work schedules. Standardizing performance appraisals so employees are evaluated in the same time frame increases the accuracy of performance measurement.
2. Linking to Business Cycles. Virtually all companies manage financial resources and strategic objectives against an annual calendar. It is important to synchronize talent decisions with this calendar. There should be a clear link between the steps used to set business strategies and plan budgets and the steps contained in the performance management cycle.
3. Manager accountability. Performance management is largely about assessing employee contributions and providing employees with feedback to increase their effectiveness. In a perfect world every manager could be counted on to voluntarily take time to sit down with their employees to provide detailed, constructive performance feedback. We do not live in such a perfect world! Creating formal steps that require managers to assess employee performance and provide employee feedback is critical to ensuring managers are carrying out the job of being a manager.
4. Legal Compliance. Many companies are legally required to formally document past employee performance to justify decisions related to their future pay and employment. Creating formal, standardized performance evaluations is fundamental to meeting these legal requirements.

A common question when developing performance management methods is whether to include formal "mid cycle" reviews. For example, requiring that managers conduct a midyear performance assessment in addition to an end of year performance evaluation. The disadvantage of adding mid cycle assessments is they increase administrative burden. The advantage is they help ensure managers are giving employees some feedback throughout the year and decrease the risk of "surprises" occurring during the end of year evaluation. Because mid-year reviews are more about communication than evaluation, they often do not include any formal rating. Managers and employees are simply asked to write comments on their current performance strengths and development areas. One company even reduced the mid-year review down to a single question that asked employees, "Has your manager met with you in the last 30 days to provide you with meaningful coaching feedback about your performance?" Reponses to this question where used to remind managers of the importance of providing ongoing coaching throughout the year.

Most companies include optional steps in the second cycle to address serious performance problems. Called things like "Performance Improvement Plans", these are specialized performance reviews that address employee behaviors that could lead to formal corrective action up to and including termination of employment. Performance Improvement Plans ensure employees are aware of the difference between development opportunities and serious performance issues. They can be important for complying with laws and regulations associated with punitive compensation or staffing decisions that address counterproductive employee behavior.

Managing workforce resources. The third cycle of performance management considers the overall value employees are providing to the organization. It focuses on determining where to invest scarce resource such as pay, promotions, and limited development resources. This cycle requires comparing employees against one another to determine which employees are the most valuable in their current roles, which ones may be ready for more responsibility, and which ones need to improve their performance or be managed out of their current position. This cycle is ideally timed with a company's financial cycle and linked to the creation and allocation of workforce budgets.

What is the link between business operations, employee effectiveness, and workforce management? The steps in Figure 5 are used to align business operations, employee effectiveness, and workforce management. Performance evaluations should include systematic reviews of employee goal accomplishments. Compensation and staffing decisions should incorporate employee performance evaluations. Succession management and career development conversations should combine what employees have done in the past, what the company needs employees to do in the future, and what employees want to achieve through their careers. Thinking through how the steps in Figure 5 link together is central to building an integrated talent management process that ties together the four basic talent process of right people (staffing), right things (goal management), right way (performance management) and right development (succession, learning and career development).

A major part of performance management design is deciding the frequency and formal structure of the steps in Figure 5 and how they tie to each other. For example, companies do not always include formal steps for goal setting or mid-year performance reviews. Similarly, not all companies create links between performance evaluations and compensation decisions. In some jobs pay decisions are determined by contracts, tenure, or other variables that are un-related to actual employee performance. These jobs may still benefit from having formal performance reviews to support coaching and staffing decisions, but it does not make sense to tie performance reviews in these jobs to compensation.

There can also be considerable variation across companies in terms of the frequency and complexity of steps in the cycle. Performance management for seasonal or retail jobs where employees work for less than a year may do simple versions of the steps in Figure 5 on a monthly or quarterly basis. Jobs that compensate people based on weekly, monthly or quarterly goals will also require increasing the frequency of certain steps. It is also important to define when during the year each step will be conducted and how the steps relate to business cycles such as strategic planning and financial budgeting.

Companies do not need to build out every step in Figure 5 when implementing a performance management process. It is usually more effective and manageable to phase in different steps over several years. Determine which steps provide the greatest value with the least effort. Then focus energy around designing and deploying those steps so they are effective. But remember that you will probably want to build the other steps at some point. Think about how all the steps will ultimately come together, even if it takes 3 to 5 years to get the entire process up and running.

The following are additional design guidelines to keep in mind when going through the process of prioritizing of what performance management steps to build and how they will fit together:

- **Goal feedback should be more frequent than performance feedback.** Goals are about business outcomes. Performance is about employee actions. Managers and employees should be constantly talking about goals and what can be done to accomplish them. Much of this discussion will be about strategies, resources, market challenges, and other business issues that are not controlled by employees. These conversations should be happening all the time. It is important to have coaching conversations about employee performance and how it impacts goals, but such conversations are far less frequent than tactical discussion about the goals themselves.

- **Performance coaching should occur throughout the year.** It is often said that "there should be no surprises in an annual performance review". Employees should not have to wait until their a formal performance evaluation to learn about their performance strengths and concerns. The design and communication of performance management cycles should emphasize the importance of managers meeting informally with employees throughout the year to provide recognition, share feedback, and discuss what employees can do to increase their effectiveness.
- **Avoid tying performance reviews to employment anniversary dates.** Some companies conduct employee performance reviews based on when employees are hired. For example, conducting reviews on the first year anniversary of someone's hire and every year on that date thereafter. People may like anniversary dates because they avoid the problem of wondering how to manage new employees who are hired shortly before performance reviews are conducted. They also spread performance reviews over the course of the year so managers do not have to evaluate large numbers of employees at the same time. But there are three reasons why anniversary dates are a bad idea.

  1. Evaluating employees at different times of the year introduces inconsistency and potential measurement error into the process. Certain employees may get better reviews simply because they were reviewed in the spring rather than the fall.
  2. Conducting performance reviews based on anniversary date makes it hard to synchronize talent management activities with business operations. Ideally, performance reviews are conducted to align with the company's financial business calendar.
  3. It can be an administrative challenge to keep track of when different people need to have their reviews completed. This becomes even more challenging when people shift jobs internally and no longer have a clear employment start date.

  Shifting away from anniversary dates will create more pressure on managers to complete multiple performance reviews in a short amount of time. But there are several ways to address this concern. These include designing efficient performance appraisal forms, providing managers with tools and resources to write performance reviews, and giving managers four to six weeks in which to complete the reviews so they have adequate time. Some companies might also choose to use anniversary date reviews to conduct new hire "onboarding" or "probationary" performance appraisals. But once employees have been in the company past a certain time they should be shifted to a common performance appraisal calendar.

- **Separate performance reviews into descriptive assessment and normative evaluation.** Encourage managers to start the performance appraisal by creating an accurate description of the employee's accomplishments, strengths, weaknesses, and developmental needs. Then move to a separate step of evaluating the employee's overall performance compared to others in the company. Separating the action of describing performance from the action of evaluating performance will lead to more meaningful and accurate reviews overall.

- **Keep compensation and staffing decisions distinct from performance evaluation.** One of the uses of performance evaluations is to guide compensation and staffing decisions. But there are several reasons to keep these actions separate (see sidebar "Do we really want pay for performance?"). First, performance reviews provide a lot of value outside of staffing and compensation decisions. This includes providing employees with coaching feedback and supporting employee career development. Second, a lot of things influence staffing and compensation decisions that are unrelated to employee performance (e.g., overall business performance, salary freezes). Third, if you tie performance management too closely to compensation than people will start to think of it solely as an exercise to justify compensation decisions. Never design a performance management process that might lead a manager to say something like, "why should I complete my employees' performance reviews if there is a salary freeze?"
- **Keep performance appraisal feedback separate from communication of compensation decisions.** Communicate performance reviews in a manner that encourages employees to understand what the reviews say about their performance strengths and development areas independent of how it affects their compensation. If performance appraisal feedback includes information about compensation decisions, employees may only focus on their pay without processing what the review is saying about their behavior.

Question 4. How will you evaluate performance?

How you should evaluate performance depends primarily on how you answer the following three questions:

How do you define performance? If performance is defined in terms of objective, clearly measurable goals, then performance evaluation is largely just a matter of systematic goal measurement. For example, some jobs are evaluated entirely based on the amount of revenue generated through sales. The only thing required to evaluate performance in these jobs is keeping track of sales numbers associated with each employee. On the other hand, if performance is defined using behavioral competencies or goals that cannot be measured in a purely objective fashion, then more thought is required to create an effective evaluation method. The performance management process must include steps to collect data to evaluate employees. This will usually require developing an employee rating process. Most jobs fall into this category.

What is the reason for evaluating performance? Performance evaluations can be used for multiple purposes including providing coaching and feedback to increase performance, determining how to allocate pay and other scarce resources to maximize workforce productivity, or providing a consistent, fair, and legally defensible basis for making personnel decisions. If the sole purpose of performance evaluations is to support coaching and feedback, then you may choose to limit the evaluation to highly descriptive, qualitative measures (see sidebar "Evaluating performance for classification vs. development"). If performance evaluations will be used to guide decisions related to pay, staffing or allocation of development resources then you will need some method to categorize employees based on different performance levels. The only way to do this is to rate employees, although as we will discuss this does not necessarily mean using purely numeric ratings.

How much time and resource will you invest in evaluating performance? Performance evaluation methods can be as simple as just asking managers to complete a form where they place employees into general categories of "good vs. bad", or as complex as multi-hour calibration sessions where managers work together to systematically rank employees using highly detailed performance benchmarks. Typically the longer and more involved the method, the more accurate the evaluation. Although there is certainly a point of diminishing returns! An important question when designing evaluation methods is "how important is it to accurately measure and categorize employees?" For critical roles in the company it may make sense to use extensive methods that could take several days to complete. For most jobs evaluation methods that take less than 4 hour per employee are typically fine. And for very basic jobs, the evaluation methods may take as little as 10 minutes per employee.

Like most aspects of talent management, there is no one "best way" to evaluate performance. What makes sense for some roles may not be effective for others. However, most methods use some version of rating scales, multi-rater input, and performance calibration methods. For that reason, we will discuss each of these in a bit more detail.

What rating scale will you use? (and every company uses ratings even if they say they don't!)
Most performance management processes include a step where managers assign employees ratings indicating their overall level of performance. This does not necessarily mean assigning a numeric rating such as 1, 2, 3, 4 or 5. It may mean labeling employees based on their contribution to the organization such as "valued contributor", "exceeds expectations", or "not achieving goals". What is important is that employees are placed into categories where certain groups are considered to be performing at a higher level than other groups.

Ratings are necessary to guide decisions around allocation of scarce resources such as pay, promotions or training opportunities. Unless you treat all employees exactly the same regardless of performance, or assign rewards solely based on things like tenure and union job code, then you need some method to group employees based on performance levels. This cannot be done without some form of rating. Companies that make decisions about employees based on their relative performance contributions use performance ratings – although not all companies make ratings in a consistent, well defined and transparent fashion.

Companies vary considerably in the emphasis placed on identifying and communicating employee ratings. Some companies make the rating a central focus of the performance management process by directly tying it to pay increases and promotion eligibility. In these cases, the performance management process is largely a series of steps leading up to the assignment and communication of ratings. Other companies do not share performance ratings with employees. Employees are given qualitative feedback on their performance but are never told what ratings they received, although they can often infer their ratings based on whether they get pay increases, receive promotions, or are allowed to keep their jobs.

On one hand, hiding performance ratings is counter to using performance management to create a culture where everyone knows exactly where they stand in terms of their performance effectiveness. On the other hand, considerable care needs to be taken when sharing performance ratings or they can significantly damage employee motivation and morale. We will discuss this more when we discuss the kinds of training managers must receive to effectively use performance management methods.

