The State of the Art in Performance Management

Learnings from Discussions with Leading Organizations

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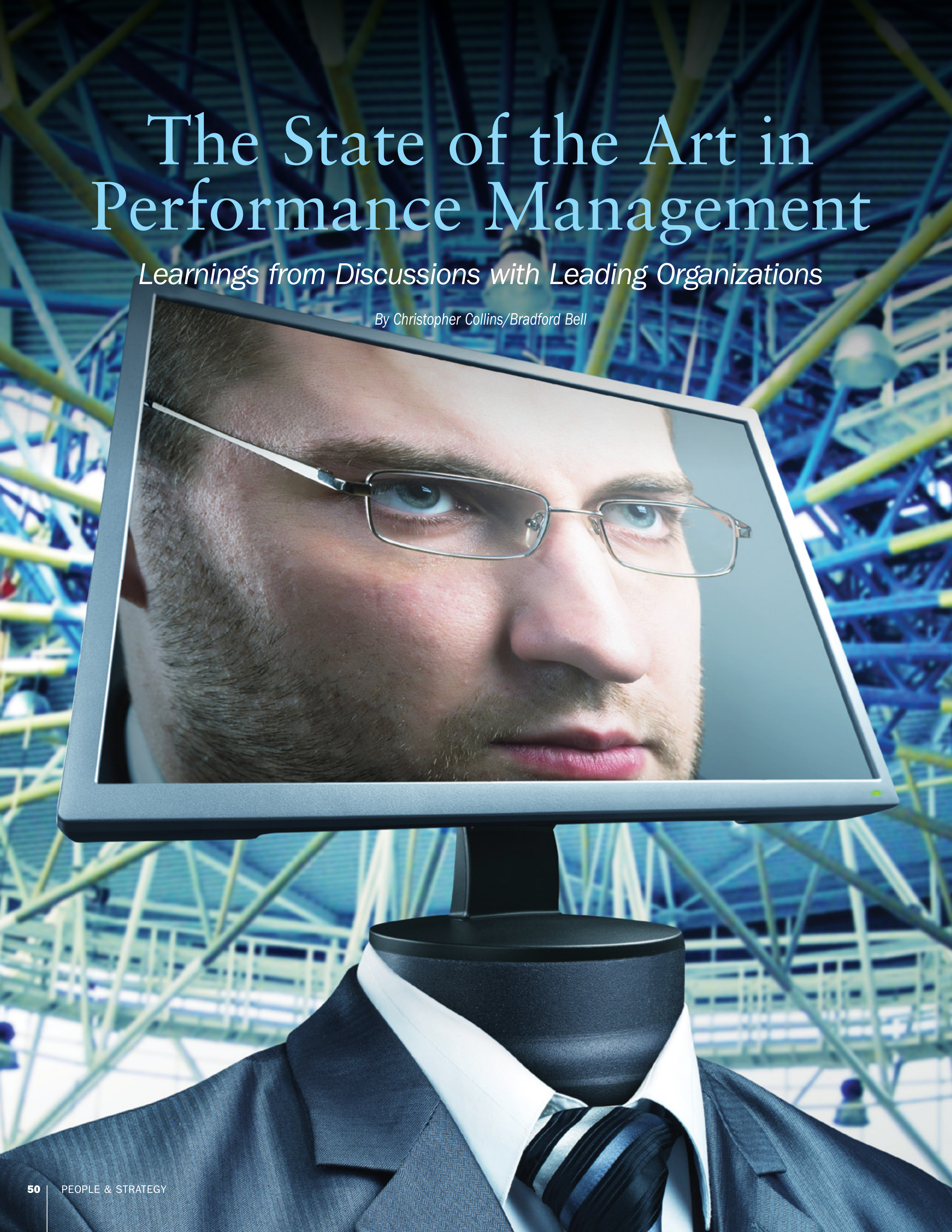

Performance management is one of the fundamental human resources tools that has been part of organizational life for decades and has long been the backbone of other activities of the HR system (e.g., pay decisions, development plans).

