Chapter 20

Reenergizing the Performance Management Process

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V. REENGINEERING THE PRIMARY ELEMENTS OF THE PROCESS

VI. IMPLEMENTING THE IDEAL MODEL

VII. HUMAN RESOURCES NEEDS TO ACTIVELY SUPPORT AND HOLD MANAGERS ACCOUNTABLE

VIII. SUMMARY

I. KEY ISSUES

Research References

Treatises and Practice Aids

Nobile, Guide to Employee Handbooks §§ 6:89 to 6:99

Nobile, Guide to HR Policies & Procedures Manual §§ 2:65 to 2:77
HR Series: Compensation and Benefits §§ 2:16 to 2:88
HR Series: Policies and Practices §§ 71:1 to 71:17, 72:1 to 72:12, 73:1 to 73:30, 87:1 to 87:20, 88:1 to 88:17, 89:1 to 89:49, 90:1 to 90:11
Nobile, Human Resources Guide §§ 3:35 to 3:43
Kahn and Berish Brown, Legal Guide to Human Resources §§ 6:1 to 6:39

§ 20:1 Introduction to performance management

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

In order to remain competitive, U.S. businesses are coping with increasing pressures. Change and renewal are becoming a way of life for every business. Many of the traditional strategies for succeeding have changed. However, many of the systems that support how people are managed have not changed.

This chapter will examine the system for managing people that exists in most organizations—the performance management process. Performance management is the process by which individuals receive direction, feedback, and reinforcement for their performance. It involves the following components:

- Measures: Measures are the primary indicators of success, strategy implementation.
- Goals: Goals are the level of desire performance for each key measure.
- Feedback: Feedback is the information on progress and causes for success or problems. Assessments: The determination of accomplishment or contributions to the performance achieved.
- Rewards: Rewards are the benefits that the individual or team receives for achieving desired results and may include pay increases, special bonuses or formal recognition.

Performance management is more comprehensive than the traditional performance appraisal, which usually includes the setting of goals, the evaluation of performance against goals, and a merit increase or similar pay action for the individual (only). In some organizations, the process used is called performance management, but it is actually only a performance appraisal. The differentiations between performance management and appraisal, which are shown in Figure 20-1, will be discussed in the sections that follow. This chapter will provide a guide to select the approach that is optimal to the organization.

This chapter will look at the following areas:

- The strategies for change that are influencing the performance management process.
- Why the traditional methods used for performance appraisals are not effective.
- The new options for performance management that are available to an organization.
- How an organization can use these options to influence people to take desired actions.
- The right approach to performance management that will support the critical requirements for the organization's success in today's marketplace.

Finally we will review the action steps that are needed to design and implement the new performance management process. This will provide an understanding of how to bring new life to the process and enhance the ability of performance management to contribute to the organization's competitiveness.

Figure 20-1 Differences Between Performance Appraisal and Performance Management

Performance Appraisal	**Performance Management**
Performance goals	Key Measures
Year-end evaluation	Goal Setting
Merit-pay decision	Feedback and learning
	Frequent reinforcement

Performance Appraisal	Performance Management
	Meaningful rewards

II. STRATEGIES FOR CHANGE

Research References

Treatises and Practice Aids

Nobile, Guide to Employee Handbooks §§ 6:89 to 6:99
Nobile, Guide to HR Policies & Procedures Manual §§ 2:65 to 2:77
HR Series: Compensation and Benefits §§ 2:16 to 2:88
HR Series: Policies and Practices §§ 71:1 to 71:17, 72:1 to 72:12, 73:1 to 73:30, 87:1 to 87:20, 88:1 to 88:17, 89:1 to 89:49, 90:1 to 90:11
Nobile, Human Resources Guide §§ 3:35 to 3:43
Kahn and Berish Brown, Legal Guide to Human Resources §§ 6:1 to 6:39

§ 20:2 Strategic changes

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

Change has become a way of life for most companies. Executives are reformulating their strategies to bring their businesses closer to needs of their desired markets or customer base. They are shedding acquisitions that once promised great prosperity. Ford, Corning, Sears, AT&T, and Microsoft are just some of the many companies that have made strategic shifts in redefining their businesses.

Organizations are also undergoing major restructurings. This is reflected in delayering (i.e., the removal of management and supervisory jobs that once controlled operations). Companies that were once highly centralized have been trimmed into a set of unique lines of business with little centralized control. Companies that had once been spread among many small units have combined units around key markets, technologies, or the core competencies of the firm. Hewlett Packard, CIGNA, and Verizon are each structuring work around core competencies and customer profiles. Customer profiles are the segments of the company's marketplace that become the focus for strategic investment and development (e.g., A bank may focus on high net worth individuals in the Southeast). Finally, the internet is changing practically everything, from how supplies of materials are acquired to how the firms create interdependent relationships with customers.

Companies that use these new strategies are making fundamental changes in how they do business.

Some of the common characteristics of success are:

- Focus on the customer,
- Do what adds value,
- Work through teams,
- Increase speed, and
- Improve the process.

The following sections will examine these themes.

§ 20:3 Strategic changes—Focus on the customer

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

A business exists to serve a customer. Peter Drucker has been quoted often and says: "The only function of a business is to create customer value." This perspective indicates a need to focus efforts away from the internal hierarchy controls to meeting the needs of customers. This creates products and services needed by the customer, and generates profits needed by the organization and desired by shareholders.

Businesses once lived by Fredrick Taylor's principles by structuring work into simple, repeatable tasks. His principles, as well as a command and control management philosophy, were highly effective for mass production, reducing the costs of manufacturing and distributing products. It created a marketplace that was willing and eager to buy. However, global competition is now increasing, and the barriers between industries are falling. Success of an organization is more dependent on the actions of people than the knowledge and directives of its leaders.

In today's reality, new principles of effective management are focusing attention on meeting or exceeding the expectations of one's customers, not just delivering products to market. This trend has dramatic implications for how businesses organize, deliver their products and services, and measure their performance. Joe Wheeler and Shaun Smith clearly demonstrated in their well researched book on the customer experience: "The real issue for many companies is sustaining growth over the long term while meeting the expectations of the shareholders in the short term…Quite simply, loyal customers are profitable customers, so building brand loyalty is the most effective strategy for growing shareholder value"[12]

§ 20:4 Strategic changes—Do what adds value

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

As organizations have refocused on the customer and reexamined the way they do things, the existence of waste in all aspects of the organization has become apparent. Companies often create needless steps in providing goods or services to their customers. This means that to improve productivity, one needs to determine those activities that add value to the customer by reducing costs, increasing quality, reducing delivery time andmeeting the customers needs. The organization will then need to eliminate those activities which are burdensome legacies of the past.

These steps add cost and time to the way work is done. Many organizations are now reexamining and simplifying the way work is done, and this is bringing a significant change to the workplace.[1]

§ 20:5 Strategic changes—Work through teams

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

High performing companies regularly seek ways to break down the silos that had been built around their work routines, and increase the collaboration and put the best ideas into reality. Silos are barriers between engineering and manufacturing departments, marketing and manufacturing, or human resources and finance. They inhibit cooperation between people within the functions until initiatives are approved. Companies are effectively using interdisciplinary teams, and engaging employees at all levels to improve the work process. These actions are being built into their culture.[1]

The Internet has dramatically changed how people communicate, coordinate and inte-

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[Section 20:3]

[1]Reference: Wheeler, J and Smith, S., *Managing the Customer Experience* (Prentice-Hall, London, 2002).

[2]Fredrick Taylor, *The Principles of Scientific Management* (New York: Harper and Brothers, 1911).

[Section 20:4]

[1]Collins, J. and Porras, J., *Built to Last* (Harper-Collins, New York, 1997).

[Section 20:5]

[1]Collins, J. *Good to Great*, Harper-Collins, New York, 2001.

grate their work, both within companies across companies and with the customer. One only needs to examine the success of Amazon.com, eBay, Facebook and Google to identify how companies build loyal customers, strong revenue growth and profitability.[2]

§ 20:6 Strategic changes—Increase speed

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

The time it takes to bring products to market has become a critical factor to the competitiveness of many industries. An economic model developed by McKinsey & Co. shows that products in high-technology industries that come to market six months late but on budget will earn 33 percent less profit over the initial five years. Products that come out on time but 50 percent over budget, however, will earn only 4 percent less in profits.