Assuming your company is going to make performance ratings, the next question is what sort of rating to use. This is one of the few areas of talent management where there are some well tested and highly specific best practices. These include:

Use a 5 point or 7 point rating scale. Research shows that 5 point rating scales typically result in the most accurate evaluations. 7 point scales may be slightly better if you provide managers with a lot of training on how to assign ratings. The advantage of 5-point or 7-point rating scales is they have a midpoint and allow for enough differentiation to be effective without over complicating the rating process. Consider the following illustration of how a manager might be instructed to use a 5 point scale. Assume a higher rating is associated with higher performance, although it probably does not matter if a 5 is good or bad as long as the meaning of the ratings is clearly communicated. The most effective way to use a 5-point scale is to rate most employees as 2's, 3's or 4's (solid performers at different levels of effectiveness) and treat the 1 and 5 as exclamation points that indicate a clear need for action with regard to an employee's performance. Employees rated a 1 need to quickly improve or be managed out of their current role. In other words, performance is such a problem the company needs to act now to address it. Conversely, employees rated a 5 are so good the company should aggressively work to retain and leverage their capabilities by providing them with significant rewards or career opportunities. The key is to create real implications for managers who chose to rate employees as 1s or 5s. You can't just rate them and leave them as is.

You might wonder why not use 3 point scales, even numbered scales, or scales with 9 or more ratings? The problem with 3 point scales is they tend to function as two point scales in application. Managers are unlikely to give someone the lowest possible rating (e.g., a "1") unless they are ready to either fire the employee or accept their resignation. So they end up grouping everyone into the 2 and 3 categories, which leaves little room for performance differentiation. The problem with even numbered scales is many employees truly are "average". It frustrates managers when they are forced to rate average employees as being above or below expectations. The problem with scales with 9 or more rating points is they create inconsistency without increasing measurement precision. Most managers cannot effectively differentiate between more than 7 levels of performance and so nothing is gained by giving them more rating points. And because some managers will tend to use higher ratings than others, increasing the range of possible ratings increases the inconsistency of performance ratings across managers.

Provide descriptive labels to guide how ratings are assigned. The accuracy and value of performance ratings increases when companies define rating scales using descriptive labels instead of numbers. Table 3 provides example of labels that have been used with 5 point scales. There are two reasons why descriptive labels are better than numeric labels. First, they define what the difference is between rating categories. This helps managers determine whether someone should be a "3" or a "4", and so forth. Second, descriptive labels make it easier to communicate the results of performance evaluations to employees. It is much easier and meaningful to tell an employee they are a "valued contributor" than to tell them they are a "3".

Table 3. Examples of Descriptive Rating Labels

Rating	Example 1	Example 2
1	Significant concerns; results must change or serious disciplinary action will follow	Unsatisfactory Performance. Performance must improve significantly within a reasonable period of time if the individual is to remain in this position. Employee is not performing to the requirements of the job.
2	Not meeting expectations; has some performance areas that need to be improved	Needs Some Improvement. Performance is noticeably less than expected. Usually performs to and meets job requirements, however, the need for further development and improvement is clearly recognized.
3	Solid performer; valued contributor who effectively performs core duties of the role	Meets Expectations. Performance clearly and fully meets all the requirements of the position in terms of quality and quantity of work. It is described as good, solid performance. Minor deviations may occur, the overall level of performance meets or slightly exceeds all position requirements.
4	Exceeding expectations; high performer who contributes above and beyond core role	Exceeds Expectations. Performance frequently exceeds job requirements. Accomplishments are regularly above expected levels. Performance is sustained and uniformly high with thorough and on-time results.
5	Role model; exceptional performer who is having a major impact on organizational success; “sets the bar” for performance in his/her role	Exceptional Performer. Performance levels and accomplishments far exceed normal expectations. This category is reserved for the employee who truly stands out and clearly and consistently demonstrates exceptional accomplishments in terms of quality and quantity of work that is easily recognized as truly exceptional by others.

Base ratings on well-defined performance criteria. Managers should use specific competencies and goals to determine how to rate an employee. If you want to maximize the accuracy of performance ratings, require managers to explain their ratings using behaviors and metrics linked to job relevant competency models and goal plans. An effective practice is to have managers start by rating employees against specific job competencies and goals, and then make an overall performance rating based on these individual ratings.

Avoid over complicated performance weights. Many companies’ performance rating forms ask managers to rate employees on specific goals and competencies, and then evaluate their overall performance based on these initial ratings. This approach helps ensure managers base their overall performance evaluations on appropriate performance criteria. Some companies will go a step further and assign mathematical weights to different competencies or goals that reflect their relative importance to the overall job. These weights are then used to automatically calculate the overall performance score.

There are pros and cons to using mathematical weighting. Weights are good because they indicate that certain goals or competencies are more important or central to the job than others. For example, attendance and customer service are both parts of being a parking lot attendant, but performance may depend more on good attendance than good customer service so it may make sense to weight attendance ratings more heavily. Weights are bad because:

- They complicate the performance evaluation process. Weights create another level of complexity that people have to think through, and this added complexity may not be worth the value weights provide.
- It is often difficult to set weights. People struggle to place specific numbers on the relative importance of different goals and competencies. This is particularly true for competencies. For example, what is more important for a service job – "Getting Along with Coworkers" or "Supporting Customer Needs"?
- You need to define the criteria for setting weights. For example, should goal weights be based on "relative importance" or "relative difficulty"? Most companies base weights on relative importance, but this needs to be clarified and communicated.
- The way weights are used may not reflect how people actually evaluate performance Most performance systems use weights using simple additive formulas like:

Overall rating = (weight1*competency1) + (weight2*competency2)

But people don't actually evaluate performance using simple, additive formulas. They base overall performance ratings on whether people fall above or below certain thresholds on individual goals and competencies. This is called "non compensatory scoring" and it is hard to effectively replicate using automatic scoring algorithms (see side bar – "Why automatically calculating overall performance ratings is a bad idea").

Taking these pros and cons into account leads to the following recommendation for the use of weights:

1. Carefully consider whether the value gained by using weights in the performance appraisal process justifies the work it will take to use them effectively.

2. It is better to use weights for individual goals than for individual competencies. This is because it is easier to evaluate relative importance for goals compared to competencies.

3. It is reasonable to use weights to balance the overall importance of goals vs. competencies because this is fairly easy to understand. If companies do use weights to balance the importance of goals vs. competencies, they will usually assign greater weight to goal based performance ratings than competency based ratings. For example 70% assigned to goals vs. 30% assigned to competencies.

4. Weights can provide a general guide to help managers make their final overall performance evaluation. But the final evaluation should not be mathematically determined because such formulas do not account for the non-compensatory nature of performance. Managers should be given leeway to set their final evaluation based on their interpretation of the employee's overall performance. This evaluation should be reflective of the individual competency and goal ratings and their associated weights, but it should not be automatically determined by them.

Sidebar 6: Why automatically calculating overall performance ratings is a bad idea.

Some companies' performance management processes ask managers to rate employees on individual competencies and goals, and then automatically average or add these individual ratings together to create an overall performance rating. While this approach sounds reasonable, it is generally not a good idea. First, it can result in creating an "over engineered" rating process that suggests evaluations have a level of mathematic precision that doesn't truly exist. Second, it does not reflect how people actually evaluate overall performance.

Rather than automatically calculating an overall performance rating, it is almost always better to have managers manually provide an overall performance rating. This rating should take into account ratings on individual competencies and goals but is not wholly determined by them. This approach creates stronger manager ownership for the overall rating, is simpler to understand, and reflects how people actually make overall performance evaluations. The reasons for this are a bit complex, but are not extremely difficult to understand if you think it through.

Manager evaluations of overall employee performance tend to follow what is called a "non-compensatory" decision making approach. Managers do not rate each competency or goal and simply add them together to come up with an overall rating. Instead, they decide whether employees have achieved certain thresholds of performance for different competencies and goals and then use these thresholds to guide their overall evaluation. The use of thresholds allows managers to make exceptions when rating employees who are really good or bad at certain parts of their job. In other words, if performance on a specific competency or goal is exceptionally good or bad then managers may weight that competency as being more important regardless of how the employee has performed in other areas. For example, an employee who fails to meet certain minimum levels of performance related to "achieving results" might be considered to have poor overall performance no matter how good they are at other competences such as "getting along with others" or "following rules and processes".

Averaging or adding performance ratings together to calculate an overall performance score is usually a bad idea because this scoring method does not reflect the non-compensatory way managers actually evaluate performance. Consider the following illustration. Imagine performance of a retail job was based on 5 competencies: attendance, customer service, problem solving, attention to detail, and supporting coworkers. The company rated employee performance using the following 5 point scale:

1-unacceptable **2**-needs improvement **3**-meets expectations **4**-exceeds expectations **5**-outstanding

Suppose a retail employee was exceptional when they were at work but constantly showed up late for their scheduled work shifts. This employee might receive the following individual competency ratings:

Attendance: 1 **Customer Service:** 5 **Problem Solving:** 5
Attention to Detail: 5 **Supporting coworkers:** 5

The mathematically calculated overall performance rating based on averaging these five ratings is 4.20 (21 divided by 5). A rating of 4.2 on this 5 point scale suggests the employee's overall performance "exceeds expectations". But a more accurate performance rating would probably be a 1 or 2 (unacceptable or needs improvement). Until the employee gets attendance above some minimum level their manager is unlikely to view them as high performer no matter how good they are at the four other competencies. In fact, the manager might rate the employee's overall performance as "1" based on attendance alone so they can justify removing the employee from the position.

You might ask "why not just create automatic scoring algorithms that use non-compensatory methods?" This is possible but there are three reasons not to take this approach. First, creating non-compensatory scoring algorithms can be relatively complicated and many HR technology systems cannot easily support these types of calculations. Second, it implies that performance evaluations have a level of mathematical precision that is beyond the true accuracy of most manager performance ratings. Third, and most important, it removes the manager from having full ownership over the final overall rating. Performance management processes should not give managers the chance to say things like "the system automatically calculated your overall rating so it is different from what I would have given you if I was allowed to do it myself". It is important that managers own the overall evaluation they assign to employees and be able to effectively explain why they gave this rating. The easiest way to do this is to make manager assign ratings themselves and require that they justify those ratings based on well defined competencies and goals.

There is value in having managers rate individual goals and competencies independently before making an overall performance evaluation. Such individual ratings focus managers on the criteria that define effective performance. But rather than averaging or adding these ratings together into an overall rating, it is better to ask managers to make the overall rating independently. The overall rating should be reflective of the ratings made on individual competencies and goals, but should not be a simple linear addition of these ratings. Instead, it should take into account the importance of meeting or exceeding certain performance thresholds for different competencies and goals. And most important, managers should be able to easily and clearly explain to employees how they arrived at their overall performance rating.

Who provides input into the performance evaluation?

One of the foundations of effective performance management is accurate performance measurement. The accuracy of employee performance information enables or limits subsequent efforts to provide employee feedback, support coaching and development, or guide staffing and pay decisions. Accurate performance measurement depends on two things: 1) clearly defining the criteria that determine performance and 2) consistent, systematic, thorough collection of data based on these criteria. We previously discussed defining performance criteria and designing rating scales. Now we are going to talk about methods for collecting performance data.

There are two aspects to collecting data for performance evaluations. First, define what sources will be used to collect performance data. The primary sources are usually employees themselves and their managers, but you may also want to include information from peers and customers as well as objective data such as financial metrics or certifications testing. Second, define the steps to collect information from these sources.

Figure 6 illustrates the three types of performance data that go into a performance evaluation.

