

CAHRS Working Group—Performance Management

March 13, 2013 — New York, NY

General Issues and Concerns Regarding Performance Management

We started the session with a roundtable discussion of the key issues and concerns for participants about the performance management process or performance management in general. Below are the key issues that were raised:

- 1. Global overlay of performance management.** A number of the participants noted the difficulty of maintaining consistency in the performance management process and in performance dialogues in their global organizations. When conducted on a global scale, performance management is complex because performance means different things depending on the stage of the business in different markets, the ability and willingness of managers to have performance discussions with employees in different cultures, lack of a consistent performance management model or philosophy across the globe, and difficulty in calibrating performance across the global enterprise.
- 2. Generational differences.** Several participants noted that performance management is more complicated today because of generational differences in desired frequency of feedback, comfort with different forms of feedback, interest in feedback from additional sources, and comfort with the openness of feedback.
- 3. Feeding the greater HR system vs. dialogue/coaching.** Almost all of the participants noted that one of the critical challenges is the multipurpose use of the performance feedback tool. Performance feedback is used for compensation and promotion decisions, inputs for employee development plans, input for feedback and coaching, etc. The fact is that that these multiple uses require more data and they may be at cross-purposes to one another. For example, managers may be less willing to apply lower ratings or provide difficult feedback to their employees when the tool/data is used as inputs to determine bonuses, merit pay, or promotions.
- 4. Does performance management matter?** Participants in the group also discussed the relative importance of performance management in pay-for-performance decisions in light of the relatively small differences in merit increases in today's tight economic environment. Certainly a number of participants were concerned that the trivial differences in merit pay may not warrant the resources that are devoted to differentiating employee performance with a high degree of precision.

On March 13, 2013, CAHRS convened a working group session of HR leaders who are interested in and support the performance management process in their organizations. Seventeen HR executives from 13 companies attended our initial **State of the Art in Performance Management** working group, hosted by and facilitated by Professors Chris Collins and Brad Bell at the ILR Extension offices in New York City. In this document, we summarize the information that we collected on how companies are looking to better manage their performance management process, the connection of performance management tools to compensation decisions, employee development, and leader coaching. We present a summary of the discussions that occurred around the following topics: (1) general concerns and issues with performance management, (2) embedding performance management in the culture/DNA of the organization, (3) creating a culture of coaching and feedback, (4) process issues, including frequency and additional data points, and (5) complications stemming from an increasingly global and distributed workforce.

Participating organizations included Ally Financial, American Express, Boehringer Ingelheim, Citi, Cornell, Corning, Eaton, The Hartford, Hilton Worldwide, Johnson & Johnson, Merck, Terex, and United Technologies.



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5. **Creating a culture of coaching.** A number of participants noted that their organizations were increasingly thinking about moving away from focusing on performance management for merit pay decisions and shifting toward a focus on development. There was a good deal of attention paid to how to better use the performance management tool and process to help leaders become better coaches and to help them have developmental discussions/dialogues with direct reports.
6. **Increasing rigor in objective setting.** Across the board, participants were interested in understanding how to increase the rigor in setting objectives as a way to enhance the usefulness of the performance management tool for compensation, promotion, and developmental outcomes.

Building a Performance Management Culture

One of the discussion topics that garnered significant interest from the session participants was how to successfully embed performance management into the culture of the organization so that managers engage in ongoing feedback and coaching. The participants offered a wide array of ideas on how they are tackling this issue in their own organizations.