And, for many industries the cycle has decreased to only months.

As differences decrease in the quality and price of products or services in the marketplace, companies are competing based on speed. There is no time for countless reviews and modifications (i.e., reworkings) when the time taken to bring a product or service to market is a critical success factor to the business. This focus demands that a company enhance the way it utilizes its assets and sustain superior quality. Therefore, the challenge is to provide what the customer wants when the customer wants it, and to beat the competition to it. The transformation that has occurred at companies like General Electric are strong demonstrations of the importance of speed.[1]

§ 20:7 Strategic changes—Improve the work process

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

The rate of change is increasing as well. The challenge is not just to improve the way work is performed or services are delivered, but to improve it continually. An even greater challenge is to improve the process at a faster rate than the competition. Benchmarking is often useful in exploring which practices are best, but it must not delay taking decisive action. Strategies that are purposeful and focused on improving the organization's competitiveness are becoming a way of life in the successful organization.

These strategies cannot be implemented through management edicts, structural realignments, training programs, or special projects. They require the full attention and commitment of people at all levels in an organization. The challenge now facing management is how to encourage and reinforce this commitment to implement changes that enhance the organization's competitiveness. Management transforms into a leadership process that moves the organization from strategies to actions, in a manner that creates enduring competitive advantages.

III. PROBLEMS WITH PERFORMANCE APPRAISALS

Research References

Treatises and Practice Aids

Nobile, Guide to Employee Handbooks §§ 6:89 to 6:99
Nobile, Guide to HR Policies & Procedures Manual §§ 2:65 to 2:77
HR Series: Compensation and Benefits §§ 2:16 to 2:88
HR Series: Policies and Practices §§ 71:1 to 71:17, 72:1 to 72:12, 73:1 to 73:30, 87:1 to 87:20, 88:1 to 88:17, 89:1 to 89:49, 90:1 to 90:11

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[2]Katzenbach, J., and D. Smith, *The Wisdom of Teams: Creating High Performance Organizations*, McGraw-Hill Professional Publishing, New York, 1992.

[Section 20:6]

[1]Brian Dumaine, "How Managers Can Succeed Through Speed," Fortune Magazine 119 (February 13, 1989): 54.

Nobile, Human Resources Guide §§ 3:35 to 3:43
Kahn and Berish Brown, Legal Guide to Human Resources §§ 6:1 to 6:39

§ 20:8 Criticisms of performance appraisals

Research References
West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

The shifts in the requirements for success are adding more pressures on current performance appraisals. A major study on performance management systems by the Society for Human Resource Management (SHRM) showed that over one-third of the respondents were dissatisfied. This finding is consistent with other studies on the effectiveness of performance management systems.

Although companies have tried to repackage their planning and appraisal programs and call them performance management, these programs simply do not currently meet the needs of organizations that are trying to create a more competitive culture.

Organizations are seeking ways to make fundamental changes to this process because they see the traditional methods as artifacts of the command and control practices. In fact, performance appraisals can best be defined as "that human encounter where the manager gets no sleep the night before and the employee gets no sleep the night after."[1]

The primary criticisms of performance appraisals center on the following five areas:

- They emphasize the individual's weaknesses or gaps,
- The measures are often inadequate and subjective,
- The manager is the judge and jury,
- The process is forced on managers, and
- The increase in pay available for distribution are minimal.

The sections that follow explore these criticisms.[2]

§ 20:9 Criticisms of performance appraisals—They emphasize the individual's weaknesses or gaps

Research References
West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

Performance appraisals have traditionally focused on individual performance—the strengths and weaknesses—and not on one's performance as part of a system or team. Competency assessments give generalized feedback on one's strengths and detailed feedback on weaknesses. Although strengths are usually part of the feedback, all too often people remember only what "needs improvement."

When organizations look at improving the work systems, productivity or competitiveness, they focus on the way work is done as a system rather than the way that it is done by an individual. But managers seldom examine whether the individual's unique abilities and talents are matched with the tasks of the work unit.

The performance management process does not typically seek to discover the match between the work requirements and the individual's talents. Instead, it highlight the gaps between the person and the work. When an individual is doing the work that matches their talents, they are usually highly self-motivated, effective and resourceful. These factors are seldom seriously examined in traditional performance appraisals. Appraisals usually focus on one's weaknesses.

Many companies are utilizing virtual or project teams as the primary organizing unit

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[Section 20:8]

[1]Thomas B. Wilson, *Innovative Reward Systems for the Changing Workplace* (New York: McGraw Hill Professional Publishing Co., second edition, 2003).

[2]"Performance Management Study," by the Society for Human Research Management and Personnel Dimmensions International, 2000.

and encouraging individuals to work collaboratively. This means that the individual is no longer the primary unit in determining overall performance. Instead, performance is being determined by the integration of work activities, the effectiveness of the work force, and the process by which tasks are completed. Individual performance, therefore, should not be looked at independent of these factors, but integrated with how an individual's talents and those of one's peers with the requirements of the unit or team.

§ 20:10 Criticisms of performance appraisals—The measures are often inadequate or subjective

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

Because the requirements for success in the marketplace have changed, many methods organizations use to measure performance are no longer relevant. For example, a focus on the number of units per hour versus the time it takes customers to get what they want would result in people employing different behaviors. Further, compare measuring the number of customer complaints with assessing the data from customer expansion and retention. The former measure reflects a control orientation, while the latter measure reflects a customer satisfaction focus.

Executives and managers often realize that their performance information systems are inadequate. They know their financial tracking systems reflect the costs to a budget, but they often do little to examine the factors that cause costs, productivity or financial results. The costs are often related to materials, not to time spent in producing or correcting problems. This reflects a limited appreciation for "connecting the dots" between business financial results and employee behavior.

These concerns have increased the interest in the "balanced scorecard," that examines a company's performance from several critical perspectives—financial, customer satisfaction, resource utilization, and capability. The scorecard process should enable a business to drill down to the drivers of results and manage the leading indicators of high performance. Finally, one of the greatest criticisms that employees have about performance appraisals is their subjectivity. Surveys have shown that most of the assessment is made by subjective judgments that are often made after the fact, rather than by objective analyses of performance.[1]

These criticisms of the measures are important and becoming even more true for today's competitive challenges. The question remains: How do we identify the measures that make a difference?[2]

§ 20:11 Criticisms of performance appraisals—The manager is the judge and jury

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

In the traditional performance appraisal, the manager analyzes the employee's performance over a specified time period and rates the individual on a scale. Because there is seldom a process to appeal the decision, the manager is both the judge and jury when it comes to the employee's performance. Employees often regard this process as subjective and invalid. Managers often dislike it as well. Rather than examining the facts and true factors of performance, managers and employees get into an offense-defense discussion about the perceptions of employees' performance. When a manager needs to rank order or meet distribution requirements for performance ratings, she or he often blames others for

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[Section 20:10]

[1] Clinton Longenecker and Stephen Goff, "Why Performance Appraisals Still Fail," *Journal of Compensation and Benefits* 6 (November-December 1990): 36.

[2] Robert Kaplan and David P. Norton, *The Balanced Scorecard*, (Harvard Business School Press, 1996) Boston

their inability to give the employee higher ratings. In many companies, this process is merely a way to justify the pay increases. Performance ratings operated as a "zero sum game".

§ 20:12 Criticisms of performance appraisals—The process is forced on managers

Research References

West's Key Number Digest, Labor and Employment ⊶110 to 118, 169, 175, 208

Many managers dread preparing and conducting performance appraisals as much as employees fear and loathe them. This situation is reflected in the rules that must be created in order to force managers to conduct appraisals. For example, some organizations will delay the pay increases of employees until the manager has completed the performance appraisal form and had it approved by the human resources department. This reflects a philosophy that relies on compliance more than commitment. However, if managers are no longer required to do performance assessments, what would happen? In most cases, people would receive little guidance, feedback or reviews of their performance. What would be the impact of this situation on the business? The paradox is that most employees want honest and caring feedback on their performance and often have great relationships with their manager.