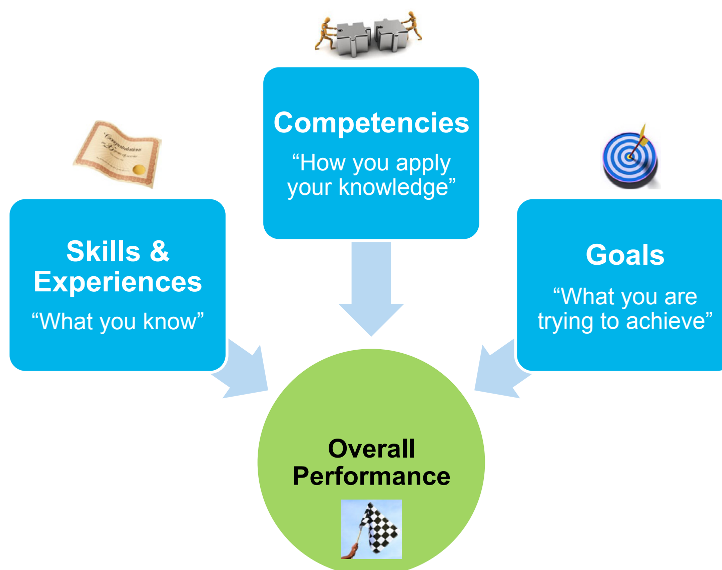
Competencies: Data about competencies is usually based on observations and ratings provided by employees and their manager. It can also be collected from co-workers and customers. Information from sources other than managers can be particularly useful when assessing competencies that affect specific stakeholder groups. For example, an employee's peers may have more insight than their manager into competencies like "Supporting co-workers". The use of social technology tools in the workplace is creating increased interest in gathering "crowd-sourced" competency information through online forums. This technology can provide useful information about certain employee competencies, but has significant limitations in terms of being seen as the primary source of competency data (see sidebar "using social technology and crowd sourcing to evaluate employee performance"). It is also possible to evaluate competencies using job simulations or psychometric assessments, but these methods are better suited for staffing applications and are very rarely used for performance management.

Goals: Data about goals usually comes from employee and manager evaluations of whether goals were accomplished. Goals for some jobs can also be measured based on objective metrics such as customer satisfaction surveys, productivity metrics, or sales revenue.

Skills: Few jobs include data on skills as part of the performance management process. But those that do will typically evaluate skills based on employees completing certification tests, requiring employees to provide evidence that they have performed certain tasks or gained certain experiences, or by having managers or subject matter experts rate the employees on skills proficiency.

After determining what sources of data will be used in the review, the next step is determining how the data will be collected and combined to create the final set of performance ratings.

Figure 6. What goes into a performance evaluation



Sidebar 7: Using social technology and crowdsourcing applications to evaluate employee performance

Social technology applications similar to Facebook or Twitter are now common in the workplace. People have suggested that data from these systems could be used to replace formal performance reviews. Instead of managers rating employees on different competencies, might it be better for employees to be evaluated directly based on comments, popularity and posts made on these sites? It makes sense to explore how to incorporate online postings and comments into more traditional performance rating processes. But it does not make sense to assume social technology can or should replace more traditional performance evaluation methods.

Social technology applications have tremendous value for supporting ongoing coaching and communication around performance. But when it comes to making formal evaluations of someone's value to the organization, these tools have a lot of problems including:

1. **Poor measurement.** Social technology assessments commonly focus on how often a person comments on different sites and the reactions others show to those comments. One could argue that social technology is more about impression management, popularity, and knowing who to ask for feedback than rigorous, consistent measurement. There is also a distinct absence of well-defined performance criteria in most of the social technology systems (e.g. well defined goals or competencies).
2. **Lousy analytics.** Social technology tends to rely heavily on qualitative statements as opposed to quantitative ratings. This is a strength from a coaching and feedback perspective, but it is a problem from the perspective of calibration, measurement consistency, and workforce analytics.

3. **May not work in competitive environments.** People competing for limited resources might distrust or actively try to "game" social technology.
4. **High potential to create disruption in the company.** One of the things people often joke about Facebook is it is not possible to "dislike" something. Yet constructive feedback requires sharing negative comments from time to time. But encouraging posting of negative comments on social sites is likely to create more problems than it solves. Providing effective critical feedback is a sensitive topic at best. Many cultures are very averse to making publicly critical comments about someone else's performance. And one cringes to think what might happen if someone posts a comment in social performance technology system saying "his work sucks" or "he is an idiot".
5. **Legal concerns.** It would be interesting to ask the corporate council of a company that had just been sued for unfair promotion or pay practices what they think about social technology systems. I suspect they might describe it as a plaintiff's gold mine of inappropriate comments.

People once said the internet will be the end of brick and mortar retail stores. Well it didn't happen, although it certainly changed how people shop. The same is true for social technology and "traditional" performance reviews. It is doubtful that social technology is going to completely alter the future of performance management. The more social technology systems try to address issues that will make them useful for performance management applications, the more they start to look like more traditional performance management systems. Social technology is a huge benefit for certain aspects of performance management, but it is not the future of performance management. It is just another tool, even if it is a unique and valuable one.

Figure 7 provides an overview of steps commonly used to evaluate employee performance. The steps in black represent basic elements required to implement consistent performance evaluations. The steps in green represent elements that are commonly found in many performance management processes. The steps in orange represent elements that work well for some companies and jobs, but that are less widely used because of the resources they require or their limited relevance to certain types of positions. For the sake of illustration, here is what a performance evaluation processes might like for a company that used every step in Figure 7, and what a process might look like for a company that did the fewest possible number of steps.

Comprehensive Process. Information is imported from sales and financial data systems to create a profile of the employee's performance based on objective business metrics (step A). The employee creates an initial assessment of their performance based on these metrics combined with other information about their performance collected over the year (step B). Several of the employee's co-workers send information to the employee's manager expressing their opinions of the employee's strengths and developmental areas (step C). The manager reviews the employee's business metrics, the employee's self-assessment, comments from the employee's co-workers, and the managers own record of the employee's performance to draft an initial evaluation of the employees performance (step D). The manager and the employee meet to discuss the manager's initial performance assessment and if needed make modifications to

address areas of misalignment (step E). The manager drafts and submits his overall assessment for further review and approval (step F). The manager's manager reviews the assessment and suggests relevant changes based on his/her perspective on the employee's accomplishments (step G). Representatives from the HR department review the assessment to ensure it is appropriately written and contains all required information (step H). The manager discusses the assessment with other managers during a calibration session and if necessary changes the evaluation based on input from their peers (step I). The manager makes a last round of changes to the assessment based on input from previous steps and finalizes the review (step J). The manager meets with the employee to discuss the final assessment and discuss ways to increase their performance and achieve their career goals (step K). The manager shares information with the employee about decisions regarding their pay or job position that were based in part on the results of their performance evaluation (step L). If the employee's performance is well below expectations, the manager may put the employee on a performance improvement plan (step M).

Minimal Process. The manager drafts and submits a review of the employee including an overall performance evaluation based on the manager's opinion of their performance (combining steps D, F and J into a single step). The manager meets with the employee to review their performance evaluation and communicate pay or staffing decisions that were based in part on the evaluation (combining steps E, K, and L into a single step).

Figure 7. Performance Evaluation Steps

The comprehensive process would probably take about 4 months from start to finish and require about 16 to 20 person hours to complete for each employee. The minimal process might take 2 weeks or less to complete and require fewer than 3 person hours. If a very simple rating form was used and managers were not expected to spend time coaching the employee then the minimal process could require less than 1 hour. The comprehensive process is probably too long and involved for most organizations. The minimal process might work for some very basic positions, but is too simplistic to be effective for most jobs. The best process for most jobs lies somewhere between these two extremes. The challenge lies in finding which sequence of steps is appropriate for your particular organization or job. With that in mind, we will review the steps in more detail including their strengths and potential concerns.

A. **Integrate Objective Data.** This involves bringing together data from different databases or systems that will be used in the performance review. This might include financial results, sales numbers, customer satisfaction survey scores, productivity metrics, workforce metrics (e.g. staff turnover, engagement levels, or promotions), or any data that is assumed to reflect an employee's performance contributions. This step is common for jobs closely tied to objective metrics such as sales or production positions. It is less common for support and professional jobs where it is difficult to directly tie performance to specific metrics. It is important to think through what data to include because it can be a labor intensive process to pull together this information, particularly if it is going to be used to assess performance for a large number of employees. Also avoid collecting objective data just because it is easily obtainable. This can result in treating this data as being more important merely because it is available. Last, be sure to present the data in a way that will be easy for employees and managers to interpret.

B. **Employee Self Assessment.** This involves having the employee evaluate and describe their own performance against job relevant competencies, goals, and skills. Employee self-assessment is very common and provides several advantages. First, employees have a vested interest in presenting their performance strengths and are likely to put a fair bit of effort into gathering and presenting information that describes their accomplishments. This reduces the workload placed on managers during the performance evaluation process. Second, asking employees to review their performance encourages them to critically compare themselves against job relevant performance criteria. This increases employee self-awareness regarding their performance strengths and weaknesses. The only significant downside to employee self-assessment is the tendency for under-performing employees to view themselves as being more competent than they actually are. This can create difficulty for managers who are faced with the task of giving these employees a candid "dose of reality" about their true level of effectiveness. On the other hand, this sort of "difficult conversation" can increase employee self-awareness and subsequent performance improvement.

C. **Co-worker &Customer Input.** This step involves asking people who work with the employee to provide input into their performance contributions. This step can be initiated by employees or managers. Companies often ask employees to provide a list of co-workers to their manager. The manager can approve, change or add to this list based on who will provide the most useful and accurate input. There are a few things to remember when gathering co-worker and customer input. First, it is usually wise to limit the input to 2 or 3 people or the step can become very time intensive and the amount of information collected can become difficult to process. Second, avoid asking co-workers to rate the performance of their peers. It is better to ask for descriptive comments such as "what are two things this employee does well" and "what are two things this employee could change to improve their job effectiveness". Third, be sensitive to the number of times certain people are being asked to provide input. Co-workers who work with a large number of employees could easily be asked to provide input for 10 or more reviews. Having to provide input into several reviews creates significant time demands and can negatively impact the quality of information provided.

D. **Manager's Initial Assessment.** This step can be done in parallel with the employee self-assessment, as a response to the employee self-assessment, or by itself if the company is not including an employee self-assessment step. During the initial assessment the manager provides his/her first evaluation of the employee. It is important to indicate that this assessment may be revised during subsequent steps. Most companies will have managers provide an initial overall performance rating with the understanding that the rating is not final. Some companies ask managers to provide descriptive information and ratings on the employees' individual goals and competencies, but do not ask for an overall performance rating during this initial assessment.