Despite the importance of performance management, it has historically been rated by employees, managers and the HR function itself as one of the least effective and understood HR practices. Given the stagnation in academic research on the topic and discontent on the part of organizational stakeholders, we decided it was an opportune time to meet with leading companies to understand the state of the art in performance management. Specifically, we held two working group meetings with a total of 32 HR executives from 20 companies to discuss current challenges and best practices in the area of performance management. The discussions provided us with a deeper understanding of the dilemmas and challenges associated with performance management in large, multinational companies. We were also able to extract a handful of promising directions for enhancing the effectiveness of the performance management process.

Dilemmas and Challenges of Performance Management

Across the companies that participated, there are several dilemmas and challenges that make it difficult to design the perfect performance management tool or system. Although participants identified many issues, we highlight those that raise the greatest concern for organizations.

First, performance management tools and outputs feed into multiple HR activities, including compensation and promotion decisions, employee development planning, and feedback and coaching, that use the information somewhat differently. Not only does this make it difficult to design the ideal performance management tool, but expectations about how the tool will be used can also shape the attitudes and behaviors of managers and employees. For example, managers are less inclined to give lower ratings or provide difficult feedback to their employees when performance data is used as inputs to determine bonuses, merit pay or promotions. In addition, employees are less likely to listen to and internalize developmental performance feedback when they are concerned that their rating will negatively affect their pay or promotion opportunities. Often, because compensation decisions are a key part of the outcome of the process, managers tend to focus less on using the tool to drive effective feedback and developmental coaching conversations. Research shows that coaching and feedback from leaders is a key driver of employee engagement, suggesting that focusing on compensation at the expense of feedback could be detrimental to driving higher employee engagement and potentially higher organizational performance.

Second, the size, scope and complexity of multinational firms can introduce inaccuracies or biases into the performance management process. In global organizations, for example, performance is often defined differently depending on the maturity of the market, cultural differences can impact the ability or willingness of managers to have performance discussions with employees, and it can be difficult to calibrate performance ratings across the global enterprise. In addition, the growing prevalence of matrix organizational structures, team-based work structures, and fluid employee role assignments, often necessitates that feedback be collected from a wider range of managers, employees and internal or external customers. However, this can place a significant time burden on managers or other raters and individuals who are connected more loosely to an employee might be reluctant to provide negative or highly detailed feedback.

Third, the design of the tools, not to mention human nature, creates a high potential for inaccuracy and bias. For example, rating scales often get in the way of effective discussions as neither employees nor managers feel comfortable using the lower end of the scale distribution. In addition, the timing and the frequency of performance dialogues often creates challenges. For instance, the performance management process is often conducted close to year-end to facilitate using the results in compensation decisions, but this creates a time crunch as managers are focused on finishing other end-of-the-year activities. The result is often an increase in errors or missing information. Linking performance management to pay decisions also means that most companies conduct performance management reviews annually, which increases the tendency of managers to emphasize more recent outcomes and limits the likelihood of coupling feedback and performance discussions to goals or activities that occur throughout the year.

Promising Directions for Improving Performance Management

While there were rich discussions regarding a variety of interesting practices and new directions, we chose to focus on those activities and practices that we think hold the greater promise in addressing the dilemmas identified above.

Leaders. Managers are seen as key to improving the performance management process, and the greatest gains in effectiveness and accuracy will come from focusing more on leaders' capabilities and motivation to effectively use the tools to provide feedback and coaching to the members of their teams. To help managers be more effective, organizations need to start with standard setting to increase understanding of the ratings, how to match them to observed behavior, and how to link goals and objectives clearly to outcomes. If the standards are clear with clear behavioral anchors, it is easier for managers to rate performance and to have constructive conversations with their employees. Accuracy and effectiveness of the tools also increase when managers are able to capture behavioral examples to support their ratings and facilitate performance conversations.

Training can also help equip managers to conduct performance dialogues and answer difficult questions. Although formal training ➤

programs designed to teach managers how to have coaching, feedback and development conversations are common, some companies have had success with workshops that allow managers to counsel each other on how to hold these dialogues. It is also important to regularly reinforce the training, for example, by including brief discussions about key principles of feedback during staff meetings. The effectiveness of the training can be demonstrated by showing managers how their feedback and coaching capabilities tie to employee engagement scores.