§ 20:13 Criticisms of performance appraisals—There is minimal availability of merit pay

Research References

West's Key Number Digest, Labor and Employment ⊶110 to 118, 169, 175, 208

Perhaps one of the most often-voiced criticisms of performance appraisal is that it bears little relationship to compensation received. One of the central problems in linking pay to performance in today's business environment is the limited merit increase budget. An organization's average salary budget increase for the last 10 years has been around 3–4 percent. If individuals receive more than a standard 3.0% pay increase (e.g., such as a 2x to 3x percent pay increase for very high performers), many others would be required to receive no pay increase in order to pay for these increases. But, if managers did not have a limited budget, they would likely give pay increases to people who do not deserve them.[1]

§ 20:14 Options for performance appraisals

Research References

West's Key Number Digest, Labor and Employment ⊶110 to 118, 169, 175, 208

In a landmark study of performance appraisal systems in Fortune 100 companies, the researchers found that these systems fail for many reasons. From the manager's perspective, these reasons cited for the failure of the systems were:

- Lack of adequate information on performance (66 percent);
- Employees were defensive or had a poor attitude (57 percent); and
- There was insufficient time to prepare the appraisal (52 percent).

From the employee's perspective, the following reasons cited were:

- The process was not taken seriously by the manager (57 percent);
- The standards were unclear or subjective (52 percent); and
- There was a lack of adequate information on performance (49 percent).

So if an organization does not have an effective process in place, what options does it have? The organization could eliminate appraisals and thereby free up considerable mana-

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[Section 20:13]

[1]Report on the 2004-2005 Salary Budget Survey (Scottsdale, AZ: WorldatWork, 2004).

gerial time. However, how would employees ever hear how they were performing? What impact would this have on decisions for selection, promotion, and salary administration? How would people know the standards against which their performance was being measured or how they were doing? Eliminating appraisals may remove some of the pain, but it could create other problems that are perhaps more serious.

A second option is to do the appraisals, but to minimize what managers need to do to perform them. Several software companies provide products to automate the preparation of appraisal documents. The manager just enters a few data points, selects key words that describe the employee, and the program prepares a complete narrative performance description. The process would be much easier, but the messages would read like one's horoscope – too general to take action or have any real understanding of the facts.

The third option is to continue doing the appraisal process, and make the most of a bad situation. In this case, the annual ritual would continue, and managers would continue to participate in training programs to learn better performance planning, evaluation, and feedback skills. This "stay-the-course" option would basically reflect an old saying: "Having lost sight of our objectives, we redoubled our efforts!"

The fourth option, which is the primary focus of this chapter, is to reexamine the purpose, reformulate the approach, and reenergize the process. This option argues that if one believes in the basic concepts of providing employees and managers with opportunities to plan, analyze, and review performance, the process should become more meaningful. Further, the manager should be enabled to "earn the right" to stop doing traditional appraisals by doing these tasks that bring the processes of measurement, feedback, learning, and reinforcement into everyday practices. Once this is done, the traditional performance appraisal will no longer be needed, and it may actually be counterproductive.[1]

IV. THE FACTORS THAT MAKE PERFORMANCE MANAGEMENT EFFECTIVE

Research References

Treatises and Practice Aids

Nobile, Guide to Employee Handbooks §§ 6:89 to 6:99
Nobile, Guide to HR Policies & Procedures Manual §§ 2:65 to 2:77
HR Series: Compensation and Benefits §§ 2:16 to 2:88
HR Series: Policies and Practices §§ 71:1 to 71:17, 72:1 to 72:12, 73:1 to 73:30, 87:1 to 87:20, 88:1 to 88:17, 89:1 to 89:49, 90:1 to 90:11
Nobile, Human Resources Guide §§ 3:35 to 3:43
Kahn and Berish Brown, Legal Guide to Human Resources §§ 6:1 to 6:39

§ 20:15 Effective performance management systems

Research References

West's Key Number Digest, Labor and Employment ⊶110 to 118, 169, 175, 208

To identify some of the key dimensions of an effective performance management system, we should examine the results of another study. The Center for Effective Organizations at the University of Southern California conducted a study of performance management systems in fifty-five medium to large Fortune 500 companies. While most organizations (86%) had a performance management system company-wide, they found eight (8) key factors that lead to an effective process (defined by having a correlation coefficient exceeding 0.50). The study correlated the presence of twenty-six factors against how the organizations view their performance management systems. The dimensions that were most closely related to highly effective systems were:

- Ownership of the performance management process by line managers.
- The presence of clear measures for how employees achieve desired results.

[Section 20:14]

[1]Longenecker, C. and Goff, S., "Why Performance Appraisals Still Fail," *Journal of Compensation and Benefits*, November-December, 1990, pg. 36.

- The active leadership of the firm's senior management in the process.
- The periodic measurement of the performance management system's effectiveness.
- The presence of clear goals that are driven by the business's strategy.
- The on-going feedback by managers of one's performance.
- The appraisal of how well managers appraise their staff members.
- Goals are set jointly between the individual and the managers.

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§ 20:16 Defining the needs of the customer

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

To provide the focus for redesigning the performance management process with a "customer focus," the organization must first identify the users of the system and what they want. The typical users of the system are the employees, managers, and executives of the company and their needs are usually quite diverse. The following section presents the needs from several important perspectives that an organization should consider.

§ 20:17 The needs of employees

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

Employees (who we shall also call "performers") need one or more of the following:

- A clear sense of direction and an understanding of how their work contributes to the organization,
- An opportunity to participate in setting goals and standards,
- Timely, honest, and meaningful feedback on their performance,
- Meaningful and sincere reinforcement for their efforts during the performance cycle,
- Consistency in how they are treated compared with others.

§ 20:18 The needs of employees—A clear sense of direction

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

Employees want to know what they need to do to be successful in the organization. They also want to see how their contributions will make a difference to the organization and the customers it serves. They want to see how their abilities and commitment to the organization can be best applied for their mutual benefit. Therefore, it is very important for a company to provide clear performance expectations that are directly linked to the competitive strategy of the business in order to create a high-performance workplace. Further, they need to understand where their talents can make a meaningful difference. These conditions can be created when the individuals understand the strategy of the organization, it's critical priorities, and their roles in achieving success.

§ 20:19 The needs of employees—Participation in setting goals and standards

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

Employees often want to become involved in decisions, especially when these decisions pertain to their work or careers. This involvement is necessary to strengthen the employ-

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[Section 20:15]

[1]Lawler, Edward and Michael McDermott, "Current Performance Management Practices: Examining the Varying Impacts," WorldatWork Journal, Vol. 12, No. 2, 2003.

ees' understanding and enhance their commitment to the results. It also clarifies the specific areas where individuals can make the greatest contribution and enable them to see what needs to be done and why. Research findings clearly demonstrate that such involvement is a key component of a high-performance organization.[1]

§ 20:20 The needs of employees—Feedback on performance

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

Few people work well in an environment where they have little information on how they are performing. Employees often want to know how they are doing and if they are making the desired contributions. If employees must wait until there is an annual meeting to hear feedback, this is too late and counterproductive. The most meaningful data is often highly time-sensitive, and many companies are providing this information to employees as soon as it is available. The employee hears about customer satisfaction, financial performance, and delivery performance when the managers hear about it. Feedback is most useful when actions can be adjusted and put into immediate application.

§ 20:21 The needs of employees—Reinforcement for employee efforts

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

Employees want to be part of a winning organization and be viewed as important contributors. They want to see that they are contributing to the organization's success or that they are helping it serve customers. They like to feel the satisfaction of good work. The high-performance organization provides meaningful reinforcement to their employees, whether the reinforcement comes from one's supervisor, peers, or the work itself. The merit pay increase is only a minor, though emotionally important, element of the rewards.

§ 20:22 The needs of employees—Fairness in how employees are treated

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

Being treated fairly and consistently is very important to most employees. They want to know that how they are treated is based on their own contributions and efforts and that they have equal opportunities for participation, growth and rewards. In this way, fair and consistent treatment reinforces the belief they are working for an organization that has true integrity.

