

3.3: Performance Management

How do performance management practices impact company performance?

Performance management practices and processes are among the most important that human resources manages, yet they are also among the most contentious processes in an organization. Many people view performance management as a human resources role and believe that it is in some parallel path with the business. On the contrary, for the process to be successful, it should not only be human resources that is responsible for driving performance. For the (typically) annual performance management process, human resources and line management should partner on the implementation and ongoing communication of the process. Although HR is responsible for creating and facilitating the performance management processes, it is the organizational managers that need to strongly support the process and communicate the linkage of performance management to overall organizational goals and performance. In my experience, it was helpful when business leadership emphasized that performance management isn't a human resources process—it is a mission-critical business process. If a business manager can't track and drive performance at the individual level, then the overall organization won't know how it's tracking on overall organizational goals. Performance Management Before discussing the state of performance management in the workplace today, it is important to understand the origin of performance management. Performance management began as a simple tool to drive accountability (as it still does) but has evolved more recently into a tool used for employee development.

Performance management can be tracked back to the U.S. military's "merit rating" system, which was created during World War I to identify poor performers for discharge or transfer ("The Performance Management Revolution," Harvard Business Review, October 2016). After World War II, about 60% of all U.S. companies were using a performance appraisal process. (By the 1960s nearly 90% of all U.S. companies were using them.) Although the rules around job seniority determined pay increases and promotions for the unionized worker population, strong performance management scores meant good advancement prospects for managers. In the beginning, the notion of using this type of system to *improve* performance was more of an afterthought, and not the main purpose. By the 1960s or so, when we started to see a shortage of managerial talent, companies began to use performance systems to develop employees into supervisors, and managers into executives.

In 1981, when Jack Welch became CEO of General Electric, he championed the forced-ranking system—another military creation. He did this to deal with the long-standing concern that supervisors failed to label real differences in performance (HBR, The Performance Management Revolution). GE utilized this performance management system to shed the people at the bottom. They equated performance with people's inherent capabilities and ignored their potential to grow. People were categorized as "A" players (to be rewarded), "B" players (to be accommodated), and "C" players (to be dismissed). In the GE system, development was reserved for the "A" players—and those with high potential were chosen to advance to senior positions. Since the days of GE's forced ranking, many companies have implemented a similar forced-ranking system, but many have backed away from the practice. After Jack Welch retired, GE backed away from the practice as well. Companies, GE included, saw that it negatively fostered internal competition and undermined collaboration and teamwork and thus decided to drop forced ranking from their performance management processes.

Most people agree, in theory, that performance management is important. What people may *not* agree on is *how* performance management should be implemented. As the dissatisfaction with performance management processes began to increase, some companies began to change the way they thought about performance. In 2001, an "Agile Manifesto" was developed by software developers and "emphasized principles of collaboration, self-organization, self-direction, and regular reflection on how to work more effectively, with the aim of prototyping more quickly and responding in real-time to customer feedback and changes in requirements." (Performance Management Revolution, HBR). The impact on performance management was clear, and companies started to think about performance management processes that were less cumbersome, incorporated frequent feedback, and delivered performance impacts.

In a recent public survey by Deloitte Services, 58% of executives surveyed believed that their current performance management approach drives neither employee engagement nor high performance. They need something more nimble, real-time, and individualized—and focused on fueling performance in the future rather than assessing it in the past. ("*Reinventing Performance Management*," Harvard Business Review, Buckingham and Goodall, 2015). In light of this study, Deloitte became one of the companies that has recently sought to redesign their performance processes. As part of their "radical redesign," they seek to see performance at the individual level, and thus they ask team leaders about their own future actions and decisions with respect to each individual. They ask leaders what they'd do with their team members, not what they think of them ("*Reinventing Performance Management*," HBR). The four questions that Deloitte asks of its managers are as follows:

- Given what I know of this person's performance, and if it were my money, I would award this person the highest possible compensation increase and bonus.
- Given what I know of this person's performance, I would always want him or her on my team.
- This person is at risk for low performance.
- This person is ready for promotion today.

Although there has been some discussion over the last several years about some companies wanting to drop performance appraisals completely, most of the research seems to support that the total absence of performance management doesn't help either. A recent global survey by CEB Global reports that more than 9,000 managers and employees think that not having performance evaluations is worse than having them. ("Let's Not Kill Performance Evaluations Yet," HBR, Nov 2016, Goler, Gale, Grant). Their findings indicate that even though every organization has people who are unhappy with their bonuses or disappointed that they weren't promoted, research shows that employees are more willing to accept an undesirable outcome when the process is fair. The key question really becomes: how can HR help the business create a process to fairly evaluate performance and enhance employee development while *not* burdening the business with undue bureaucracy and non-value-added activities?

managing change

Global versus Local HR

Multinational companies are always challenged to determine the balance between global and local needs when creating a human resource management strategy. Some large companies weigh heavily on the side of centralization, with very few local deviations from the global strategy. Others may allow more localization of processes and decision-making if there are very specific local cultural needs that must be addressed. In either case, companies are well-served by maintaining global standards while also allowing for local market adaptation in the human resources areas where it makes the most sense.

