Performance Management
Key Steps to Deliver an Effective PM Process

The vast majority of publicly-traded companies and government organizations engage in Performance Management (PM)—the process of establishing employee goals, monitoring progress, and assessing outcomes so that individual efforts generate organizational results. Employees also gain from this process. Employees place great value on feedback that helps them develop and they respond positively to pay increases based on their performance. In the ideal state, both the organization and its employees benefit from a well-run PM process.

Unfortunately, most PM processes underperform. Managers find PM a burden to administer and employees are typically de-motivated by the feedback they receive. To determine why this is the case, we examined PM processes at the many clients who have asked for our assistance. We also conducted a wide literature search. In this white paper we outline best practices derived from this rigorous review. Our goal is to offer guidance that is based on proven results and documented legal protections so you can assess and improve your own PM process.

Elements of a Strong PM Process

It is possible to create a performance management process that adds value, is perceived as fair, and drives organizational objectives. Doing so requires companies to:

- Drive the PM process from the top of the organization;
- Develop a "real-time" PM process;
- Use performance metrics and evaluation standards that are job-related and valid;
- Implement processes that are consistent, transparent, and enforceable; and
- Deliver PM outcomes aligned with organizational objectives.

We outline below the steps needed to effectively implement each of these best practices.

Drive PM from the Top of the Organization

Although they are intended to drive behaviors and performance aligned with organizational goals, the vast majority of PM processes are created by HR with little input from outside HR. The executives of companies with successful PM processes take an active role in creating and maintaining a focus on performance via PM.

These executives:

- Communicate clearly and relentlessly the company's vision and objectives;
- Publicize their goals and ensure goals cascade down the organizational hierarchy so each employee sees clearly how his/her results contribute to the organization's success;
- Value what is accomplished as well as how it is accomplished;
- Coach their direct reports and hold them accountable for doing the same; and
- Hold managers accountable for writing clear and accurate performance evaluations.

These steps yield documented results. Employees who work in a company with a clear focus on performance reinforced by executives demonstrate higher engagement and have more faith in the fairness of the PM process. In addition, these employees display fewer of the frustrations and disruptive behaviors that characterize organizations that that send mixed messages regarding the value of performance.

Develop a "Real-Time" Performance Management Process

Effective PM processes give employees the opportunity to obtain feedback and guidance when they need it—during project management meetings, when crises arise, when deliverables are completed. The emphasis of PM processes designed in this way is to support producing results and adjusting intelligently in real-time to unforeseen events. Contrast this with most PM processes, in which goals remain unchanged even when the business changes and feedback occurs on an administrative schedule (e.g., the end of the fiscal year).

PM processes that work in real-time:

- Encourage manager-employee conversations when setting goals so that how goals should be met is clear;
- Support real-time feedback and evaluation when it matters—during projects and immediately after significant events;
- Incorporate project dependencies and risks in goals so they can be appropriately tracked and managed; and
- Ensure that goals are aligned throughout the year to support business challenges, market changes, and unanticipated opportunities.

Use Job-Related Performance Metrics and Evaluation Standards

One of the most common complaints employees register about PM evaluations is that they are not related to what the employees do every day. Performance evaluations that are rooted in documented job outcomes and KSAs (knowledge, skills, and abilities) provide specific and actionable feedback. They promote consistency in evaluation and performance coaching. As a result, they are more legally defensible and are less likely to provoke complaints of bias.

A job analysis documents the KSAs, outputs, and standards required to perform the job, based on wide input from incumbents, managers, and customers. For jobs with wide discretion (such as many professional jobs) a job analysis documents the specific competencies that lead to high performance and complement business- based goals/objectives.

Job-related and valid PM metrics:

- Are based on KSAs/competencies consistent with the demands of the job as documented in a job analysis that adheres to professional guidelines;
- Give clear behavioral guidance with specific and relevant behavioral examples of performance;
- Are aligned with the key needs of the business (geared for development, retention, differentiation, succession, etc.); and
- Are analyzed frequently to ensure decisions based on evaluations (promotions, development opportunities, salary actions) are valid.

Implement Processes that are Consistent, Transparent, and Enforceable

When employees area asked what makes a PM process "fair" they list elements that drive consistency and transparency on two levels. The first is the "system" level; that is, how they perceive the process works across the organization. The second is the "personal" level, or how they individually experience the PM process.

At the system level employees try to determine whether the entire PM process seems structured and managed appropriately. For instance, they look to determine whether standards appear consistent across job levels and business units and whether system rules (such as rating distribution rules) are applied consistently. For instance, employees are quick to now when there are no consequences for managers/executives who skirt the rules. When employees believe that a PM process in the organization is simple in design, transparent, and consistent their satisfaction with PM is high, even for those employees who receive low evaluation ratings.

At the personal level, employees think through the how they were treated by their specific manager. For example, they assess whether the PM discussion was productive and respectful or focused negatively and punitively. They ask, "Does my manager know me and my job?" Many efforts to improve PM evaluations focus at this level—typically by training managers in how to conduct performance review and feedback sessions.

Actions that promote consistent, transparent, and enforceable processes at the system level include:

- Developing a streamlined process that covers important job behaviors and goals;
- Training raters (managers/peers, etc.) to ensure they apply a consistent frame of reference when evaluating performance;
- Holding managers accountable for the quality of their ratings (through second-level review or consensus meetings);
- Implementing a formal process for resolving disagreements with performance evaluations and feedback; and
- Linking appraisals to salary actions in a meaningful and consistent way.

Actions that promote consistent, transparent, and enforceable processes at the personal level include:

- Ensuring that managers who rate employees demonstrate knowledge of their employees' jobs and use that knowledge to frame their evaluations;
- Ensuring that employees participate in the performance evaluation and action-planning process;
- Using written narratives as well as numerical ratings in the performance evaluation summary;
- Using in-person feedback reviews; and
- Training managers to ensure employees gain from the PM process regardless of the evaluation they receive

Accounting for Dependencies

A common way to increase customer loyalty, and company revenues, is to cross-sell services. It is common in banking, for instance, for a team to handle a customer's credit, trust, and investment needs. This often requires the team to depend on each other. For instance, a banker's ability to extend credit often depends on the quality of the investments managed by the broker. A poor job by one affects the ability of the others to serve the client and drive bank revenues. Acknowledging these dependencies when setting goals, and ensuring goals drive cooperation among the team members, is a key element of strong performance management.

Deliver PM Outcomes Aligned with Organizational Objectives

Organizations commonly go to great lengths to ensure that the connection between performance evaluation ratings and merit increases is clear. Less attention is paid to other outcomes of PM. Effective PM processes drive development, motivation, and succession planning.

Actions that align PM with organization objectives include:

- Designing rewards to capitalize on both the individual and team/group aspects of performance in order to motivate individual effort and performance and promote team coordination and effectiveness.
- Expanding PM outcomes beyond pay to include focused individual development and talent planning.
- Requiring development plans for all employees. Plans should be based on the PM evaluation and focus on enhancing performance in the current job or readiness for the next job.

Conclusion

Effective performance management is a business management process to translate company objectives to individual goals and actions. It is one of the most important processes a business can execute.

APT has developed world-class expertise creating performance management processes that are job-related, efficient, and effective. Our approach, based in job analysis and competency modeling data, has delivered proven benefits to our clients who operate in multiple industries and have global reach.