§ 20:23 The needs of managers

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

The needs of managers are a second perspective that an organization must consider. Managers want a process for managing performance that:

- Is flexible enough to adapt to their particular managerial strengths and style;
- Helps them avoid the risks and liability of retribution; and
- Adds value to the work unit.

§ 20:24 The needs of managers—A flexible system for managing performance

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

[Section 20:19]

[1]Wilson, T., *Rewards That Drive High Performance: Success Stories from Leading Organizations*, AMACOM, New York, 1999.

Management is both an art and a science. Each manager develops a style that frequently is shaped over years of experience. The process for managing performance needs to be sufficiently flexible to adapt to an individual's particular style and management practices. If it is, managers will be more apt to use and support it. Creating a process that managers "want to do" is the central challenge to the architects of the process.

§ 20:25 The needs of managers—A system that helps to avoid retribution

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

Managers, like most people, fear taking actions that they believe could be punishing. For example, if a manager needs to prepare extensive documentation for "problem employees," he or she may choose to tolerate the situation and avoid the extra work and risk of criticisms. They see little benefit from dealing with poor performers, unless the process is "driven" by senior executives as has been the case at General Electric. Therefore, unless the appraisal process helps them prevent problems, they will likely do only what is necessary to avoid adverse consequences.

§ 20:26 The needs of managers—A system that adds value to the work unit

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

Managers, again like most people, will take actions that they view as rewarding and valuable. The day-to-day pressures on managers often mean that they avoid systems that require excessive documentation and effort unless it has immediate positive paybacks. A process can be viewed as value-added if it supports a manager's work, helps to prevent or resolve conflicts, and helps to increase the performance and contributions of his or her people.

§ 20:27 The needs of executives

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

Executives usually have several concerns. First, they want to know who their top performers are—current and emerging. Second, they want to know that the high performers are being recognized and rewarded for their performance. This often means that executives want to see pay, work assignments and promotions reflecting the individual's performance, especially for top performers. Third, most executives want the process to help develop the skills and motivation of all employees. Fourth, executives also want poor performance issues to be addressed. Finally, executives want the process to protect the company from legal liability. This protection often means that there is sufficient documentation and oversight to ensure the company is not at risk from employees who might feel mistreated.. Unfortunately, many performance appraisal systems serve the legal interests of the organization more than the interests of employees or managers, or the other interests of executives.

§ 20:28 Redefining performance management

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

Traditionally, performance management has involved providing employees with their performance assessments, ratings and pay increase amounts during the annual performance review. This is basically a process in which the manager is a provider and the employee is a recipient. Pay is supposed to reflect performance, but given the small budget amounts, limited differentiation is possible (or it is made in tenths of a percent—2.8 versus 3.2). Given the context for change and the weaknesses of traditional systems, it is time for a new process that is more active, strategic and meaningful. This will require very different concepts, processes and tools. Traditional methods of conducting performance appraisals are based more on the principles of conflict avoidance than on reinforcement of achievements. It assesses the person's performance against a set of objectives or standards, with little focus on discussing the fit between the person's talents and work demands of the organization's needs. It is no wonder that many managers avoid the process. Reenergizing the process will include not only changing the methods used, but also the paradigms or mind-sets. When managers and employees receive true value from the process, it will no longer be viewed as a necessary chore. In fact, the process can support the very change the organization needs to become more competitive.

§ 20:29 Employing proven principles to performance management

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

The problem with re-engineering performance management is that most executives and managers have developed personal theories and concepts about the process. But research exists on what makes the process highly effective, especially when it comes to those factors that influence human behavior. If we understand these principles, then we can create a renewed approach to performance management that will have a greater chance to endure, build confidence and contribute to a high performance organization. These key elements are:

- Goal setting
- Performance feedback
- Learning
- Rewards

§ 20:30 Employing proven principles to performance management—Goal setting

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

As the old saying goes, without goals to guide us, all roads will take us somewhere, but where? Goals are useful for setting purposes, providing clear expectations, and gaining the employee commitment. Research on the setting of goals has provided some very useful concepts that can be applied to the performance management process. In the context of a re-energized performance management process, goal setting is the process that translates the organization's strategies, key success factors and priorities into action that the individual can and should do. They should create the link between the organization's and the person's needs to be successful. They should reflect the measures that define success for the unit in which the person is working.

In a research study on goal setting, three groups were charged with improving their performance. One group was told to just improve; there was little additional direction. A second group was given a set of specific performance goals, and directed to achieve these results. The third group was given general parameters on performance, but they worked together to set their goals. The results were very clear. The group that participated in goal setting consistently set higher goals than the group where goals were assigned. When this participative goal-setting led to setting higher goals, higher performance was achieved. Both participative and assigned goal groups achieved higher performance than those groups that were told to "do your best."[1]

§ 20:31 Employing proven principles to performance management—Feedback

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

[Section 20:30]

[1] Locke, E and Latham, Gary, *A Theory of Goal Setting and Task Performance*, Prentice Hall – New Jersey, 1990.

In a traditional view, feedback consists of the manager's judgments about an employee's performance. These judgments are often based on subjective criteria and inadequate information. In addition, feedback is often given to an employee after the performance period is over. It is like giving someone the score after the game has ended. It is always frustrating to give employees feedback when they can no longer have an impact on the results.

In the more current view of the performance management, the best feedback is actual data about current performance that are not filtered by the judgments of management, but instead provide the results achieved. Then the discussions focused on the factors that helped and hindered the performance at both the team and individual level. Feedback that is based on measures that reflect progress toward critical goals has more meaning than just data; the strategic goals provide the reference point for understanding the feedback information. A company's use of this real-time feedback is essential if it is ever to achieve better results.

To illustrate the power of real-time feedback, many National Football League teams videotape their games and review specific plays both during the game and in depth at halftime. This gives the coaches many opportunities to help their players win. Further, it is now quite common for companies to surround work areas with performance charts to tell team members how much progress is being achieved on a daily and weekly basis. Research on highly successful salespeople indicates that they constantly know how they are performing.[1]

§ 20:32 Employing proven principles to performance management—Learning

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

A learning organization is a company that is able to achieve greater competitiveness because it uses its experiences to improve the process, create more innovation, and respond quicker to changes in the external environment. Therefore, one of the most important elements of effective performance management is the learning process it facilitates.

Learning does not occur in an environment of fear and judgment. Rather, it is fostered when people are encouraged to try new things and to succeed or fail in a manner that respects the action as well as the results. Some organizations have paralyzed themselves by a continuous focus on positive results without mistakes. In these organizations, employees tend not to take risk or seek to create breakthroughs. Only by reasonable, purposeful risk taking can an organization truly grow and excel. The performance management process provides an opportunity for the individuals and managers to learn what worked, what did not work, and why. Once again, the role of the manager shifts from being the judge to one that uses knowledge and experience to help the performers learn and improve.

Further, in the traditional context, documentation is used to verify that a performance evaluation occurred and to provide evidence if there is controversy over actions (i.e., it is a check on activity or a legal protection/compliance issue). Both of these purposes imply that documentation is done to avoid a negative consequence. In the new performance management process, documentation is used to reinforce the learning and commitments. It assures the information discussed is accurate, understood and integrated into future plans. It helps to provide clarity, "remember decisions" and communicate the achievement and issues encountered. Hence, it is helpful to both the manager and employees as a summary of their

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[Section 20:31]

[1]Latham, G. P., & Wexley, K. N. (1994). *Increasing Productivity Through Performance Appraisal*. Reading, MA: Addison-Wesley.

discussion and agreements. It is not a contractual obligation, just a simple tool to reinforce what was planned, achieved, learned and committed to do differently or improve.[1]

§ 20:33 Employing proven principles to performance management—Rewards

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

There is a common belief that if management provides people with clear goals and regular feedback then people will be motivated to achieve high levels of performance. However, there is significant research that challenges this assumption. A landmark study on feedback examined 126 applications of feedback systems in organizations. The data clearly showed that feedback does not uniformly improve performance. Feedback associated with an effective goal-setting process (see above) was shown to increase consistency in performance. However, when feedback was associated with positive consequences (e.g., pay, recognition, or special awards), desired performance improved to a much higher level than when feedback was given alone. This research also indicates that pay will not necessarily drive an employee to higher performance until the feedback indicates that the prospect of receiving more pay is possible. Hence, feedback is a critical element of effective performance management when it provides the employee with meaningful, goal related information that is also associated with receiving or not receiving a desired reward.