Additional Sources of Data. Companies have been experimenting with obtaining data from additional sources besides managers to enhance the accuracy of data, reduce the burden on managers and increase employee acceptance. While employees are often asked to provide self-ratings, companies have found that this is only effective when employees have been sufficiently trained. For example, training employees on how to write an effective, objective self-assessment can both save time and provide valuable input into the performance management process.

In an effort to respond to the increasing complexity of work as well as improve the accuracy of performance data, companies are increasingly seeking additional information from peers and internal customers. However, there are a number of factors that can influence the effectiveness of data gathered from these sources. Input from other managers or peers will be more accurate and useful to the extent that it is part of the company culture — that is, everyone is expected to both participate in the process and provide honest and detailed feedback. Employees are also more willing to give detailed feedback to others as they become more familiar with a tool and gain experience with the process. Further, the accuracy and depth of the feedback increase when performance questions are standardized, linked to goals, and framed from a positive developmental perspective (e.g., what could this employee do to improve their performance on a particular goal, behavior, or value). Finally, the detail and accuracy of ratings can be influenced by the amount of time that employees have to input data and feedback. As an extreme case, one company noted that they keep the tool open for four months, which enables managers and employees more time to provide feedback on a larger number of colleagues.

Timing. Employees desire regular feedback and are hungry for information on what they are doing well and where they can improve. Companies that do a better job of providing their employees with this information, and do so more frequently, should see gains in employee motivation. Accordingly, companies have created formal performance discussion sessions that managers and employees must conduct throughout the year that are separate from the formal evaluation that inform the compensation system. These check-in performance dialogues enable managers and employees to revisit and refine goals, separate feedback from compensation decisions, and grow comfortable with having performance conversations.

The Application of Technology. Companies are increasingly looking to technology as potential means of increasing the accuracy and effectiveness of the performance management process. For example, social media and mobile devices may serve as valuable tools for providing employees, particularly millenials, with real-time recognition and feedback. At the same time, mobile applications present unique challenges, including potential legal and privacy issues as well as a risk that publicly available feedback can become positively skewed and artificial.

One promising application of mobile technology is to use online systems to capture more frequent evaluations of employees and to create behavioral records. To streamline the process the entries could be limited to short descriptions that have a ceiling on the number of characters. A less sophisticated alternative is to encourage managers to send themselves emails with employee observations and file them away for later use. Both are good examples of event capturing — a means of capturing the essence of behaviors, outcomes or performance throughout the year to increase the amount and accuracy of data and limit the bias associated with focusing performance reviews on only more recent events.

Enhancing Employee Motivation

In the end, it was clear from the data that we collected from our working groups that the process and systems for performance management will never be perfect. If companies are looking to enhance the effectiveness of any performance management tool that they have in place, they should first remember that this is a tool to enhance employee motivation. We now share some insights gleaned into key drivers of employee motivation across the participating companies, and would encourage HR practitioners and leaders to keep these in mind as they think about their own performance management process.

Meaningfulness: Employees' decisions to join and remain with an organization are influenced strongly by the nature of the work and their belief in its value. The meaning one's work has on others within and outside the organization is sometimes quite evident and other times more obscured, but in any context it is important to acknowledge that meaningfulness is one of the foundations of employee motivation.

Feedback: Employees desire regular feedback and are hungry for the information on what they are doing well and where they can improve. Companies that do a better job of providing their employees with this information, and do so more frequently, should see gains in employee motivation.

Lifecycle: Participants noted that the motivational drivers for employees will change over the course of a person's life, career, etc. Some aspects of work can be customized to the individual (e.g., nature of the work, feedback) whereas others (e.g., compensation) need to be done at a higher level (e.g., group or unit).

Manager accountability: Leaders have a tremendous impact on employee motivation and hence need to understand their reports and how to motivate different people. They need to be able to provide coaching in a non-threatening fashion so that employees internalize and act upon the feedback. Unfortunately, many managers were great individual contributors, but don't have the capabilities needed to motivate others. Although training can help develop these capabilities, it is also important to ensure that those chosen for management have the capacity to motivate their followers. P&S

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