1. **Creating a standard.** Participants noted that it is important to start with standard settings to increase understanding of what ratings mean, how to interpret them, how to match them against observed behavior, and how to clearly link goals and objectives to outcomes. If the standards are clear and tied to behavioral anchors, it is easier for managers to rate performance and to have constructive conversations with their employees. Also, managers need to capture the behavioral examples to support their ratings so they can include them in the conversations.
2. **Calibration also makes it difficult.** Several participants noted that managers may rate employees against the standards, but the ratings will change when employees are compared to others in similar roles. For example, managers may submit their ratings in January and then hold a calibration discussion in February. Companies differ in whether they present employees the raw score or the calibrated score. Some companies provide employees with the initial rating, whereas others wait until after the calibration discussion to give employees their adjusted rating.
3. **Role of senior leaders.** Most of the participants said they believe that building the culture starts at the top. The rest of the organization is more likely to be better at performance management when accountability is established among top management and is then cascaded down to lower level managers. For example, one of the participants noted that his company has developed a dashboard that looks at metrics such as attrition of high potentials/performers, net exportation of talent, etc. to assess the effectiveness of senior leaders in developing talent. The metrics help to hold managers accountable for managing talent and has built a stronger commitment to the performance management process and performance management discussions.
4. **To split or not to split.** One of the participants noted that her company has looked to separate the performance/merit discussion from the future-looking potential/development discussion. The separate sessions are intended to increase the likelihood that both managers and employees will fully engage in the feedback/developmental portion of the performance management process. Other companies have merged the discussions because they have found that holding multiple discussions consumes too much of managers' time. Some participants felt that there is no need to decouple the discussions as they feel managers can differentiate performance and potential and therefore separate pay decisions from promotion/development considerations. However, several participants noted that if managers are not comfortable with separating the different elements, then it can be advantageous to decouple them.
5. **Focus on both How and What.** In response to the split or don't split issue, participants noted that it is easier to keep both elements in a single discussion if the performance management tool measures both the

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What (results delivered) and the How (were the results accomplished in line with the values and culture of the organization). Most participating companies seem to focus on both in their measures and take both dimensions into account when determining overall ratings.

6. **Eliminating the ratings.** Several participants noted that their organizations have either thought about or have eliminated the numeric ratings in their performance tool as a way to encourage more discussion about actual performance against objectives and to keep the focus on development and feedback. However, it was noted that this has been unsuccessful in certain organizational cultures where managers and/or employees felt the absence of numeric ratings created a system that lacks precision. Further, several participants noted that the challenge with getting rid of the numbers is that it may work for development but not for promotion, reductions in force, etc. This issue ties back to the notion that performance management is often challenged by the fact that it is serving several masters. In one company that dropped ratings, they found that managers were still using the system to differentiate pay, so people just came up with their own explanation for the differentiation in the absence of a clear rating. The unintended consequences were severe. People devise their own explanations if one is not given. Also, it is incredibly hard to have the conversations if there is no clear basis for the outcomes.

Creating a Culture of Feedback and Coaching

In a related discussion, participants in the working group were actively engaged in a discussion of how to increase the ability and willingness of managers to provide employees with more regular and effective feedback and coaching. Again, participants noted several interesting ideas:

1. **Tools to facilitate the discussion.** One participant noted that a way to increase coaching and feedback is to have employees complete a talent profile and to have managers evaluate employees using the same tool. The manager can then see what types of future roles employees are interested in and how their ambitions match with manager's perceptions of the employee's performance and potential. The talent profiles can also serve as the basis for developmental discussions – "Here is where you would like your career to go; here is where the organization sees you." The magic is in getting interests aligned. Other participants noted the use of similar planning discussion tools as a way to help managers who might otherwise struggle with the potential conversations. Given that managers are often not prepared for the discussions, these tools can help both the manager and the employee prepare for a constructive discussion.
2. **Training.** Participants noted the importance of training to help educate/equip managers to have conversations with their employees and to answer the difficult questions. Many companies noted that they have created formal training programs to teach managers how to have coaching, feedback, and development conversations. This training could be connected to mandatory training for first time managers or offered to all managers who are looking to better understand how to conduct these conversations. While some of this can happen through formal training, one participant noted that they have had success with manager-driven workshops where managers help counsel each other on how to have these conversations. Similarly, another participant noted that it is helpful to reinforce training by having brief discussions about key principles of feedback during staff meetings.
3. **Clear development/career paths.** Based on our discussion, it seemed clear that coaching, feedback, and development conversations are easier to the extent that companies have clearly defined development and career paths (both upward and lateral) for employees.
4. **Role of leaders.** Multiple participants noted the importance of senior leaders in setting the tone. One participant noted that a key barrier in her company is that senior leaders are not positive role models. People management is on their mind, but they are more focused on getting their jobs done. Another noted that one of the challenges in getting the support of senior leaders is that they don't see the connection between people

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management/development and the bottom line. Thus, we need to help senior leaders see the value proposition. Further, leaders need to be held accountable. One participant noted that when people want to move up, the company evaluates the extent to which they have developed talent in their current position.