Positive reinforcement is the process in which employees get something of value for something they did. Reinforcement by its nature enhances the performance of an organization when individuals are rewarded for those actions that are aligned with what the organization wants from them. Hence, reinforcement is contingent on certain behaviors and/or results. It is most effective when it is timely, meaningful to the individual and clearly associated with the actions taken or results achieved.

Research on human behavior is very clear: When individuals associate positive consequences with the goals and feedback and see the probability of achieving this consequence as high, they respond. In addition, they respond with great discretionary effort when the consequences are viewed as positive, desirable, and meaningful.[1]

V. REENGINEERING THE PRIMARY ELEMENTS OF THE PROCESS

Research References

Treatises and Practice Aids

Nobile, Guide to Employee Handbooks §§ 6:89 to 6:99
Nobile, Guide to HR Policies & Procedures Manual §§ 2:65 to 2:77
HR Series: Compensation and Benefits §§ 2:16 to 2:88
HR Series: Policies and Practices §§ 71:1 to 71:17, 72:1 to 72:12, 73:1 to 73:30, 87:1 to 87:20, 88:1 to 88:17, 89:1 to 89:49, 90:1 to 90:11
Nobile, Human Resources Guide §§ 3:35 to 3:43
Kahn and Berish Brown, Legal Guide to Human Resources §§ 6:1 to 6:39

§ 20:34 Primary elements of the performance management process to reengineer

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

[Section 20:32]

[1]Peter Senge, The Fifth Discipline: *The Art and Practice of the Learning Organization* (New York: Doubleday/Currency, 1990).

[Section 20:33]

[1]Fabricio Balcazar, Bill Hopkins, and Yolanda Suarez, "A Critical, Objective Review of Performance Feedback," Journal of Organizational Behavior Management 7 (Fall-Winter 1985): 65.; Thomas B. Wilson, *Innovative Reward Systems for the Changing Workplace* (New York: McGraw-Hill, second edition, 2003).

If an organization wants to develop a new model for performance management, the basic challenge it faces is to design a process that links individual actions with competitive strategy and creates conditions where the performer is truly valued for his or her achievements. This section will examine the primary design elements in the process, discuss alternatives, and determine the "right" approach. The steps used can serve as a decision-making template for developing one's own approach to performance management. Specifically, this section will look at the following steps to re-energize the primary elements of the performance management process:

- Define the purpose and overall approach,
- Develop the performance measures,
- Determine how feedback should be provided,
- Capture the learning, and
- Establish the linkage with compensation and other rewards.

In creating a renewed performance management process one should keep a view of the "ideal." However, there may be many times where compromise is necessary to retain support to the process. For example, the top executives may want forced ranking, the compensation department may want ratings, and a manager may want to do the process only on an annual basis. Each time one decides to compromise from an ideal model, the potential positive impact on the organization is weakened. In this section, therefore, no trade-offs will be made. Instead, we will create a design that is an ideal model. Then the implementation process can be designed so that managers will earn the right to not do traditional performance appraisals when they fully implement the ideal model in their business unit. Rather than "letting them off the hook," this strategy means that managers can stop doing ineffective procedures when they start doing more effective procedures.

§ 20:35 Primary elements of the performance management process to reengineer—Define the purpose and overall approach

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

Before the purpose of performance management can be known, the priority needs of the process's primary users need to be identified and understood. Sections 20:17 to 20:27 of this chapter presented a description of various users and their needs. In this study of an ideal model, the employees will be the primary "customers" of the performance management process. Because managers are also employees, they will also be customers when they are on the receiving end of the process. When managers are on the driving end, however, they are the providers of the process. In that case, the managers may need certain skills and actions to make the process successful in the eyes of its customers (i.e., the employees).

In this light, the purpose of the process should be to address these four primary objectives: To enable employees to:

- Identify how they can and should contribute to the organization's strategies and priorities—goal setting and talent mapping,
- Understand how well they are doing (i.e., feedback),
- Feel valued for their performance and contributions (i.e., recognition and rewards), and
- Learn new ways to improve their capabilities (i.e., developmental) and how their talents are integrated with work requirements.

These four objectives will set a frame of reference for the new process and provide the priority requirements for the process's design. There are three key issues that need to be resolved in defining the approach that meets the purpose of performance management.

§ 20:36 Primary elements of the performance management process to reengineer—Define the purpose and overall approach—Focusing on individual versus team performance

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

First, will the process focus on the performance of the individual or performance of the team? In the ideal model, the focus should be on both. It is essential to examine team results, and based on this data, to examine how each individual contributed to the outcomes. Obviously, an organization may choose a different focus depending on the specific circumstances.

The team can be described as an intact work group (e.g., a department, division, or work center) or a special project team where employees are working on an engagement for most if not all of their time. Teams that are only temporary or that require limited attention or effort will be excluded.

§ 20:37 Primary elements of the performance management process to reengineer—Define the purpose and overall approach—Focusing on results versus behaviors of employees

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

Second, will the process focus on the achievement of results, the behavior and actions of people, or both? Although focusing on both is usually appropriate, the decision that needs to be made is what degree of emphasis should be put on each?

One should place a major emphasis on results when:

- The team members are fully competent to achieve the results;
- There is a short time duration between the actions of team members and the results; and
- The results are a clear function of the team members' actions, with limited external influences.

One should place a major emphasis on behaviors or actions when:

- People are implementing new processes or learning new skills;
- There is a long delay between the team's actions and the results; or
- There are many factors that influence results that are out of the control of team members.

§ 20:38 Primary elements of the performance management process to reengineer—Define the purpose and overall approach—Focusing on the talent or the job requirements

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

In order to create an environment that maximizes the talents and inherent motivation of employees, the process needs to determine whether it will be more focused on matching the inherent abilities of employees with the job requirements, or adjusting the job requirements to utilize the inherent talents and competencies of the individuals. The former examines the talent of people in the context of the work that needs to be done by the unit. The latter approach is one that adjusts the work of the unit to the talents of the individuals. If there is insufficient talent to cover the needs of the business, there are three options: 1) acquire new talent to meet the gaps, 2) outsource the work to others or 3) eliminate work that may not be necessary to do. Obviously, the process works both dimensions simultaneously; it is really a matter of emphasis. The executive levels of most organizations emphasize the talent focus and operational work units emphasize the job focus.[1]

§ 20:39 Primary elements of the performance management process to reengineer—Develop the performance measures

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

[Section 20:38]

[1] Buckingham, M. and D. Clifton, *Now, Discover Your Strengths*, Free Press, New York, 2001.

Performance measures are at the heart of every effective performance management process. Without clear and meaningful measures, effective feedback, reinforcement, or rewards cannot be provided. In the ideal model, measures provide direction and create opportunities to monitor progress and reinforce achievements. Further, they provide a line of sight between what an individual or team does and the competitive strategy of the business (e.g., revenue growth, customer satisfaction, costs, delivery performance, quality).

§ 20:40 Primary elements of the performance management process to reengineer—Develop the performance measures—The nature of the measures

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

In this context, the nature of the measures must be determined. Will the measures be objective or judgment-based? Will they be end result metrics or leading indicators of results. Objective measures are those that reflect the number of units produced, the time it takes, and the resources (i.e., people, money and materials) used. These measures can also include the measurement of qualitative outcomes like customer satisfaction or error/acceptance rates.

Judgment-based measures are those in which someone outside of the team is assessing whether an outcome was achieved. These measures are used for project milestones, the acceptance of a product or service, and to determine whether certain procedures were followed. This could also include examining whether the process had adverse consequences for other groups of the organization or even members within the team. Judgment-based measures are always more meaningful when the criteria are pre-established and well understood by the team members. After-the-fact application of criteria has little value in assessing past performance, and will likely damage the confidence in future decisions of managers by their employees.

§ 20:41 Primary elements of the performance management process to reengineer—Develop the performance measures—The basis of the measures

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

In addition to the nature of the measures, the basis on which the measures are calibrated must be determined. Will performance be evaluated in relation to predetermined goals? Will performance be evaluated by comparing performance with external references (e.g., a competitor or externally based benchmark reference)? Or will goals be based on improvements in historical or baseline performance?

