Does Your Performance Management Program Really Improve Performance?

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If you answered “yes” to this question, your company is among a small minority of global companies. A large majority of managers and other employees agree that their performance management programs do not improve business results. A recent study conducted by McKinsey & Company suggests that only 30 percent of employees say they receive feedback of real value in improving their performance.

As a result, better performance management represents a largely untapped opportunity to improve company profitability. However, to reap these gains will require a change in focus, ownership and process, not simply changing the form or the rating scale.

Current Focus

Company handbooks or other descriptions often state the right goal for the performance management process, which is to improve performance. However, the true focus of most programs is not to improve results. Currently, most performance management systems focus the following:

1. The majority of performance management programs are driven by the need to arrive at a rating used to determine the size of employee merit increases and, in some cases, incentive awards. As a result, many supervisors determine the amount of merit increase they believe is adequate to retain and reward employees, then use company guidelines to back into a performance rating that justifies the desired increase. Another common use is to make termination and promotion decisions. In fact, the bulk of the supervisor’s effort is arriving at a judgment of performance. Employees, of course, are likely to contest that judgment unless they are rated at a high performance level. As a result, the focus on improving individual performance is displaced by the focus on judging and rewarding.

2. The focus of most performance management programs is on individuals, not teams. Team performance is not typically considered in most performance feedback, according to Kepner Tregoe’s survey, People and Their Jobs: What’s Real, What’s Rhetoric. Rating the performance of individuals alone often results in destructive competition and conflict among team members. Given how frequently people work in teams these days, the focus on individuals is outdated and often counter-productive.

Shifting The Focus

Imagine the effect if every manager’s conversation with every employee in the company were focused entirely on improving business results. There are four major steps necessary to accomplish this shift in focus.

Improve Employee Business Literacy

This includes a deep understanding of:

1. How the company makes money

2. How the company’s customers make money; how the company can help its customers make more money; and, what customers need to remain loyal.

3. The key actions and efforts necessary by each employee and his/her team to maximize company profit and satisfy customer needs.

For frontline employees, companies such as PepsiCo, Sears, and State Farm Insurance have used pictorial representations called “learning maps” or “business games” to increase literacy. Learning maps and business games can chart the flow of revenues and costs and explain how the company makes money. Similar tools describe their customers’ businesses. For managers, enhanced business literacy may require special assignments or a better understanding of company economics. Economic “value trees” can be used. These trees begin with return on capital and flow through each financial and nonfinancial measure that affects returns. Business literacy improvement is not just training. It requires that the employees participate and help lead the journey of discovery.

Be Sure employees Understand Overall Enterprise Goals

A frequent complaint of managers and other employees below the top executive level is that they lack clear business unit or company-wide strategies, goals and metrics. As a result, they have insufficient information to set team and individual goals that align with the rest of the organization.

Motivate Employees to Find Information to Track Performance

Management must provide multiple channels of performance information and employees should press management to provide that varied and rich data. After gaining the information to track their performance and that of their team, employees can gain a deeper understanding of how they can influence these performance measures.

Measure Team and Individual Performance

Companies with the proper focus hold regular team sessions, often without supervision, to determine how they are doing and how to improve results. Thus, they are providing their own feedback to one another. Some teams also provide feedback in a multi-rater format to individual team members.

Ownership

In most companies, the performance management program is imposed on supervisors, who, in turn, impose it on their employees. Often, the HR organization “owns” it and is assigned accountability for this imposition. In effect, performance management is pushed on employees, and supervisors try to “manage” employee performance. Unfortunately, the result is a battlefield on which supervisors and employees prepare strategies and tactics to get the highest possible performance rating by arguing contentiously about ratings.