5. **Selection.** One participant noted that his company has recently started to screen people for the ability to coach and provide feedback very early on in their careers (when they are still individual contributors or front-line leaders). The participant noted that internal and external candidates are not put into higher level management jobs unless they show evidence of this capability.

Process Issues

Part of the session was spent on issues regarding the performance management process itself. Specifically, participants actively engaged in discussions on the frequency of feedback sessions, supplemental data sources, and data collection strategies.

1. **How frequent?** One key process issue that participants discussed was how frequently to have mandatory or formal performance discussions. Companies seemed to range from a single formal discussion to as many as five mandated performance/feedback discussions per year.
2. **Who should be involved?** Given the complexity of matrixed organizational structures and employees moving between project teams, participants noted that it is important to get additional feedback, potentially from other managers, employees, and internal or external customers. The difficulty is that this can place a significant time burden on managers or data providers. Also, there was a general feeling that these other data points might be reluctant to provide negative feedback or very detailed feedback. The challenge is that it is an annual process and managers are inundated with requests all at one time. In response, companies are moving to a process in which the system is open all year, so managers can spread it out. And, companies are looking to streamline the process by reducing the number of questions to the one or two key items.
3. **360 degree feedback.** Companies seem to value more input and are using 360 for development, but not for ratings of performance. For example, it may be part of a leadership course. Some companies have tried using 360 for performance management and it was not useful data as there was little to no variance on the ratings.
4. **Stakeholder data.** One set of participants noted that they ask stakeholders to evaluate the What and the How, whereas other participants noted that they ask stakeholders to only rate the How (the specific behaviors that they have seen). The challenge, again, is that stakeholders may get 15 requests and are asked to rate five to 10 competencies. Some companies noted that they use technology to capture the stakeholder feedback, whereas other participants noted that in their culture they have found personal requests are often more successful and yield better data.
5. **Social media.** A few participants noted that they have started to think about how to use social media or other digital tools in their performance management process. One company is using social media to track and evaluate employees' networks (how connected are employees and who are the key knowledge nodes in the organization). The participant noted that this data was fascinating and more informative than the standard performance data. Several participants noted that companies need to be careful that social media does not replace face-to-face feedback; there is an intangible boost that comes from that face-to-face interaction. It may be that face-to-face is better for performance management and social media is better for collaboration and knowledge sharing. But, with employees increasingly working virtually, social media and technology may emerge as an important means to not only collaborate but also to get feedback.

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Key Challenges

Participants noted that performance management is becoming increasingly difficult because of the changing nature of work and how work is completed. Specifically, the participants focused on the increased number of employees that work remotely or in distributed locations and the globalization of their workforces.

Remote Work Key Challenges

- A major challenge for performance feedback with remote workers is that you need to be more clever with planning. You need to take advantage of opportunities when employees are traveling or happen to be on site to conduct the performance dialogue so that the discussion can be conducted face-to-face.
- For remote workers, assessing the What (did the person accomplish their goals, hit targets, etc.) is not any more difficult than with employees who are in the office and is sometimes easier as they may have more specific objectives. However, the How is often more complicated to assess, particularly if the person is relatively isolated. Potentially, this is a situation in which companies would have to draw even more heavily on stakeholder feedback (e.g., client/customer surveys).

Global Workforce Key Challenges

- You can have a manager sitting in one country that is responsible for compensation of employees located in other countries, and the manager doesn't really know how compensation operates in the other locales.
- In certain countries, such as Asia, people are very transparent about some issues, such as salary, but not other issues. As companies move to transparent organizational cultures, there is some concern about how cultural differences in transparency will influence policies and practices that get implemented and employees' reactions to them.
- There are also concerns about managing the performance of people in emerging markets and developing talent in those regions. In emerging markets, the employee population is younger and they are promoted faster. The result is that there is often a shortage of managerial capability.
- Most companies have a generic performance management approach that is implemented globally, and then they think about what the cross-cultural implications may be and try to address those through communication and explanation. In Spanish countries, for example, people don't understand what a "middle" rating means, so the language needs to be adapted. In addition, some companies roll out new systems in countries other than the United States, so the initiatives are not perceived as US centric or US led.

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This Summary Report was prepared by Chris Collins and Brad Bell for use by participants of the CAHRS Performance Management Working Group and CAHRS Partner organizations.

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