The unit's specific business conditions will influence the selection of which reference or combination of reference points to use. Frequently, this is determined by cascading the measures implied by the overall strategy and key success factors of the larger business organization to the unit and individual (if relevant). This means determining what calibration is most meaningful to maximizing the unit's performance.

§ 20:42 Primary elements of the performance management process to reengineer—Determine how feedback should be provided

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

Feedback is essential to providing the team and individuals with the necessary information to encourage them to continue or adjust their actions. Feedback in this approach to performance management means data communicated in a manner that is most understandable and meaningful to individuals.

§ 20:43 Primary elements of the performance management process to reengineer—Determine how feedback should be provided—Nature of feedback

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

The first step in the feedback process is to determine the nature of the feedback itself. Will the feedback be ongoing data (e.g., hourly, daily, or weekly reports on results)? Will it be based on critical incidents (e.g., when internal or customer-based problems occur, products are received by the customer, or milestones are achieved)? Will the feedback be based on a summary of a variety of sources of information or on raw data? These sources may include customer survey data, staff or peer surveys of performance, or productivity, quality, customer feedback, or financial reports.

§ 20:44 Primary elements of the performance management process to reengineer—Determine how feedback should be provided—Sources of feedback data

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

The second step in the feedback process is to determine the source of the feedback data. In traditional appraisals, the feedback source is the manager's judgment. In this approach to performance management multiple sources will be utilized. The manager has an important perspective, but not the only one. Customers have a growing voice in providing feedback to employees through surveys, focus groups, visits, and informal interactions. Many companies are exploring feedback from peers, as well as other staff and subordinates. This is often referred to as 360-degree feedback because the information is coming from all directions. This process remains of limited use and few companies link the results directly to the pay decisions.[1]

§ 20:45 Primary elements of the performance management process to reengineer—Determine how feedback should be provided—The providers of feedback

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

The third step in the feedback process is to determine who will provide the feedback to the employees. Feedback that is data-oriented and generated from reports is usually provided to the team directly and then discussed. This feedback may relate to the quality of products/services on-time delivery performance, financial performance, or similar information.

A second option would be to have the manager provide the feedback. In this case, the manager would review the data and interpret its meaning or importance. That would start a dialogue about what led to achievements or what barriers prevented the achieving of desired performance. In 360-degree feedback sessions, where employees receive feedback from multiple sources, the manager's role often shifts from defending the data to interpreting and helping the individual or group understand which data are significant and which are not. This coaching role for the manager often enhances the collaborative nature of the manager-employee relationship.

To be effective, the following guidelines need to be the basis for providing judgment-based feedback, especially if it is negative, as well as any resulting discussion. Consider these factors:

[Section 20:44]

[1]Lepsinger, R., and Lucia, A., *The Art and Science of 360 Degree Feedback*, Jossey-Bass, San Francisco, 1997.

- The performer needs to understand what is being said. The data need to be specific and expressed directly. If appropriate, the data should carry examples or illustrations.
- The performer needs to accept the information. The relationship needs to be based on trust and be focused on understanding and taking action.
- If necessary, the employee needs to be able to do something about the data. The focus should be on changing future actions so that success can be realized, rather than on punishment for actions that have already occurred. It should be based on a premise of learning and gaining commitment to making things better for all concerned.

§ 20:46 Primary elements of the performance management process to reengineer—Determine how feedback should be provided—Types of communication

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

The fourth step in the feedback process is determining the type of communication to be used for the feedback. Will the data be put on graphs or charts for display in the work area? Will the feedback be provided on rating scales to assess performance against predetermined criteria? Will the feedback be narrative or generated in a discussion format? Depending on the measures and type of data, the feedback can be presented in a variety of ways, and presenting feedback data creatively often brings great fun into the workplace.

For example the finance function of a large technology company uses piles of paper play money placed on a table in the accounts receivable department to demonstrate the dollars collected in a given week. The amount was also displayed on a departmental chart summarizing both weekly and monthly collections. It is the source of lively discussions and attention for members of the department and their top executives (who often visit and have fun discussions with members of this department).

Another example is found in an information system department of a manufacturing company. It displays a race car track on the wall, and the placement of the cars reflects the progress of specific teams on key departmental projects.

The key principle is that feedback must provide employees with information they can use and keep in focus as they do the work. Feedback needs to be linked directly to the goals of the unit and company. Finally feedback can also a source for important discussions and great fun if used creatively and constructively. This increases the connection between the feedback and reinforcement or positive consequences one receives from examining this information.

§ 20:47 Primary elements of the performance management process to reengineer—Determine how feedback should be provided—The timing of the feedback

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

The timing involved in providing feedback data needs to relate to the nature of the data, but the data must be provided as often and quickly as it is available. Should the data be provided on a daily, weekly, or monthly basis? Or should the data be provided on a quarterly, semiannual, annual, or multiyear basis? Operational data are usually provided on a daily, weekly, or monthly basis, whereas summary data of past actions is provided on a quarterly or semiannual basis. As a general rule of thumb, individuals should receive feedback on the performance of a given measure at least 3 to 5 times during the "performance period." This means that annual performance plans should be reviewed at least quarterly; quarterly performance plans should be reviewed bi-weekly and monthly. Obviously, the timing depends on what is being measures, the dynamics that are forcing the performance to be at a particular level and the systems within the organization to collect, process and distribute the information.

§ 20:48 Primary elements of the performance management process to reengineer—Capture the learning

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

Earlier in this chapter we discussed how the feedback creates opportunities for learning. The most frequently used or most easily refocused step in the performance management process is the purpose and content of the review meeting between the manager and employee. Reviewing the performance is perhaps one of the most critical aspects of the performance management process. It is where all the feedback data are integrated into a common understanding, learning, and commitment to action. There are several elements to consider in order to make this process effective.

§ 20:49 Primary elements of the performance management process to reengineer—Capture the learning—Review meetings

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

Should there be review meetings? The options are yes, no, or only on an as needed basis. If there are to be meetings, then what will be their purpose? In the ideal performance management model, the purpose is to analyze the data, learn from the experiences, identify ways to improve performance and celebrate achievements.

Traditionally, the manager provides the employee with his or her conclusions about the employee's performance. This often leads the manager to justify or defend his or her perspectives. Since the conclusions are often based on inadequate data, the process often creates conflict. In the new approach, the manager conducts mutual discussion sessions to help individuals and teams to understand the meaning and significance of the data. The manager can also offer suggestions for improvements based on experience and expertise, rather than on authority or power. The manager is always looking to enhance an individual's talents, and restructuring work (not the person) to deal with performance problems. This may include shifting the work tasks or removing individuals from the group who clearly are not making the necessary contributions.[1]

§ 20:50 Primary elements of the performance management process to reengineer—Capture the learning—Whom should be included

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

Who should be included in the review meetings? In a traditional setting, the manager and employee are in a private meeting. In the new approach, the manager meets with the team and individuals. If the discussion concerns the team's performance, it should be discussed opening with the whole team. If it involved problems with individual members, it may be more appropriate to conduct these sessions in private. These review meetings can open communication and enhance team spirit. If there are significant, negative messages to give, the team or manager can discuss them with the individual or the information can be reviewed in a confidential one-on-one discussion. This depends on the nature of the issues, the maturity of the team, and the manager's facilitation skills.

§ 20:51 Primary elements of the performance management process to reengineer—Capture the learning—What should be discussed

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

[Section 20:49]

[1] Buckingham, M. and D. Clifton, *Now, Discover Your Strengths*, Free Press, New York, 2001.

What topics should be discussed at a review meeting? This depends on what data are available and what is important to the learning process and improving performance. In this new approach, the managers and teams should capture multiple sources of feedback and discuss their meanings and implications. The focus will be on understanding root causes, problem solving and action planning. The manager's job is to help individuals understand the significance of the information and the strategies for improvement. The outcomes may include adjusting the work assignment to better utilize the talents of certain individuals. In addition, all meetings should include important time for reflection, learning, and most important, reinforcing the contributions made by each individual.