E. **Manager & Employee Review.** The manager and employee meet to review the performance evaluation and discuss its accuracy and completeness. This step can occur at many places in the overall process. For very simple processes, it may occur shortly after the manager's initial assessment and may represent the end of the process. Companies that use manager's manager reviews, process administrator reviews, or calibration reviews (steps G, H and I) may conduct this step prior to these reviews to ensure the manager has thorough and complete information about their employee's performance before discussing it with their peers Many companies combine this step with communication of pay and staffing decisions (step L). While such a combination might be convenient, it is not recommended for reasons we will discuss later when we discuss delivering employee performance feedback.
F. **Manager's Overall Assessment.** The manager revises the review based on information from previous steps, and submits their formal assessment of the employee. At this point the manager and employee are assumed to accept the review as final assuming no additional changes are made as a result of reviews by the managers' manager, process administrator, or during calibration meetings.
G. **Manager's manager review.** The manager's manager reviews the assessment to ensure it meets quality expectations and aligns with their perceptions of the employee's performance. Including this step has several advantages. It helps ensure evaluations reflect a consistent set of performance standards, reduces the risk of having managers evaluate their employees much more harshly or leniently than their peers, and creates an opportunity to coach the manager on how to be more effective at performance management. It also gives the manager's manager greater knowledge of the talent found in the organization which can promote talent mobility and inform workforce strategies. The main disadvantage of this step is it is time consuming. A manager's manager may be responsible for looking at scores of performance reviews if they have several managers reporting to them. The manager's manager may also struggle to provide useful feedback on the assessment if they only have limited exposure to the employee being evaluated. Last, this step assumes the manager's manager is skilled at performance reviews, which is not always the case.
H. **Process Administrator review.** This is similar to the Manager's Manager Review, but instead the assessment is reviewed by a process administrator with expertise in performance management. This is typically someone from the Human Resources organization. This creates more consistency in performance reviews across the entire organization since the process administrator typically looks at reviews across multiple departments and functions. Having the review conducted by someone with expertise in performance appraisals can also increase the quality of performance reviews and decrease legal risks associated with inappropriate evaluation comments. This step can also identify managers who need performance management training, and recognize those managers who show exceptional skill at evaluating performance. The main disadvantage is this step is time intensive, will require dedicated resources to conduct the reviews, and increases the overall bureaucracy of the performance management process.
I. **Talent Review Sessions.** These sessions bring together groups of managers to compare and discuss the performance levels of their direct report. These sessions are usually conducted as part of a larger calibration process which we will discuss in the next section. Talent review sessions create more consistent performance evaluations, enable managers to share ideas and best practices for conducting performance reviews across the organization, and increase awareness of employee capabilities across the company which enables better utilization and mobility of internal talent. Talent reviews are one of the most impactful ways to increase the overall quality and value of a performance management process. The disadvantage is they are time consuming. They must also be structured and facilitated by skilled personnel to ensure the sessions remain productive, focused and non-confrontational.

J. Final Assessment Submission. The manager integrates information from all the previous steps and develops and submits his/her final assessment of the employee's performance. It is critical that managers clearly own this step. Do not design a process that allows managers to say "this isn't what I would have said, but I was constrained by the performance management process we use". Forcing managers to make ratings they do not agree with will cause them to resent the performance management process and lose any sense of ownership toward using performance reviews to improve employee productivity. At the end of the day, the manager must be responsible for the contents and consequences of the reviews they submit for their employees. It is appropriate to ask managers to explain why they have given employees certain performance ratings. But managers should not be forced to submit a review they do not agree with.

K. Providing Employee Feedback. The manager meets with the employee to discuss their final review. Ideally this step is spent discussing how to use the information contained in the review to help the employee increase their future performance and achieve their career goals. But performance management processes do not always require extensive levels of development coaching to be effective. In some cases, simply making employees aware of their performance levels is enough. We will discuss this in more detail in the section on providing employee feedback and coaching.

L. Communicating Pay and Staffing Decisions. The manager meets with the employee to communicate pay or staffing decisions that were based in part on the results of the performance appraisal. Note that while decisions related to pay and staffing should be influenced by performance appraisals, they are not actually part of the performance review process. The fundamental purpose of performance reviews is to accurately measure the performance contributions of employees. This is not the same thing as deciding what people should be paid or who should be promoted. Many things influence pay and promotion decisions other than performance. We will discuss this in more detail in the section on using performance management data to guide talent decisions. Communicating pay and performance decisions is ideally integrated with the performance appraisal process, but is preferably done separately from steps focused on communicating the results of the appraisal itself.

M. Performance Improvement Plan (if needed). If an employee is performing below a certain level, then companies may require they be placed on a formal performance improvement plan. Performance improvement plans are designed to ensure companies are in compliance with relevant legal guidelines in case they have to terminate a person's employment contract. It is particularly important to include this step for positions where terminations due to poor performance occur fairly regularly.

Defining the performance appraisal process is one of the most critical parts of performance management design. It has a massive impact on the accuracy and quality of performance data and requires the greatest level of direct employee and manager involvement. When deciding which performance appraisals steps to include, carefully consider the primary objectives you want to achieve from your performance management process overall. If your main goal is to increase employee productivity then you are likely to include a lot more steps than if your goal is just to ensure legal compliance. The number and nature of the steps will also be influenced by the resources available in the organization to support them, as well as the level of support shown by business leaders toward formal talent management processes. As a general rule, it is better to do a few steps really well than risk doing a lot of steps poorly. We will discuss later in the section on performance management maturity that it is often most effective to start with simple process and steadily build on it over time.

cal·i·brate: verb \ka-l-brāt\ to measure precisely; especially : to measure against a standard

Definition from Merriam Webster

Question 5. How will you calibrate performance evaluations?

Calibration methods ensure evaluations of employee performance are based on a common and precise set of standards. Companies primarily implement calibration to drive differentiation between employee performance ratings and create evaluation consistency across managers. Calibration methods include behavioral anchored rating scales, recommended performance distributions, forced ranking, and calibration talent review sessions. The primary reason companies implement calibration is to drive differentiation between employee performance ratings and create consistency across managers in terms of how they evaluate performance. Calibration also helps ensure that employees are rated based on their actual behavior and accomplishments and not just the subjective opinions and attitudes of their managers. Calibration can be used to support performance management, compensation, and succession (see sidebar, "Calibration for Performance management, compensation & succession").

Sidebar 8: Calibration for Performance Management, Compensation & Succession Management

Calibration methods can be applied to any talent management process that requires determining if some employees are more valuable than others based on their contributions, capabilities, or attributes. Calibration processes are most frequently used for making decisions about which employees should be given certain rewards or opportunities that cannot (or will not) be made available to the entire workforce. For example, deciding who will receive limited organizational resources such as promotions, compensation, or development opportunities.

Calibration addresses one of the most common problems in performance management: the tendency to rate all employees as being at the same general level of performance (see sidebar "Why manager struggle to differentiate between high and low performance and how to help"). For example, when a manager rates all their employees as "above average" even though by definition this is not possible. Calibration methods can also ensure employees are held accountable against a consistent set of performance standards. In sum, calibration is an extremely effective way to increase the impact of performance management. But calibration methods also create a range of risks that need to be effectively managed.

The following is a short description of the three most common uses of calibration:

Calibrating employee performance ratings. Managers are required to explain or justify why they gave certain employees higher performance ratings than others. This is primarily used to a) ensure managers have a consistent definition of "effective performance", b) differentiate between high performing employees and less valuable contributors, and c) decrease the influence of managers' subjective opinions and attitudes on employee performance ratings.

Calibrating compensation decisions. Managers are required to allocate financial rewards such as pay increases or bonuses in a way the meaningfully differentiates the rewards given to high performers from those given to others in the organization. This is primarily used to a) maximize the motivational value of compensation awards on high performers, b) avoid the risk of over-paying under-performers, and c) build a pay-for-performance culture.

Calibrating succession candidates. Managers or other organizational leaders rigorously compare and contrast the potential of employees to assume future roles with increasing leadership and/or job responsibility. This is primarily used to a) ensure the company has a realistic sense of its internal talent pool or "bench strength", b) develop common definitions of "potential" for different roles, and c) promote development and sharing of internal talent across the organization.

These three processes work best when they are integrated with each other. A well run performance management calibration process can actually eliminate the need for compensation calibration and significantly reduce the effort required to conduct succession calibration.

Why managers struggle to differentiate high and low performers and how to help

People often complain that performance management processes do not adequately identify high and low performing employees. This might seem odd since virtually every performance management process encourages manager to differentiate between high and low performers. It is not as though managers do not have the ability to rate employees differently. So why don't managers put more people in these categories? What makes it so difficult for managers to rate certain employees as being more effective than others?

Answering these questions starts with understanding how managers approach performance management. Managers evaluate the effectiveness and importance of a performance management process based on several things:

- **Is it easy to complete?** This depends on how much time is required to complete performance management forms, conversation and meetings and whether the tasks associated with performance management are simple or difficult. Certain performance management tasks such as effectively delivering critical feedback are not easy for many people. Making performance management easy requires building simple and intuitive tools and processes. But it also requires training managers on how to set goals, evaluate performance and provide feedback.

- **Does it increase or decrease workforce productivity?** To maximize productivity it is necessary to provide employees with constructive feedback that illustrates what they must do differently to increase their effectiveness. If this feedback does not contain the right information or is not delivered in the right way then it can potentially decrease productivity and increase turnover of valued employees. One of the challenges managers ask before giving feedback is "will this lead to more or less effective performance?" How they answer this question will depend on whether they have been given adequate tools and training to hold effective coaching conversations.

- **Does it positively or negatively impact the work environment?** High performance work environments are motivating when everyone is fully engaged in fulfilling their performance potential. But they can be stressful due to the expectation that people must constantly get better. Managers must decide when to increase performance pressure and when to focus on maintaining a healthy work balance. Managers may avoid critically evaluating people's performance for fear of the stress and potential interpersonal conflict it can create. They may struggle to create a work environment that challenges employees to be their best without overwhelming them with unrealistic work expectations.

- **Will managers be rewarded for confronting poor performance?** All companies say they want managers to hold employees accountable for meeting performance expectations, but many companies do not back this up with action. Managers who call attention to under-performing employees are sometimes told to live with the poor performer because politically or legally it is viewed too difficult to manage them out of the organization. Rather than supporting and rewarding managers for addressing performance issues, these managers are treated as troublemakers. Other times managers are punished for not having teams entirely composed of "high performers". It is important to monitor how the company reacts when managers call out employees who are not meeting expectations. Are these managers supported or punished for acknowledging not everyone on their team is a high performer? Any manager that truly strives for high performance will at some point encounter employees who are not meeting expectations. The true test of an effective manager is not whether they have performance issues on their teams, but how they address these issues when they occur.
- **Does it help employees achieve their career goals?** Increasing performance requires convincing employees to do things in the future that are different from what they have done in the past. Experienced managers know that employees will not put effort into improving performance if they do not believe it will help them achieve their personal career goals. Performance management works best when it provides employees with information and resources to help them achieve what they want out of work.

From a manager perspective the main goal of performance management is not to accurately document employees' past performance, it is to positively influence their future performance. Using performance management to critically evaluate employees and place them into different performance categories does not necessarily positively impact the lives of managers. Why would managers risk evaluating employees critically if it might lead to decreased productivity and a damaged work environment? In many companies the "safest" path for a manager is to rate all employees as though they were roughly the same. This may not increase performance, but it probably won't significantly decrease it either (although it may increase turnover risk among high performers who resent being treated the same level as lower performing colleagues). If a manager is not confident in their ability to use performance management effectively, they may very logically take the path of least resistance and simply rate everyone as "above average".

The best way to get managers to rate employees differently is to provide clear performance criteria, train them on how to use the criteria to accurately evaluate employees, show them how to provide critical performance feedback in a way that will motivate employees to change for the better, and then support and reward those managers who are willing to differentiate between low and high performing employees. Managers will not truly embrace using performance management to differentiate between high, average, and low performers until they are confident that such critical evaluations will help them more than hurt them.

Calibration is not necessarily easy to implement, but it need not be overly complicated either. Large companies have successfully deployed calibration methods across thousands of employees in a manner of months. As with most talent management methods, there is no one best way to use calibration. Methods that make sense for one organization may be impractical or ineffective in another. Carefully thinking through the following calibration methods will provide a solid foundation for deploying calibration within your company. Most of these methods are complementary and work best when combined into a single performance management process.

Common performance definitions support calibration by providing a common standard to evaluate employees. The most useful performance definitions include goals and competencies describing specific actions and behaviors associated with different levels of performance. If calibration is being used to compare employees who are working in different types of jobs then it is valuable to identify core competencies that influence performance across a range of jobs or job types. Core competencies are particularly useful for comparing the performance of employees who work in different roles or have vastly different sets of skills and experiences.