To end this performance mismanagement, it is necessary to transfer the ownership of performance improvement to individual employees and teams. Instead of simply managing their performance, they should be launched on a quest for the information they need and the tools necessary to improve their performance and that of their teams. In companies that have embarked on this performance quest, supervisors create the demand for feedback to employees on how they are doing. This feedback comes from data flows and answers to questions that employees ask about performance. Employees should be avidly interested in improving their performance to participate in incentives and, in some cases, company stock appreciation. They also should take responsibility to build their own human capital, which is portable. The more employees learn about how to satisfy customers and make money for their company, the more valuable they become within their own company, or to another company.

Once employees take ownership of their own performance, some companies have eliminated overall performance ratings. Instead, employees rate how they and their unit have performed based on information they have gathered in their efforts to improve business results. They typically prepare simple self-ratings on a regular basis, rather than once or twice a year, and they seek their supervisor’s input on how they have judged each major component of their performance.

How do companies make merit increase decisions, if overall individual performance ratings are not used? Companies using the performance quest approach find that making year-end pay decisions is a virtual no-brainer. Employees and managers have shared performance information continually throughout the year. As a result, there are few surprises.

Merit increase decisions become even easier if minute and meaningless distinctions in performance and pay are avoided. In most organizations, somewhere around 10 percent to 15 percent of the people are delivering truly superior results and should be paid a premium. Another 5 percent to 10 percent are under-performing and should receive less than the average. The majority of employees perform just fine and should receive the standard merit increase. It is significantly easier to identify top and bottom tiers of any employee population than it is to make rating decisions for every single employee. Some companies also shift some pay for superior performance to incentive plans based more on team performance.

Employee ownership can be increased by tools constructed by employees, or provided by management, such as:

1. A weekly results sheet that helps track performance
2. A business impact scorecard
3. A work problem-solver computer program
4. An action planner
5. A guide to group and individual performance conversations
6. A self-assessment guide.

The Process

There are two critical process changes needed:

1. Avoid making performance management a once or twice a year transaction that pits employees against supervisors. Instead, performance feedback should be supplied from multiple sources, including the supervisor, on a daily or weekly basis as part of "how we manage the business."

2. Shift from a one-size-fits-all process covering different types of employees to a process that is tailored to the nature of the work. A performance improvement process that fits a staff employee, such as a corporate attorney, is unlikely to work for laboratory scientists, brand managers and sales representatives. Also, some employees, such as sales representatives, tend to spend long periods of time on the road alone or with sales team members. A process for improving performance in such a highly independent job should be different from that used, for example, for service center employees doing inbound troubleshooting and housed in a single location with constant contact with their supervisor.

The figure below provides a template for evaluating your performance management system.

Need for Change		Effective Performance Management
Process is viewed as a set of tasks that need to be completed by a specific date	Vs.	Performance management is "the way we run the business"
Emphasis is on filling out forms and calculating ratings for making pay decisions, giving the process a transactional feel	Vs.	Emphasis is on ongoing feedback, meaningful performance conversations and clear performance messages
The process is driven by the manager and "done to" the employee	Vs.	Interactions and conversations about performance are initiated by both managers and employees
Employee objectives are not well defined nor closely tied to the drivers of business strategy	Vs.	Employee objectives are clearly defined and linked to the strategy: people feel connected to the business
Performance information is hard to access and yields limited ideas for growth and development	Vs.	Performance information is highly accessible and yields robust ideas for growth and development
Large investments in enabling technologies have yielded little improvements in overall effectiveness	Vs.	Enabling technologies have been supported by sustained efforts at improving process execution
Performance management works in some parts of the organization and fails in others	Vs.	Performance management is consistently executed and effective across the organization

In summary, the key to improving performance is to:

1. Focus performance management efforts on improving business results.

2. Shift accountability and ownership of managing performance to individuals and line coaches instead of just the boss or HR function.

3. Use a custom process that draws on robust business results regularly, instead of a once-a-year transaction and a one-size-fits-all process for different employee groups.

Companies that have made one or more of these three shifts have cut costs by double-digit levels, improved growth rates and reduced unwanted employee turnover.