§ 20:52 Primary elements of the performance management process to reengineer—Capture the learning—Frequency of the meetings

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

How often should review meetings be held? In a traditional system, they are held once a year. In the new model, they are held whenever they would help individuals or teams know how well they are doing and when changes are needed. This means that review meetings are held on a monthly or quarterly basis. The frequency depends on the availability of data and the importance of the data for shaping desired performance. Because of the value of these meetings for analysis, learning, and celebration, they are more likely to be held quite often.

§ 20:53 Primary elements of the performance management process to reengineer—Capture the learning—Determine what needs to be documented and why

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

The documentation of review meetings is part of the normal process of summarizing key points, learnings and commitments. A large East Coast hospital has developed a simple but creative checklist that can be used to document the subjects that need to be discussed in the review meetings. The checklist contains only the most critical items. It notes whether the discussion includes:

- Job accountabilities and competencies,
- Past and present accomplishments, and the unique abilities reflected in these achievements,
- Barriers to job effectiveness and contributions,
- Strategies to improve performance – both in job design and individual efforts,
- Training needs and plans, and
- Anything else of importance.

The performance review form is then signed by both the manager and employee, and it serves as a record of the common points discussed. This helps to retain and build learning and new insights. This process, as indicated earlier, is something that is useful to both managers and employees because it serves as a useful record or reference document of their discussions. Hence, documentation can be an important reminder of agreements made by the manager and the employee. It is not a legal document.

§ 20:54 Primary elements of the performance management process to reengineer—Establish the linkage with compensation and other rewards

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

Perhaps one of the most difficult, conflicting parts of the performance management process is determining whether and how evaluations should be linked with compensation. If they are linked, the focus often is on waiting for or justifying the pay increase. If they are not linked, then managers and employees wonder how the performance evaluations relate to pay decisions.

Some argue that linking performance management and compensation causes the process to become distorted, and there is ample evidence to substantiate this viewpoint. They argue that people will only focus on the performance measures that have an impact on their pay and not focus on the whole job. With no linkage, however, what would a manager use to determine pay increases? What would the compensation function and executives use to ensure that larger pay increases are going to the high performers?

The problem with linking pay and performance appraisals is that it reinforces the manager as king/queen and the employee as the passive subject. This issue can be resolved by examining several specific questions.

Should there be performance ratings? The original purpose of performance ratings was to provide a single rating to use with a salary-increase matrix. A parallel can be drawn by how we evaluate students in school. In most schools, students are not given a single grade for their entire performance for a given year. They receive grades (or ratings) on many specific academic and co-curricular activities. A single grade is simply not accurate because it doesn't accurately reflect a child's capabilities. In business organizations, employees often receive only a single rating. It is suppose to be a summary of the ratings on several performance dimensions (e.g., communication, results achievement, problem solving, initiative). But the single performance rating is what counts. When this is based on subjective judgment, it can be understood why employees resist being evaluated.

An increasing number of companies (e.g., Xerox, Kodak, Cigna, and General Electric) have eliminated ratings from their performance management systems. It is important for employees to know that they are very good at some things, and need improvement in others. Less courageous firms are reducing the number of rating levels from five to three: (1) outstanding, exceeds expectations; (2) fully competent or successful; or (3) needs improvement or requires change.

Should performance be the basis for determining pay increases? In pay systems that base increases on competencies or skills, seniority, cost of living, or the external market, pay is more related to external factors than job performance. In the new model, the manager makes a judgment on the pay increase using a full range of considerations, such the person's performance, her or his improvement in performance, pay relationships with peers, market competitiveness, and the available budget.

Companies that have implemented broadbanding of salary ranges, give the manager market data and a budget to allocate pay increases. The budget determines the total amount of increases, but it is not the compensation system. The compensation system should not be used to control costs; it should be used to reward performance. Use budget to control costs.

How can results based performance and individual competencies/talent be integrated? Although there are many facets to this question, a simple approach is to tie the base pay increase to a combination of results (What was accomplished) and individual competencies employed (How they were accomplished). This technique utilizes a salary-increase matrix with two dimensions—results performance and individual contributions. Figure 20-2 shows an example of a salary-increase matrix.

Figure 20-2 Salary-Increase Matrix

Team Results			
Exceeds Goals	4%	6%	8%
Achieves Goals	2%	4%	6%
Fell short of Goals	0%	2%	4%
	Fell short of Goals	Achieves Goals	Exceeds Goals
		Individual Contributions	

Individual Contributions (i.e., competencies employed)	Limited Contributions	Successful Contributions	Distinguished Contributions

The results are based on the factors that demonstrate desired outcomes for the organization. These factors should be highly objective and be based on key measures or results needed from the person or team. The individual contribution is an assessment of how well each person contributed to the team's performance. Here the mangers use multiple sources of data to discuss with the employees, and how well they were able to utilize their unique talents. In short, an individual who does very well on a highly successful team will receive the highest pay increase. If the individual or the team does not perform well, then the pay increase will be at or below the projected level. This pay increase may be modified based on overall company or divisional performance.

The primary benefit of this approach is to establish pay increases based on results accomplished and the process by which they were achieved. This will encourage individuals to use their talents and abilities more effectively to achieve desired performance as well as seek ways to improve overall company performance. Individual contributions are being rewarded in this context through peer recognition and compensation. This process will heighten individual accountability for business results and better matching of one's talent to the tasks required.

If this process is managed well, it can affect the organization's performance in a very positive way. The combination of factors determines the amount of pay increase that one would receive. The pay grade defines the opportunity available or the range of pay levels available; the performance determines the amount of pay increase. This simple approach to adjusting pay increases the linkage between the person and the organization's performance, but uses a broader view of the factors that lead to superior organizational performance.

VI. IMPLEMENTING THE IDEAL MODEL

Research References

Treatises and Practice Aids

Nobile, Guide to Employee Handbooks §§ 6:89 to 6:99
Nobile, Guide to HR Policies & Procedures Manual §§ 2:65 to 2:77
HR Series: Compensation and Benefits §§ 2:16 to 2:88
HR Series: Policies and Practices §§ 71:1 to 71:17, 72:1 to 72:12, 73:1 to 73:30, 87:1 to 87:20, 88:1 to 88:17, 89:1 to 89:49, 90:1 to 90:11
Nobile, Human Resources Guide §§ 3:35 to 3:43
Kahn and Berish Brown, Legal Guide to Human Resources §§ 6:1 to 6:39

§ 20:55 Steps for implementing the ideal model

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

This ideal model is based on an action-oriented, real-time approach to managing performance. The role of the manager shifts from judge and jury, to guider, coach, and reinforcer of desired performance. The role of the employee shifts from being a passive victim of the process to being fully accountable for the performance of one's unit/team and oneself. In all cases there is a direct link between the organization and individuals' goals, the feedback process, the learning discussions and the rewards. Each builds on and multiplies the value of the previous element.

In order to implement these concepts, there are several important action steps that should be taken:

- Recognize that the current process has problems,
- Redefine the purpose of the performance management process,

- Reenergize the process with high involvement,
- Test-market the new "product,"
- Build commitment for the process, and
- Reinforce managers who do it well.

This section will discuss each of these steps.

§ 20:56 Steps for implementing the ideal model—Recognize that the current process has problems

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

People are not likely to change their way of doing things until they realize that the current process has problems. There is ample evidence that the current approach to performance management is not effective for many organizations and their members, and that change is needed. The first step is to determine how effective performance management is in one's own organization and identify the primary areas of pain for employees, managers and executives.

Once an agent for change recognizes that there is a problem, the size of the problem needs to be measured in terms of its impact on the ability of the firm to compete, or the costs of the current situation. How much money does the organization allocate each year for merit pay increases? How well does it allocate these dollars? What are the pay increases for the high to low performers? Throughout this process of creating dissatisfaction with the status quo, the change agent needs to build support from several key sponsors. A well-thought-out and executed strategy for recognizing the problem is needed if the scope of change is likely to be high.

§ 20:57 Steps for implementing the ideal model—Redefine the purpose of the process

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

Dissatisfaction without a solution generates frustration and resistance. Thus, the implementation process should involve articulating a vision for: (1) how the performance management process can be redefined for the organization and (2) how it can be attractive to those whose support is needed for ultimate change. This chapter has outlined many points one can use to define a new purpose and create an attractive alternative to the current practices. It needs to be articulated in terms and expressions that are meaningful to the organization's leaders and members.