Rating distribution guidelines indicate approximate numbers of employees that are expected to fall into different performance categories. Most companies encourage managers to distribute employee ratings so they fit a normal distribution with a slight skew. The following is an example of a rating distribution guideline for a five point performance scale:

Percentage of employees expected to be placed in different performance categories

5 – Top Performer: 10%
4 – Strong Performer: 35%
3 – Solid Performer: 45%
2 – Needs Improvement: 7%
1 – Poor Performer: 3%

Rating distribution guidelines encourage performance differentiation and are an easy way to monitor if managers are critically evaluating their employees. They can be used to create “performance pressure” by flattening the curve so more employees are rated as high or low performers (e.g., requiring that 20% of employees fall in each of the five categories show in the previous example). Flattening the curve can increase workforce productivity in some settings, but can also backfire by forcing managers to make ratings they do not believe are fair and accurate and de-motivating employees by creating an overly stressful environment. Forced ranking is the most extreme form of rating distribution guideline because it asks managers to place every employee in a different performance category from most effective to least effective (see sidebar “The Truth about Forced Ranking”).

Rating distribution guidelines are a useful tool for calibration, but create risks if they are not appropriately managed or do not match the true nature of the performance distributions found in a company. They are particularly problematic when managers are required to strictly adhere to the guidelines. For example, requiring managers to always place a percentage of employees in the highest and lowest performance categories even if managers do not believe this placement represents a true portrayal of their team’s performance.

Rating reviews. The most common rater review is the “2nd level manager” review. In this method, employees are rated by their manager and then the manager’s manager reviews the ratings for accuracy and differentiation. Rating reviews are sometimes conducted by members of the HR department instead of the 2nd level manager. Rating reviews are time consuming, but help ensure employee ratings are reasonably accurate based on broader company expectations. They can also be used to monitor the overall quality of performance assessments.

Talent review sessions bring together groups of managers, senior leaders, and talent management specialists to compare and discuss the performance of employees drawn from multiple teams, departments, or organizations. There are many different ways to structure and conduct talent review sessions. The one common feature is having people from different parts of the company discuss and contrast performance of employees who may not directly report to them. Talent review sessions are the most powerful form of calibration because in a single meeting you can clarify common performance definitions, reinforce rating guidelines, and conduct rating reviews. They also allow managers to coach each other on how to manage different kinds of employees and promote greater levels of transparency and sharing of talent across the organization. The downside is talent review sessions require significant resources to be done well, and can create major problems within the workforce if done poorly.

Each of these calibration methods can be implemented independently. But they are most effective when implemented as part of single performance appraisal process. What calibration methods to use will depend on the results the organization wants and the resources it has available. Many companies shy away from implementing calibration because of the resources it requires. This is unfortunate as calibration provides multiple positive outcomes that help align a company's workforce with its business execution needs including:

- **Shared definitions of performance.** One of the fundamental aspects of a high performance work environment is a clear and well understood definition of what success and failure looks like. Common performance definitions and talent review sessions support the creation and use of rigorous performance standards. These force managers and employees to candidly and honestly compare their actions against the expectations of the organization.
- **More accurate performance data.** Calibration methods have a significant impact on the accuracy of performance appraisals by creating clear guidelines for performance evaluations and encouraging discussion and debate around the validity of managers' ratings.
- **Increased equity and fairness.** Calibration increases the transparency of performance ratings and decreases the potential for managers to unfairly rate certain employees to leniently or harshly. Employees know their performance evaluation has been critically reviewed by people other than just their manager. This can reduce concerns of being rated poorly "just because my manager doesn't like me".
- **Improving the quality of the workforce.** The results of a study examining the ROI of talent management methods where succinctly summarized with the following statement:

> "The fastest way to improve performance of any unit is to set rigorous performance standards and get rid of those who do not measure up."
>
> **Eichinger et al., page 208**

This does not mean calibration should be used to constantly winnow the workforce every year by "removing the bottom x%". In fact, there are significant problems with this type of use of calibration. But ongoing performance calibration will ensure that underperformers are identified and addressed, not continually overlooked and tolerated year after year.

- **More effective compensation allocation.** Closely linking pay decisions to employee's performance contributions increases the motivational value of compensation. When high performing employees see a clear relationship between performance levels and pay, pay increases have a much stronger impact on their motivation and retention. The motivational value of paying for performance is significant even when the relative difference in pay given to high vs. low performers is fairly small. There are also immediate cost savings associated with reducing the amount of pay provided to low performing employees.
- **Better insight into workforce capabilities.** Because calibration increases the accuracy of performance appraisal data, it makes performance management data more useful for evaluating workforce strengths and weaknesses. The conversations that occur during calibration reviews promote better understanding across the company around the relationship between business needs and current workforce capabilities.
- **Greater coaching and sharing of talent.** Talent reviews give managers a forum to discuss performance issues with their peers. This creates an opportunity for peer-to-peer sharing of knowledge and ideas on how accelerate employee development and address employee performance issues.

Which of these outcomes are most pronounced depends on how the calibration process is designed. But taken as whole, there are relatively few talent management actions a company can implement that have a greater impact on workforce productivity than the use of effective and well-designed calibration.

Sidebar 9 : The truth about forced ranking and forced distributions

Forced ranking and forced distributions are calibration methods that require managers to place a certain percentage of employees in different performance categories ranging from most to least effective. Forced ranking is the most extreme form of calibration. It requires managers to list each employee in order of performance from most valuable to least valuable. Forced ranking and force distribution methods received a lot of publicity in the 1990s due to their use at GE under the famous CEO Jack Welch. Research has shown that these methods only increases workforce productivity in certain limited settings, and can negatively impact productivity in others.

Research on forced ranking and forced distributions indicates that these methods can increase workforce productivity when a company has a high percentage of under-performing employees. But their value quickly wears off as the company begins to weed out poor performers. At this point, forced calibration methods begin to damage workforce quality and employee morale.

Forced distribution methods are also much less effective if managers only force distribute the direct reports on their teams, as opposed to doing distributions across much larger groups of employees such as entire departments. Forced ranking and forced distributions at the manager-team level punishes managers who have been "slow to hire and quick to fire" in terms of building a team entirely consisting of high performers – which while rare is possible.

In reality, few companies do strictly forced ranking or forced distributions. Even GE which is famous for forced rankings stopped doing it years ago. It is usually far more effective to use calibration talent review sessions. In these sessions, managers must explain their performance ratings to their peers and/or supervisors and reach mutual agreement on what the final ratings should be. A manager may initially give everyone on his/her team high ratings, but they have to effectively justify why the team deserves these ratings or adjust the ratings downward. Calibration sessions help address the problem of some managers rating more leniently or severely than others. The calibration process also helps managers to develop a common definition of what "high performance" looks like. Last, it provides managers with insight into talent in other parts of the organization which can facilitate talent movement across the company.

Question 6. How is data from performance evaluations used? What is the relationship between performance evaluations, pay, staffing, development, and workforce management?

Performance management drives business execution by enabling more accurate decision related to investing company resources to optimally impact workforce productivity. Most of these decisions have to do with pay, staffing, development, and workforce management. It is important to think how these decisions are currently made in the organization, and how performance management data will be used to improve their effectiveness. It is beyond the scope of this paper to address all of the ways performance data can be used to guide pay, staffing, development and workforce management decisions. But here are a few high level issues to consider when tying performance management to these areas.

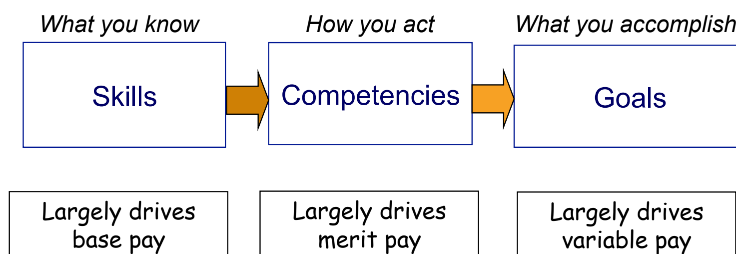
Compensation Decisions. Creating a stronger "pay for performance" culture is a common goal for implementing performance management methods. Pay for performance is a more complex concept than it might initially seem, but the basic notion of paying high performers more than low performers is generally a good strategy for increasing workforce productivity (see sidebar "Do we really want pay for performance"). Things to consider when building pay for performance processes include:

- ***How will performance management data be used to guide compensation decisions?*** Simply providing managers with a table that compares performance ratings with compensation recommendations can substantially improve the relationship between pay and performance. More structured processes set specific restrictions or recommendations for pay increases based on different employment levels. For example, employees who receive the highest performance rating may be eligible for "7% to 10%" pay increases while employees who receive middle level ratings may only be eligible for "4% to 8%" increases. It is usually better to give managers pay ranges as opposed to providing them with a specific pay number (e.g., "all employees who receive the highest rating will get 6%"). Providing ranges gives managers some leeway to adjust pay up or down based on other factors such as employee turnover risk or current pay levels while still retaining the general relationship between pay and performance.

- ***What is the relationship between pay and different aspects of performance?*** The three most common types of pay roughly correspond to the three categories of criteria used to evaluate performance (see Figure 8):
    - ***Base salary increases*** raise pay by a fixed amount. This typically occurs when someone mover from a lower paying job to higher paying job. Base salary increases tend to reflect skill acquisition. Employees must acquire new skills to take on expanding job responsibilities and thus qualify for higher base salaries.
    - ***Merit increases*** raise pay based on a percentage of current salary. These are the most common types of annual pay increases. Merit increases tend to reflect competency ratings because competency performance tends to be stable over multiple years. As people's competency performance increases they become more valuable employees overall.
    - ***Variable pay bonuses*** provide a one-time financial award either as a fixed amount or as a percentage of current salary. These are usually tied to achievement of specific goals. Variable pay bonuses are typically used to reward employees for something they accomplished during the last year or pay period, but that may not do again in the future.

Companies do not always create strict links between compensation and these three aspects of performance. But this framework can help explain general compensation strategies. Base pay is a function of what skills employees possesses and therefore what jobs are they qualified to perform. Merit pay is a function of performance related to stable, underlying job performance competencies that increase a person's overall value in their current role. Variable pay is a reward for an employee's most recent goal accomplishments.

Figure 8. Typical link between compensation methods and performance criteria



- **How you measure employee performance to guide staffing decisions may be different from how you measure performance in current roles.** This is particularly important to understand if you have to explain why a high performing employee did not get a promotion they were expecting. Performance assessments used to guide selection tend to emphasize the parts of job performance that are similar to the new role. This may only represent a small part of a person's current role. For example, when evaluating performance of someone in an individual contributor role for a potential promotion into a management role, you will emphasize those aspects of their current job that have to do with guiding and influencing others (e.g., building relationships), while downplaying parts of their role that reflect individual contributor tasks that you might not want a manager to do themselves (e.g. solving technical problems). Because performance assessments done for staffing put more emphasis on some parts of the job than others, it is not uncommon to find that the best candidate for a new job may not be the employee who had the highest performance rating in their current role.

Sidebar 10: Do we really want pay for performance?

A pay for performance culture is one where people receive monetary rewards based on the value they provide to the company. The more value you provide, the more you are paid. The assumption is people will provide more value if they are financially incented based on their contributions. Adopting a pay for performance mindset, while generally a good idea, can over-simplify what business leaders truly want and what actually motivates employees. To illustrate this, consider the following 4 pay for performance cultures in order of best to worst to somewhere in-between.

The best scenario: Performance without pay. Business leaders don't actually want to pay for performance. What they ideally want is performance without having to pay. But most employees are not willing to accept this proposition. We rightfully expect to be paid for what we contribute. Nevertheless, it is possible to inspire people to achieve high levels of performance without focusing on pay. Volunteer organizations do this all the time. There are a lot of things that motivate people. The motivational value of pay varies depending on the type of job and employee, and business leaders who use pay as the sole tool for motivating employees risk adopting a very expensive and marginally effective leadership approach.