According to the MIT Sloan Management Review article "Six Principles of Effective Global Talent Management" (Winter 2012), most multinational companies introduce global performance standards, competency profiles, and performance management tools and processes. These are the human resources areas that are most closely linked to the overall strategies and goals, and thus remain at the global level. Those HR processes that are not perceived as being as closely linked to the strategy and that may need to have local market inputs include processes such as training and compensation. Hiring practices may also need to be locally adapted, due to country-specific labor laws and challenges. One caveat, however, is that a company may limit itself in terms of its global talent management if it has too many country-specific adaptations to hiring, assessment, and development processes for top talent. It is important that the company takes a global approach to talent management so that cross-learning opportunities and cross-cultural development opportunities can take place.

One of the most important aspects of global talent management is that a company can break down silos and pollinate the business with talented employees from around the globe. Some companies even have global leadership programs that bring together high-potential leaders from across the organization to build camaraderie, share knowledge, and engage in learning. Others have created rotational programs for leaders to be able to experience new roles in other cultures in order to build their personal resumes and cultural intelligence. Human resources can have an enormous impact on the company's ability to harness the power of a global talent pool when they create a global network for talent while also balancing this with the requirements of the local market.

Discussion Questions:

1. Why might compensation programs and hiring practices need to have local adaptation? What would be the risks if these were not adapted to local markets?

As organizations evaluate their options for a performance management system, human resources and business leadership need to consider several challenges that will need to be addressed—no matter what the system. ("*The Performance Management Revolution*," Capelli and Tavis, HBR, pp. 9-11).

The first is the challenge of aligning individual and company goals. Traditionally, the model has been to "cascade" goals down through the organization, and employees are supposed to create goals that reflect and support the direction set at the top. The notion of SMART goals (Specific, Measurable, Achievable, Relevant, Timebound) has made the rounds over the years, but goal setting can still be challenging if business goals are complex or if employee goals seem more relatable to specific project work than to the overall top-line goals. The business and the individual need to be able to respond to goal shifts, which occur very often in response

to the rapid rate of change and changing customer needs. This is an ongoing issue that human resources and business leadership will need to reconcile.

The next key challenge to think about when designing a performance management process is rewarding performance. Reward structures are discussed later in this chapter, but reward systems must be rooted in performance management systems. Currently, the companies that are redesigning their performance processes are trying to figure out how their new practices will impact their **pay-for-performance** models. Companies don't appear to be abandoning the concept of rewarding employees based on and driven by their performance, so the linkage between the two will need to be redefined as the systems are changed.

The identification of poor performers is a challenge that has existed since the earliest days of performance management, and even the most formal performance management process doesn't seem to be particularly good at weeding out poor performers. A lot of this is due to the managers who evaluate employees and are reluctant to address the poor performers that they're seeing. Also, the annual performance management process tends to make some managers feel that the poor performance should be overlooked during the year and only addressed (often ineffectively) during a one-per-year review. Whatever new performance management models an organization adopts, they will have to ensure that poor performance is dealt with in real time and is communicated, documented, and managed closely.

Avoiding legal troubles is another ongoing challenge for organizations and is another reason for real-time communication and documentation of performance issues. Human resources supports managers as they deal with employee relations issues, and the thought of not having a formal, numerical ratings system is unfathomable for some people who worry about defending themselves against litigation. However, because even formal performance processes can be subjective and may reveal ratings bias, neither the traditional formal process nor some of the radical new approaches can guarantee that legal troubles will never develop. From my experience, the best strategy for effective and fair performance management is real-time communication and documentation of issues. The employee is told about his or her performance issues (in as close to real time as possible), and the manager has documented the performance issues and conversations objectively and has engaged human resources with any larger or more complex issues.

"Managing the feedback firehose" and keeping conversations, documentation, and feedback in a place where it can be tracked and utilized is an ongoing challenge. The typical annual performance process is not conducive to capturing ongoing feedback and conversations. There have been some new technologies introduced (such as apps) that can be used to capture ongoing conversations between managers and employees. General Electric uses an app called PD@GE (PD = performance development) that allows managers to pull up notes and materials from prior conversations with employees. IBM has a similar app that allows peer-to-peer feedback. Although there are clearly some technology solutions that can be used to help communicate and collect feedback, human resources will need to continue to communicate and reinforce rules around objectivity and appropriate use of the tools.

Performance management processes—traditional and inventive new approaches alike—will face the same challenges over time. Human resource management professionals need to be aware of these challenges and design a performance management system that addresses them in the format and within the context of their culture.

concept check

1. What are some of the key challenges of any performance management process?

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