§ 20:58 Steps for implementing the ideal model—Reenergize the process with high involvement

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

An increasing number of companies are appointing internal teams, such as performance management design committees or special rewards and recognition committees, to rethink and reformulate the firm's management and reward systems. This high-involvement strategy has the principal advantage of creating support for change while the team develops an approach that is germane to the specific company.

A new approach to performance management can be created if an internal team can be selected and encouraged to "think outside the box" of traditional approaches. This will involve a combination of effective education, purposeful inspiration, and strong facilitation of the team. If the approach works well, it will truly energize the process and create a different model. The principal challenge will be to address the team's own resistance to doing something new that will initially mean creating more work or modification in established patterns of behavior.

§ 20:59 Steps for implementing the ideal model—Test-market the new "product"

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

Once the design team has created a new performance management process, they should test it with employees, managers, supervisors, and executives. The design team should describe the process's purpose and the approach, and it should give examples and demonstrate how the process would improve on current practices. The team should explore the benefits and the concerns. This reality testing will likely build more support for the change, highlight barriers to success, and refine the process.

§ 20:60 Steps for implementing the ideal model—Build commitment for the process

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

In companies where the performance management process is successful, senior managers set the example by doing it themselves. In companies where this does not occur, the performance management process is often regarded as weak. So it is not necessary the design, but the level of involvement and usage of the system by the company's senior managers. If sufficient senior-level support cannot be demonstrated, support must be built within the management level of the division or company that would gain the most from the process. If an organization is serious about pay-for-performance or rewarding high performers, senior managers must actively use the process it expects of others. This will either enhance or undermine their leadership credibility. People listen more to what the executive do than to what they say. In WorldatWork's Base Pay Management certification course executive support is the number one factor affecting the success of a merit pay program.

Commitment by senior managers and others can be increased once the results of the new process can demonstrate a clear advantage over the existing process. Thus, the design team will need to oversee the implementation and promote the key advantage of the new process.

§ 20:61 Steps for implementing the ideal model—Reinforce managers who do it well

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

One of the most effective ways to enhance organizational change is to bestow rewards and acknowledgements on those that embrace change and make the most of it. This means that additional rewards must be given to the innovators, rather than spending time and attention to those individuals who resist change.

Those that resist should not to continue with the current process. One might consider making the current requirements tighter, with more negative consequences for lack of compliance. For example, instead of delaying an employee's merit increase until the manager gets the forms approved, delay the manager's pay increase one day for each day that he or she does not submit an approved performance appraisal for each staff member. Once the habits have changed, there will be little need to impose such restrictions again.

In addition, evaluate the managers on how well they embrace and utilize the elements of the new process. If the managers are expected to implement a new performance management process, there should be clear measures and consequences. The process changes the focus from overcoming resistance to reinforcing the achievers. This could include special recognition at meetings, giving them the key promotions, or providing them with additional resources to accomplish their unit's objectives. In this way, the implementation process builds momentum for taking responsibility for a new model of management.

VII. HUMAN RESOURCES NEEDS TO ACTIVELY SUPPORT AND HOLD MANAGERS ACCOUNTABLE

Research References

Treatises and Practice Aids

Nobile, Guide to Employee Handbooks §§ 6:89 to 6:99
Nobile, Guide to HR Policies & Procedures Manual §§ 2:65 to 2:77
HR Series: Compensation and Benefits §§ 2:16 to 2:88
HR Series: Policies and Practices §§ 71:1 to 71:17, 72:1 to 72:12, 73:1 to 73:30, 87:1 to 87:20, 88:1 to 88:17, 89:1 to 89:49, 90:1 to 90:11
Nobile, Human Resources Guide §§ 3:35 to 3:43
Kahn and Berish Brown, Legal Guide to Human Resources §§ 6:1 to 6:39

§ 20:62 The role of HR

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

In the traditional performance appraisal process, the human resource function is that of controller or administrator. Human resources traditionally develops the compensation policies and requirements for appraisals. In some organizations, human resources need to approve the appraisal forms before the employees can receive pay increases. Some human resources departments conduct audits to ensure that all the information is complete and that the information minimizes risks of litigation. In the new performance management approach, human resources serves as a coach and reinforcer (not enforcer) of the process.

The new approach means that the focus of control and action is with the manager. Human resources can develop the process with line managers and employees (i.e., their customers). The human resources department trains and coaches the managers in how to establish measures, how to obtain and utilize feedback, and how to utilize reinforcement and innovative reward practices. Human resources representatives are active in reviewing the activities of the managers, promoting their innovations and key learnings, and reinforcing the managers and teams. This is an active approach that emphasizes being "out with customers," rather than looking for errors in completed forms. This is a very different role from traditional practices, and one that is more prevalent in successful companies.

VIII. SUMMARY

Research References

Treatises and Practice Aids

Nobile, Guide to Employee Handbooks §§ 6:89 to 6:99
Nobile, Guide to HR Policies & Procedures Manual §§ 2:65 to 2:77
HR Series: Compensation and Benefits §§ 2:16 to 2:88
HR Series: Policies and Practices §§ 71:1 to 71:17, 72:1 to 72:12, 73:1 to 73:30, 87:1 to 87:20, 88:1 to 88:17, 89:1 to 89:49, 90:1 to 90:11
Nobile, Human Resources Guide §§ 3:35 to 3:43
Kahn and Berish Brown, Legal Guide to Human Resources §§ 6:1 to 6:39

§ 20:63 Summarizing the new performance management process

Research References

West's Key Number Digest, Labor and Employment ⚷110 to 118, 169, 175, 208

Albert Einstein once said that we cannot solve our problems with the same thinking we used to create them. The tasks and challenges outlined in this chapter are important. Organizations in every industry are facing a future of uncertainty, risks and greater competitive challenges. In order for these organizations to meet their challenges and implement their strategy effectively, the people in the organization must be "on board." The people will understand the strategy when they are clear about what they need to do. They may need to change the things they have done in the past in order for the organization to survive and prosper in the future. Without this commitment, the firm's ability to compete is limited and will likely cause them to face continued struggles in the marketplace.

Many firms have attempted to utilize pay systems or career planning to give their appraisal process more power, but this approach often fails to fulfill its purpose of increasing feedback and engagement. While disbanding such approaches is always an option, a better alternative is to reenergize the process so that it becomes real and meaningful to people throughout the organization.

This chapter has summarized the needs of the various players and examined the key elements of the process. Most important, it has examined how to make the elements work. Then, it has outlined an action plan with concrete steps one can take to implement change in an organization. The proposed model is an ideal; it is far from reality in most organizations, but it is possible. The challenge is to develop and implement a process that is as close to the ideal as possible in as short a time as possible.

The new approach to performance management requires leadership that goes beyond articulating a vision. This approach involves the active implementation of strategies, plans, and measures that provide a framework for people to receive feedback and be reinforced for their contributions. In short, this presents a new, action-oriented model for managing people.

The focus of this effort is not on evaluating or appraising performance. Instead, it is about the active management of the process. The process is not about motivation in some carrot and stick approach, but it is about creating real circumstances where people are valued and rewarded for what they do. It changes the role of manager from judge to coach, the role of human resources from compliance officer to consultant, and the role of executives from goal setter to sponsors and leaders of competitive, purposeful strategies.

The important lessons from companies who are implementing such systems are to make the task important and to make the process fun. If people do not see value in tasks, they will not do them. If people feel the effort involves significant work, they will do it when they have time, which is seldom available in most of today's organizations. So make the process both rewarding and fun. It is important because of the linkage of the process with the strategy and how the process provides a bridge between the key success factors of the business and the actions people take on a daily basis. The process is made fun through the aligning measures, creative displays of the progress, engaging celebrations and utilizing the inherent talent of the people.

The new performance management process has been devised because organizations need the full commitment of their work force. They need to create conditions that reinforce the work force's contributions for those aspects of the firm that improve its ability to compete. The organization will thereby achieve or retain its leadership role in the marketplace, and people will feel truly valued for their contributions.