The worst scenario: Pay for poor performance. The worst case scenario for a business occurs when employees are rewarded for doing things that undermine company performance. This occurs more often than companies would like to admit, particularly in companies whose managers have to comply with restrictive personnel policies, rules, and regulations. Rewarding poor performance encourages counterproductive behavior and destroys the motivation of high performers. High performers dislike it when they do not receive any sense of recognition or rewards for their contributions. But they hate it when they see rewards going to poorer performing colleagues.

A lousy scenario: performance only for pay. One of the problems with creating a direct link between pay and performance is some people will never feel they are getting paid enough. No matter how much pay these people receive for doing something, over time they always seem to want more. Payouts can quickly switch from being a reward to being an expectation. Today's financial bonus is tomorrow's entitlement. Once this happens, pay ceases to be a motivator and becomes a source of dissatisfaction.

The pragmatic scenario: performance influences but does not completely determine pay. Research on productivity, fairness, and motivation indicates that there should be a positive relationship between how much people are paid and how much they contribute to the company. But the relationship between pay and performance does not need to be perfect to be effective. Many things influence pay levels beyond individual performance (e.g., overall company financials). Conversely, pay is only one of many things that influence performance. Company's should create a link between performance and pay, but should not overemphasize pay as the only reason why employees should seek to perform at higher levels.

Establishing links between pay and performance does tend to increase productivity. But it is not just the promise of pay that drives the productivity. When you link pay to performance, employees and managers get much more serious around defining what they mean by "performance". And clearly defining performance expectations drives all kinds of benefits for increasing workforce productivity, regardless of pay levels.

- ***What factors impact pay outside of performance – and are people aware of them?*** Performance is an important factor when making compensation decisions, but it is not the only factor. Other factors impacting pay decisions include an employee's current salary relative to others in similar positions, turnover risk, overall criticality of an employee to the business, and the financial performance of the organization overall. It is useful to provide managers with guidelines on how to account for these other factors when making pay decisions. Performance management data is an important piece of the puzzle for setting compensation, but it is not the only piece. Employees should also have some sense of the various factors that impact pay so they better understand how decisions are made that impact their compensation.

Staffing decisions. It might seem obvious to use performance management data to guide internal staffing and promotion decisions. Yet many companies do not systematically include performance reviews in the staffing selection process. This could be because these companies do not feel they have accurate performance management data. Regardless of the state of your performance management data, it is important to consider performance management ratings when filling internal positions. If performance ratings are excluded from the staffing process it sends a message to employees and managers that performance management is not that important. The following are a few other things to consider when creating links between performance management data and staffing.

- **Establish guidelines or minimum performance levels for internal transfers or promotions.** Communicate minimum performance requirements that employees must meet in order to be considered for other positions in the company. For example, requiring that employees have performance ratings of "meets expectations or above" in order to be qualified for internal transfers. Employees should not be able to deal with poor performance reviews by "escaping" to another role elsewhere in the organization. Similarly, managers should not be allowed to pass poor performers to other parts of the company without some discussion of their performance issues.
- **Balance "what" and "how" of performance when making staffing decisions.** We talked earlier about performance being a function of "what you accomplish" (achieving goals) and "how you accomplish it" (demonstrating competencies). There is a tendency to promote people based on goal accomplishment while overlooking performance issues related to competencies. This sends a message that results are all that matter, and how you achieve those results is of little importance. This sort of staffing approach can create a business culture where ethics and values become unimportant as long as employees "hit their numbers".
- **Clarify that performance in current role is one of many things that influence staffing decisions.** The decision to promote or transfer an employee should depend in part on how effectively they are performing their current position. But it also depends on the employee's overall commitment to the organization, whether they possess underlying skills and attributes to perform different roles beyond what they are currently doing, and whether the company has the talent needed to backfill the employee's current position if they move to another job. Employees should understand that just because they may be the best performer in their current job does not necessarily mean they are the best candidate for other roles.
- **Do not wait until a formal performance review to address counterproductive performance.** We usually think about staffing in terms of promotions and job transfers. But staffing also includes removing people from jobs where they are underperforming. Staffing actions to "manage out" underperformers should be initiated as soon as a manager determine that an employee's performance does not meet the needs of their current role. This includes putting employees on a Performance Improvement Plan so they have an opportunity to correct their performance issues. Once it is determined that an employee needs to be removed from a role, this action should take place immediately and independently of the formal performance review cycle. You do not want to tolerate a clearly under-performing employee longer than you have to. You also do not want the performance review cycle to become associated with an annual "letting go of talent".

- **Do not wait until a formal performance review to address counterproductive performance.** We usually think about staffing in terms of promotions and job transfers. But staffing also includes removing people from jobs where they are underperforming. Staffing actions to "manage out" underperformers should be initiated as soon as a manager determine that an employee's performance does not meet the needs of their current role. This includes putting employees on a Performance Improvement Plan so they have an opportunity to correct their performance issues. Once it is determined that an employee needs to be removed from a role, this action should take place immediately and independently of the formal performance review cycle. You do not want to tolerate a clearly under-performing employee longer than you have to. You also do not want the performance review cycle to become associated with an annual "letting go of talent".

Development Decisions. The primary way performance management supports employee development is by providing constructive, actionable feedback employees can use to increase their effectiveness and career success. Delivering performance feedback is an essential step in the overall performance management cycle. This step depends on the skills of an employee's manager so we will discuss it in the next section covering performance management training. However, there are many other ways performance management can support development beyond just providing feedback. Performance management results can guide creation of career development plans, determine employee training needs, or allow employees to qualify for development programs designed for high potential employees. The following are few suggestions to consider when integrating performance management with these other development activities.

- **Stand alone development planning forms usually provide little value.** Many performance management processes include a step where employees are asked to complete a development planning form based on their performance review. Conceptually this makes a lot of sense. We want employees to use information from the performance evaluation to increase their effectiveness. But at a practical level, these sorts of development forms tend to go unfilled or, if completed are rarely looked at by the employee or their manager. This is because there is no compelling reason for an employee to actually manage their development using this development form. If no one other than the employee is going to look at it, why use it? The key to creating effective performance management development plans is to make sure one or more of the following conditions exist:
    1. The development plan provides the employee with links to training catalogs and other resources they can leverage to support their development goals.
    2. The contents of the development plans are reviewed by the training experts within the organization who provide employees and managers with suggestion regarding their development strategies.
    3. An employee's development plan is used to make decisions that impact the employee's career growth. For example, basing succession decisions in part on the progress an employee is making toward fulfilling their current development objectives.

- **Invest more development resources in some employees than others.** Many organizations view training and development resources as something that all employees should have access to. At a general level this is true. All employees are capable of improving their performance and it makes sense to give them the opportunity and tools to do so. But when it comes to providing access to expensive training courses or limited development opportunities, it makes sense to focus these resources on employees whose performance suggests they will most effectively utilize them. Access to valuable development opportunities is a job benefit. It should be treated this way.

- **If you are serious about development track it.** Most companies say they expect employees to develop their capabilities, but few formally track employee progress against development goals. If you want to send the message that development matters, require employees and managers to build development plans based on performance reviews, track employee performance against these plans, and hold employees and their managers accountable for progress.
- **Development is the employee's responsibility but enabling development is the manager's responsibility.** The only way employees will develop is if they are truly committed to their developmental goals. From this perspective, development is an employee responsibility. On the other hand, the ability of employees to develop depends on the work environment created by their manager. As a result, both employees and managers should be held accountable for the development progress of employees.

Workforce management decisions. Performance management data allows companies to shift workforce planning and analytics from an exercise focused on workforce quantity (i.e., numbers of people and jobs) to one that includes workforce quality. For example, rather than just tracking average employee turnover can focus on turnover of high performing employees. Or identify what recruiting sources lead to hiring the best employees as opposed to just looking at which sources provide the most candidates. The following are a few basic tips to consider when integrating performance management data into workforce planning and analytics activities:

- **Performance management data is more interesting when compared to data from other processes.** Most companies treat business metrics as though employees all performed at the same level, even though one of the biggest variables affecting business outcomes is employee performance. Performance management data can be used to investigate relationships between business metrics such as profit, customer satisfaction or product quality and the characteristics of the employees responsible for these metrics. Consider the value of having insight into the following kinds of relationships: what performance competencies are associated with higher sales numbers, what manager competencies are associated with retention of high performing employees, how much impact does a training program have on the performance levels of employees, or how much more impact did high performing employees have on customer satisfaction levels compared to average or low performing employees.
- **The more you use performance management data the better the data will become.** Companies often say they do not use performance management data to guide workforce management decisions because this data has historically been of poor quality. But the reverse is true as well. The reason a lot of performance management data is poor quality is because no one looks at it. The more performance management data is used to make business decisions that impact managers, the more effort managers will invest to ensure the data is accurate and useful. The best way to create this virtuous cycle is to start looking at performance management data in leadership meetings. And if managers complain that "it's not accurate" then reply "it came from you managers, what can you do to increase its quality".
- **Approach performance management data with the same mindset used for budget forecasts.** Performance management data is often criticized as being based on subjective opinions and lacking accuracy. The same thing can be said for budget forecasting data. Most budget forecasts are based on managers' subjective estimates of what resources will be needed in the future. These estimates are hopefully based on some actual records of past business performance and resource consumption, but they almost always include a healthy dose of speculation about the future. The point is budget data and performance management data are both influenced by manager subjectivity. Like budget forecasts, performance management data is based largely on manager's subjective evaluations of employee's past accomplishments and actions, backed up

hopefully with some actual records of goal metrics and behavioral examples. If this data is systematically collected and thoroughly reviewed it can provide accurate information for forecasting future business outcomes. When someone complains about the subjectivity of performance management data, it may help to remind them the same thing is true for budget forecasts yet we are willing to use them to guide business decisions.

Question 7. What training and incentives do managers and employees need to effectively utilize performance management processes?

We have talked about steps needed for an effective performance management process, how to accurately measure employee performance, and how to use performance management data to guide business decisions. None of these things matter if managers and employees do not effectively use performance management tools and data. Many performance management processes fail because managers and employee are unable or unwilling to use them as intended. Similarly, performance management will not work well if human resource personnel do not know how to support it (see sidebar "Why some HR people fear good performance management").

Sidebar 11: Why some HR people fear good performance management

You might assume HR professionals will be strident advocates for effective performance management. But the reality is some HR professionals find performance management personally challenging and anxiety provoking. Barriers to effective performance management can come from within a company's own HR department. The following are a few reasons why HR professionals may actively or passively resist rigorous performance management methods.

Unwilling to challenge managers. Effective performance management requires challenging managers to give honest, candid and accurate evaluations of their employees. Some HR professionals are afraid to do this. They do not know how to effectively push back on managers, or do not want to risk managers disliking them or otherwise reacting negatively to their challenges.

Uncomfortable facilitating crucial business conversations. Performance management conversations focusing on performance calibration and compensation can generate intense discussion among managers regarding the value of different employees and their relative impact on the business. HR professionals should actively encourage and facilitate these discussions, working to keep them on track and productive. Yet many HR professionals developed careers through performing administrative duties like processing payroll and answering questions about benefits. They have never been at the center of major business discussions, may lack the skills needed to manage intense debates, and are uncomfortable being placed "in the spotlight".

Lack confidence dealing with difficult performance issues. If performance management processes are working well, at some point they will uncover performance concerns in employees who are considered key to business operations. It is one thing to call out problems of employees whose loss is not going to create major issues for the business. It is another to note flaws in people who are viewed as critical talent. These are usually people who possess crucial skills and talents, yet behave in a manner that limits the overall effectiveness of the company or group (sometimes referred to as "prima donnas"). It is common for managers to tolerate performance issues in these people for fear they might leave if anyone gave them honest feedback. Critically evaluating these

people in a manner that motivates them to change rather than quit requires considerable talent management skills. Many HR professionals simply do not feel up to this task.

Don't want to explain unpopular decisions. Effective performance management results in employees being treated differently based on their relative contributions to the organization. This means someone has to explain to average and low performers why they are not considered to be high performers, and encourage them to accept the decision as fair and equitable. Managers are primarily responsible for this discussion, but it is common for disgruntled employees to also take their concerns to HR. A common stereotype of HR professionals describes them as "people who like people". While this is certainly not always true, there is a certain type of HR person who would rather be viewed as a confidant, coach and friend than the person who ensures talent is assessed using consistent, rigorous and accurate methods.

The self-identity and self-confidence of a company's HR professionals is a key factor for deploying and supporting a rigorous performance management process. For performance management to work, HR must own the role of "experts in creating high performance work environments". Other support functions such as finance and IT tend to be far more comfortable than HR in this sort of expert role. It is the rare finance organization that lets line managers decide whether or not they want to comply with budgeting guidelines and requirements. Similarly, IT departments are quite comfortable telling managers what technology systems their teams are required to use based on company policy. HR needs to be similarly comfortable owning the role of "talent management experts". This doesn't mean being arrogant and inflexible. It does mean being confident enough to challenge managers who think corporate HR processes and guidelines are something they can ignore.

It is also important to provide HR professionals with tools, knowledge and resources to handle the challenges that arise when implementing more impactful performance management processes. It takes specialized skills to facilitate calibration sessions, constructively challenge manager opinions, and deliver critical feedback to valuable employees. HR professionals need to be trained on these skills and given access to resources that support them.

Last, HR leadership must set clear expectations for members of the HR department toward supporting and facilitating performance management practices. HR professionals must be evaluated based on how well the departments they support carry out performance management. Little tolerance can be show toward HR professionals who actively or passively resist the adoption of more rigorous and impactful performance management methods.

Implementing more impactful performance management processes requires managers and employees to do things they have not done before or have not done very effectively. People often refer to "difficult conversations" that must take place if performance management is to achieve its fundamental goal of accurately measuring and increasing employee productivity. Table 4 summarizes changes that managers and employees must accept if performance management is going to work as intended. The table lists benefits these changes provide if done well (sometimes called the "what's in it for me"), reasons why managers and employees may resist them, and enablers that will drive acceptance of the change.

Table 4. Changes affecting Manager & Employee Adoption of Performance Management

Key Changes	Benefits	Concerns	Change Enablers
Managers must:			
Communicate specific goals and performance expectations to employees	Increased role clarity allows employee to more effectively self-manage performance	Time required to set goals and communicate expectations	Training on how to set goals. Tools to support setting goals & communicating expectations.
Provide regular feedback during the year so there are no "surprises" in the performance review	Increase employee performance and engagement through ongoing coaching	Taking time to give feedback. Knowing how to give effective feedback.	Tools to support and remind managers to give feedback. Training on delivering feedback.
Systematically assess employees based on specific competencies and goals	Accurate, fair and job relevant performance evaluations	Having to comply with a structured process. Time needed to do reviews.	Tools that increase efficiency of reviews. Short, meaningful performance criteria.
Critically compare employees and avoid rating everyone the same	Development of a high performance work environment	Having to explain to employees why some are rated higher than others.	Clear criteria to justify ratings. Training on how to deliver potentially critical feedback.
Explain and justify performance ratings to peers and HR	Consistent performance standards across the company	Admitting they have low performers. Having to conform to a shared performance standard.	Support for dealing with low performers. Accountability for complying with the process.
Provide accurate behavioral and goal based performance feedback to employees	Development of a high performance work environment	Time and potential stress associated with giving what may be seen as critical feedback	Accountability for meeting with employees. Clear criteria to justify ratings and training and support for providing feedback.
Identify and address low performing employees	Resolve issues decreasing workforce productivity	Time and disruption to business operations resulting from having to address underperformance.	Support & resources to minimize issues related to addressing under-performing employees.
Recognize high performing employees	Retain and better utilize high performing talent	Being unable to effectively recognize and retain talent. Losing talent to other area of the business.	Resources to recognize high performers. Rewarding managers for providing talent to the company.
Use performance data to guide compensation, staffing and development decisions	Increase return on investment associated with workforce costs and expenses	Having to justify staffing and pay decisions based on clear criteria.	Accountability for making talent decisions in a consistent and transparent manner.
Employees*			
Accept and commit to specific performance expectations	Knowing exactly what is expected of them	Loss of autonomy; dislike being told what to do	Involve employees in process of defining expectations; participative goal setting
Accept and act on ongoing feedback from managers	Receive guidance on how they can be more successful	Dislike being told "what they are doing wrong"	Emphasize development as a key part of job performance;
Be reviewed against a rigorous, consistent set of standards	More fair and consistent performance process	Threat of being evaluated to standards they may not meet	Ensure managers know how to provide constructive feedback;
Accept that they may not be rated as highly as others	Understanding gaps between current performance and ideal performance	Feeling that they are not valued or their career at the company has derailed	Provide transparency into the performance management process works, who is involved, and how decisions are made
See actions taken to address under-performing coworkers	Not having to tolerate and work with under-performing co-workers	Concerns about the welfare of coworkers who may be friends	Reinforce that "average" employees are valued; stress that performance levels can and do change over time
Receive feedback that they are an underperformer	Get help and direction to improve their performance	Fear of negative consequences resulting from performance issues (pay, dismissal)	Provide transparency on how performance issues are identified and addressed; emphasize use of fair and consistent methods
Be recognized as a high performer	Knowing their contributions are appreciated; tangible benefits (e.g. pay, promotions)	Uncertainty of whether they will enable to maintain this level	Stress benefits of being a high performer and what they need to do to maintain this level
Receive critical, detailed feedback on their performance including strengths and weaknesses	Clear awareness of current effectiveness and how to improve, valuable information for career development	Concern about having performance weaknesses documented and used against them; fear of being "labeled"	Emphasize confidentiality of performance data; clarify how data is used; note performance is expected to change over time

*Some changes only apply to certain employees based on their level of performance.

Manager adoption of performance management. The main reason for managers to adopt performance management is to increase the productivity of their employees. This benefit depends on having a well designed performance management process and making sure managers use it correctly. Many managers' previous experiences with performance management were unrewarding because the processes they used were not well designed or they did not know how to use them. Expect managers to voice one or more of the following objections when you first ask them to adopt more rigorous performance management methods:

- **It takes too much time.** Most managers are constantly pressed for time. Performance management is frequently viewed as a bureaucratic exercise that takes them away from operational business issues. There are several ways to overcome this objection. First, ensure the performance management process directly impacts decisions managers care about. If performance management data does not influence allocation of pay and other organizational resources then managers have a valid complaint that it's a pointless administrative exercise. Second, design the process to provide maximum impact with minimal work. Have managers rate employees on clear, concise and clearly job relevant performance criteria. If you don't know exactly how a rating or item of information is going to be used then don't ask managers to provide it. Never ask for any information just because it seems like it might be useful! Third, remind managers of how much time and resources are spent dealing with problems that arise as a result of poor performance management. Evaluating performance and providing feedback may seem time consuming, but it is far less costly than tolerating poor performance until it reaches a crisis point.
- **It creates friction between me and my employees.** Most managers won't say this openly, but many think it. One reason managers avoid performance management is they do not want to talk with employees about sensitive and potentially volatile performance issues. There are two major actions to address this issue. First, make sure managers are setting clear performance expectations. Discussing performance issues is basically a three step process: 1) agreeing on what the employee did or did not do, 2) ensuring the employee understands the impact of their actions and why they need to change, and 3) working with the employee on strategies to act on the feedback. The first step is the most important and most sensitive. It is much easier to discuss performance issues with employees if the issues are clearly visible to both the employee and the manager. Well defined performance criteria are critical to making this run smoothly. As one colleague told me,

  > "The best time to educate managers on how to set goals and performance expectations is right after they finish last year's performance review sessions. That's when they are most aware of the value of setting clearly defined expectations, because they are all wishing they'd taken the time to do it twelve months ago!"

  The second action is to give managers training on how to provide feedback (see sidebar "The COACH process for increasing employee performance" for an example of what this training might include). Even if managers say they know how to deliver feedback, don't necessarily believe them! Most successful deployments of performance management include manager training on how to deliver constructive feedback.

- **It will hurt the productivity of my team.** This comment is a combination of the first two objections. It is a result of managers not understanding the importance and value of performance management activities. Empirical research shows that effective performance management is a critical component of high performance organizations. When managers say "our performance management process doesn't work" the appropriate response is not to get rid of performance management altogether. Engage with managers to understand the source of their concerns and then address them through communication, training and if necessary, process redesign.

- **It doesn't matter if I don't do it.** Check to see if this is true. Does your company track metrics that provide insight into whether managers are fulfilling their performance management responsibilities? Are they held accountable for following the process? Are managers who excel at performance management rewarded and recognized? Do senior leaders role model effective use of performance management? If the answer to one or more of these questions is "no" then revisit your business leaders' commitment to performance management. The HR department may support and facilitate the performance management process, but it cannot hold managers accountable for using the process. This is the responsibility of business leaders.

Like all change management efforts, manager adoption of performance management depends on people understanding what they are being asked to do, being clear on why it is important, providing training so they know how to do it, and measuring and holding them accountable for actually doing it. Of these four things the one that is most often overlooked is training. Managers have the most difficult tasks in the performance management process. They have to sit down with direct reports and tell them what they are doing wrong and explain its impact on their pay and career goals. They need to do this in way that makes employees feel confident about their ability to improve, not despondent about their future in the company. This is not an easy and simple administrative exercise. Do not treat it like one.

Employee adoption of performance management. Effective performance management has many benefits for employees. It ensures they are fairly evaluated and appropriately rewarded for their contributions. It provides critical information to guide career development. It gives greater role clarity around the importance and purpose of their jobs. And it decreases the risk of having to work with incompetent or unmotivated co-workers. This latter point may not seem that important, but a common complaint of high performing employees is dealing with the workload and mistakes created by co-workers who do not share their work ethic.

Like managers, employees may have experienced previous performance management processes that were poorly designed and applied. These employees may approach performance management activities with a mixture of skepticism and anxiety. Most employee concerns will center around two basic themes:

- **Questions about the fairness and accuracy of the performance management system.** Employees may be concerned whether the process will accurately evaluate their contributions and take fair and appropriate actions based on their performance. Research on employee perceptions of justice shows that employees evaluate fairness of performance management processes based on three criteria:
  - Distributive justice which focuses on the outcomes of performance management decisions ("what did I get in terms of recognition or rewards?"),
  - Procedural justice which focuses on the processes used to make these decisions ("how did they decide what I deserve?")
  - Interpersonal justice which focuses on how decisions are communicated ("did they tell me in a respectful, sensitive, and appropriate manner?").

  Of these three, procedural justice is the most influential on perceptions of fairness. Most people can accept that they will not always get what they hoped for. What is important is whether the processes used to make decisions that affect them are clearly communicated and fairly and consistently applied. Interpersonal justice is less important than procedural justice, but can be critical if the outcome of a decision is particularly negative for an employee (e.g. being told you will not get a raise or will lose your job due to poor performance).

Justice research indicates is it is extremely important to communicate to employees exactly how the performance management process works. Be transparent around methods used to make decisions that impact important employment outcomes such as pay or promotions. This does not mean reporting "who said what" during calibration reviews! Sharing such personal information is likely to be seen as a violation of confidentiality and could cause serious damage to work relationships. But employees should know what kind of information is considered when making performance decisions, who is involved in reviewing the information and making decisions, and what guidelines they follow during this process. It is also important that managers be trained on how to appropriately deliver "bad news" to employees who may not be getting the performance outcomes they had hoped for.

- **Concerns about how performance management will impact future career objectives.** Any decent performance management process is going to call attention to employee weaknesses as well as strengths. Employees may express concern that having information about performance weaknesses in their formal employee file could impact their future career opportunities within the organization. On one hand, this is true. If someone has performance problems then the company can and should take this into account when making decisions about pay, promotions, or development opportunities On the other hand, even the most effective employees have opportunities for performance improvement. Employees should not fear that having negative comments in their performance review will forever limit their career opportunities within the organization.

Two messages should be stressed when giving negative performance feedback to employees. First, every employee no matter how effective has areas where they could improve. One purpose of performance management is to give employees feedback that will help them be more successful, no matter how successful they currently are. Second, just because something is a performance concern now does not mean it will be a concern in the future. The purpose of giving employees feedback is to help them address issues that could limit their success. If we did not believe employees could overcome these issues there would be no sense in giving them this feedback. The key to effectively delivering these two messages lies with the manager. This is another reason why manager training is so critical to the successful deployment of performance management processes.

While on this topic, it is worth making a brief note about "strength based" performance management methods. These methods argue that employees should be told to leverage their strengths and not waste time trying to address weaknesses. This approach is partially true. Employees are likely to succeed through making more effective use of their current strengths. But employee success will be limited if they fail to appropriately manage their weaknesses. This does not mean turning weaknesses into strengths. It does mean find a way to keep weaknesses from derailing their careers.

Sidebar 12: The **COACH** method for increasing employee performance

One thing effective managers know is that success does not depend on what they do. It depends on what their team members do. Being a good manager is like being a good soccer coach. Whether a coach is successful does not depend on what he/she is doing on the sidelines. It depends on what the players are doing on the field. The challenge of management is figuring out what you can do on the sidelines that will effectively influence the behavior of your players on the field. If you want to become a truly great leader, think less about "what can I do to increase my performance" and think more about "what can I do to increase the performance of the people I manage".

Increasing the productivity of your team requires changing other people's behavior. The only way to increase your direct reports' performance is to get them to act differently in the future from how they have acted in the past. As the old saying goes, "insanity is doing the same thing tomorrow that you did yesterday but hoping for different results". Getting people to change their behavior is not easy. In fact, many highly capable, hard working professionals choose not to take management positions because they do now want to be accountable for managing and changing the behavior of others.

The following are five basic actions that will help inspire and guide your employees to increase their performance through changing their behavior. These five steps are referred to using the acronym COACH (Credibility, Objectives, Awareness, Consequences, Help).

Establish **C**redibility. Most people do not respond well to being told that they need to act differently. And in many cases employees do not fully understand why they need to change how they act. Before you can create a productive dialogue with employees about changing behavior, employees must believe that you are someone they should trust and listen to. Until you establish a basic level of credibility with employees, they are unlikely to listen to your advice let alone act on it. The fastest way to build credibility is to ask employees what they want to achieve from their job and then take actions that demonstrate that you are serious about helping them achieve their goals. Employees don't change to support your goals; they change to support their goals. If you want to be a credible source of feedback for your employees, start by making sure you understand what it is they want to achieve by working for you.

Set **O**bjectives. Performance is about getting stuff done. This requires making sure employees understand what they are supposed to be doing. Setting objectives is not about telling people what they are supposed to do. It is about working with employees to reach agreement on how to align their career goals and interests with the objectives and needs of the company. Setting and actively tracking objectives with employees is often the single biggest opportunity managers have for improving performance. Try this exercise with your employees. Ask them to write down the 5 to 10 most important things they need to accomplish over the next 12 months to be successful in their roles. At the same time, independently write down the 5 to 10 things you believe they must accomplish. Compare these two lists and make sure they align.

Increase **A**wareness. It is one thing to know what your objectives are. It is another to achieve these objectives in an effective manner. Increasing awareness is about providing employees with insights that help them accomplish their objectives. Increasing employees' awareness around what they are doing well and what they need to change to maximize their productivity is a key skill of an effective manager. It is also one of the most difficult manager skills to develop. There are several basic techniques that help ensure this sort of feedback is viewed as a gift and not a punishment. One is to tie feedback to goals. Let people know how their behaviors are helping or hurting their ability to achieve their objectives. You do not want them to change just to change; you want them to change so they will be more successful. Another technique is to give feedback based on clearly observable behaviors. Be very specific in suggesting what sort of actions employees can "start doing", "stop doing", or "continue doing" to be more successful.

Create **C**onsequences. Setting objectives and increasing employee's awareness about how to effectively achieve these objectives will often provide enough information to increase employee performance. But in some cases employees need additional incentives to put in the effort necessary to change critical behaviors impacting their performance. Managers are responsible for ensuring employees understand what things they need to do to be successful, and make sure employees know what will happen if they do or do not do these things. More often than not, managers are the ones who must deliver these consequences both good and bad. Be extremely transparent about how you are evaluating their performance and what consequences are tied to those evaluations. People can usually accept that they will not get everything they want, as long as rewards are allocated based on a consistent and clearly communicated set of criteria and they are confident that in the future they can do better than they may have done in the past.

Providing **H**elp. Employees are responsible for their own performance. But it is the manager's responsibility to create an environment that supports employee success. Do little things every day that foster learning, development and productivity among their direct reports. Being an effective manager is a lot like maintaining a healthy lifestyle. We may schedule annual doctor's appointments to ensure we are in good health, but these reviews do not create good health they only diagnose it. The same concept is true for managing employee performance. Performance management is not a quarterly or annual event. It is an ongoing activity. Look for things you can incorporate into your day to day routine to ensure you are creating a high performing work environment for your team.

Section 4. Increasing performance management process maturity.

Figure 9 illustrates five general levels of performance management maturity. The lowest level of performance management maturity is simply making sure employee performance is evaluated using consistent, standardized methods (e.g., the traditional "annual performance review"). The basis of performance management lies in accurately measuring if employees are doing things in the right way, and a requirement for accurate measurement is consistency. Thus the importance of conducting regular performance reviews. Level 2 emphasizes creating clear performance definitions, competency models and goal criteria to guide performance evaluations. Level 3 focuses on using performance data so it impacts decisions related to employee pay, development, and staffing. Level 4 emphasizes the use of calibration processes that build consensus across managers regarding performance expectations and employee evaluations. At level 5, business leaders leverage performance management data to gain insight into the workforce itself. For example, determining what competencies are most relevant to success in different roles, assessing the overall strengths and weaknesses of the workforce, and identifying actions that can be used to increase overall workforce productivity.

There are two ways to increase performance management maturity in organizations. The most obvious is to start at the bottom and work up over time. For example, start by introducing annual performance reviews using basic competency models and goal plans. Expand upon this by adding job specific competencies and creating stronger links between performance evaluations, pay and promotions. Then move up again by adding calibration sessions and reviewing talent bench strength reports at senior level meetings to track development and retention of high performers. The advantage of this approach is it allows managers to gradually adapt and learn the skills needed to effectively support more sophisticated performance management methods. The disadvantage is it increases the time needed to reach higher maturity levels that provide the greatest benefits for the company in terms of increased workforce productivity.

Another approach is to focus on higher levels of process maturity right from the start and use this to drive the organization to quickly adopt lower level processes. One of the fastest ways to increase a company's performance management process maturity is to implement an integrated calibration process using well defined competency models, goal plans, and calibration sessions. This equates to level 4 on the performance management maturity curve When a company implements calibration sessions the following things will happen (assuming, of course that the sessions are appropriately designed and deployed). When managers know their performance ratings are going to be reviewed and discussed in a calibration session with other leaders, the ratings process suddenly becomes much more meaningful (level 3 of maturity). As a result they take it far more seriously. Because they know they'll have to justify the ratings, they also put more emphasis on using well defined performance criteria (level 2). Last, since they know they'll have to share their ratings they are driven to get all their ratings completed on time and in the proper format (level 1). In sum, calibration can act to rapidly pull an organization up through levels 1, 2, 3, and 4 on the performance process maturity curve in less than a year. This does require a fair bit of manager training and change management, but it is an achievable objective if an organization approaches it with clarity and focus.

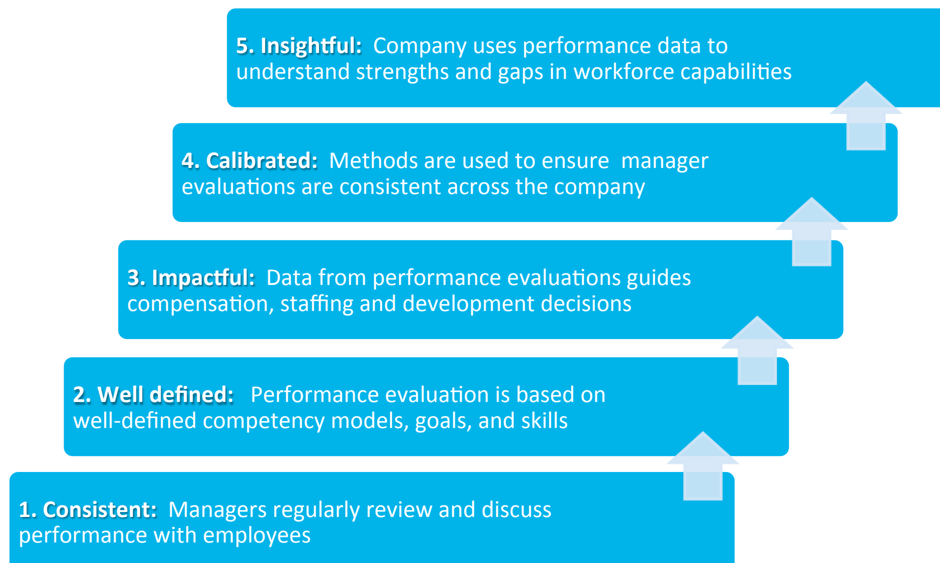
While it is generally better to achieve higher levels of performance management maturity, it is not necessary to always strive for the highest level possible. Each level provides more value than those below it, but moving up each level also requires more resources and change management. What level is "right" depends on the objectives associated with performance management in your company. If all you want is to ensure compliance with legal guidelines, then level 1 may be adequate. If the goal is to increase coaching and dialogue then levels 2 and 3 may suffice. But if you want to create a truly high performance culture you will want to strive for level 4 or higher.

Section 5: Conclusion

Performance management is probably the most widely used and most widely criticized part of talent management. This paper has explained why performance management is crucial for maximizing workforce productivity. We also provided guidelines for creating effective performance management processes and called out some of the problems that occur when performance management methods are poorly designed or improperly deployed. The next step is to use the information in this paper to create and implement performance management processes that align with the unique needs and nature of your company.

All companies treat some employees different from others based on their performance. In other words, all companies practice performance management. But relatively few do it extremely well. Companies that make a concerted effort to clearly communicate performance expectations, fairly and accurately assess employees against these expectations, and use this information to guide employee development, compensation, and staffing decisions have a significant and lasting advantage over companies that manage people using poorly defined, highly subjective and poorly communicated techniques. Companies that believe in the value of performance management believe that employees should know exactly what is expected of them and should be fairly and consistently evaluated and rewarded based on those expectations. These companies value transparency and meritocracy. They dislike talent decisions based solely on subjective opinion and unfounded claims about employee value. It basically comes down to this question: do you want employees to have a clear understanding about how performance is defined, evaluated and rewarded? If the answer is yes, then you believe in the importance of performance management.

Figure 9. Performance management process maturity levels



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