Performance Management for Dummies

Measure results and behaviors
Implement a performance management system
Create a positive culture

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### INDEX
Performance management is a continuous process of identifying, measuring, and developing the performance of individuals and teams and aligning their performance with the strategic goals of the organization. So performance management is a key tool to transform people’s talent and motivation into a strategic business advantage.

But because you are reading this book, you already know that performance management is broken. You hate wasting time dealing with “HR cops” who ask you to fill out useless performance evaluation forms. And you surely hate those dreaded soul-crushing annual performance review meetings. I don’t need to tell you, because you already know, that performance management is not even close to living up to its promise of turning human capital into a source of competitive advantage.

Though you may see media headlines proclaiming “Performance Evaluation is Dead” and “The End of Performance Reviews,” performance management is not going away. On the contrary, many companies such as GE, Microsoft, Google, Yahoo!, Adobe, and Accenture are transitioning from performance appraisal (once-a-year evaluation and review) to performance management (ongoing evaluation and developmental feedback). In other words, performance management is becoming a normal, routine, built-in, and ever-present aspect of work in 21st-century organizations, particularly considering demographic trends about Gen X and Gen Y employees who are digital natives, demand ongoing feedback, and thrive when given growth opportunities.

So if you want to be a successful manager, you need to be a successful performance management leader, which means you need to have the knowledge and skills to manage the performance of your employees. And this is exactly what this book will teach you how to do.

Performance Management For Dummies is a definitive guide on how to design and implement a successful performance management systems. You’ll learn how to maximize the benefits of performance management and minimize its pitfalls.
Performance Management For Dummies teaches you how to make performance management work for you by connecting individual and team performance with your organization’s strategic goals and priorities. This book also teaches you the nuts and bolts of how to define and measure performance in terms of what employees do (behaviors) and the outcome of what they do (results) — both for individual employees as well as teams. And this book also teaches you how to use performance management not just as an evaluation tool but, just as importantly, to help your employees grow and improve on an ongoing basis.

The book also covers how to gather and use data to understand whether the performance management system is working and where fixes may be needed. Overall, the book teaches you how to design and implement a state-of-the-science performance management system.

And if you don’t manage employees yet, you can give a copy of this book to your managers because what they learn in this book will help them manage your performance and make your own job a lot more satisfying and rewarding.

The information contained in this book is deliberately accessible and covers everything you need to know about performance management from the basics to the more sophisticated insights that will improve and fine-tune your existing performance management system. As a result, this book is essential reading whether you are new to business, in your first management or HR job, or a seasoned professional seeking some additional nuggets of wisdom to help squeeze just a little more value out of performance management. If you are already familiar with performance management, this book shines some light on the common problems or mistakes people make, so you can rectify any errors that may be impairing your results. Reinventing the wheel is time consuming and costly. Instead, it’s better to learn from both the evidence and research accumulated over decades as well as other people’s mistakes to make your performance management system work right now. You want to performance management to be a useful and insightful business tool rather than a once-a-year, soul-crushing, and time-wasting exercise.

Consider this book your performance management guide and come back to it often. Try out the ideas and suit your situation in your business. Make it your own and allow performance management to inform your talent-related decisions and support your strategy.
Foolish Assumptions

For this book, I’ve assumed that you are a participant in performance management in any capacity. This means your performance is evaluated, you evaluate someone else’s performance, or you are a member of the HR or related talent management function. Also, I’ve assumed that your participation in performance management is in the context of a business, government department, or not-for-profit organization seeking to better understand and use performance management.

Icons Used in This Book

All For Dummies books use distinctive icons to draw attention to specific features within a chapter. The icons help you quickly and easily find particular types of information that may be of use to you:

- **TIP**
  This icon highlights a practical tip to help you with designing or implementing a performance management practice.

- **REMEMBER**
  When you see this icon, I’m highlighting a valuable point that you’ll want to remember. It saves you from underlining or using a highlighter pen as you read, but feel free to highlight key points as you go through the book.

- **EXAMPLE**
  Nothing makes a point better than a real-life example, so I include illustrations of how many organizations do things in practice. I’m not doing this to impress you but to impress upon you the ideas that I’m trying to get across.

- **WARNING**
  Every once in a while, you may want to do one thing when it would actually be better to do the opposite (or to do nothing at all). I call attention to these situations with the Warning icon.

- **ACTIVE LEARNING**
  This icon contains an activity, question, exercise, or self-assessment that will help you learn by doing. It will help you make the material more personal and applicable to your organization and specific situation.

Beyond the Book

In addition to the material in this print or e-book you’re reading right now, this product also comes with some access—anywhere goodies on the web. Check out the free Cheat Sheet at [www.dummies.com](http://www.dummies.com) for some helpful checklists. Just go to the site and type “Performance Management For Dummies cheat sheet” in the Search box.
Also, check out my personal website, where you will find many relevant articles and resources about performance management and talent management in general: www.hermanaguinis.com.

**Where to Go from Here**

That’s entirely up to you. You can read this book in order from Chapter 1 to 21, but you don’t have to. Where you start reading depends on how familiar and comfortable you are with performance management already.

In you are new to performance management or are interested in or charged with designing or improving an existing performance management system, then start at the beginning. Otherwise, use the table of contents to find what you are most interested in and jump straight to that section. Whatever reading approach you take, you will find a treasure trove of useful information and evidence-based advice that will allow you to unlock the true potential of performance management to transform people’s talent and motivation into a strategic business advantage and make work a more satisfying and rewarding experience.
Getting Started with Performance Management
IN THIS PART . . .

Discover why you need an effective performance management system.

Understand the purpose and benefits of performance management.

Define and measure employee performance.

Avoid the problems caused by flawed systems.
The organizational success equation is quite simple. Organizations that have more and better resources are more successful compared to those that don’t. This applies to large corporations, small start-ups, not-for-profits, and to organizations of every size and in every type of industry.

Here’s the complicated part. In today’s globalized and hyper competitive world, it is relatively easy to gain access to the same resources as your competitors — particularly when it comes to technology and products. For example, most banks offer the same products such as different types of savings accounts and investment opportunities. If a particular bank decides to offer a new product or service, such as an improved mobile phone app, the competitors offer precisely the same product.

But, a key differentiating resource is people. Organizations with engaged, motivated, and talented employees offering outstanding service to customers and coming up with creative ideas pull ahead of the competition, even if the products offered are similar to those offered by the competitors. Performance management is the ideal tool to have this type of workforce.
Why Do You Need Performance Management? To Succeed (of Course)

There are 100s of books on talent management. Why? If you manage your talent right, you create a sustainable competitive advantage.

A performance management system is a key tool to transform people's talent and motivation into a strategic business advantage.

Performance management is a continuous process of identifying, measuring, and developing the performance of individuals and teams and aligning their performance with the strategic goals of the organization.

Let's take a look at the two main components of the definition of performance management:

- **Continuous process:** Performance management is ongoing. It involves a never-ending process of setting goals and objectives, observing performance, and giving and receiving ongoing coaching and feedback.
- **Alignment with strategic goals:** Performance management requires that managers link employees' activities and outputs with the organization's goals. Making this connection helps the organization gain a competitive advantage because performance management creates a direct link between employee and team performance and organizational goals, and makes the employees' contributions to the organization explicit.

Why performance management is alive and well

Because performance management plays such a key rote, many companies, including GE, Microsoft, Google, Yahoo!, Adobe, and Accenture, are going through a similar process of transitioning from a performance appraisal to a performance management system. In other words, they are moving away from a dreaded once-a-year review to ongoing evaluation and feedback.

Contrary to a trend described in the media with such headlines as “Performance Evaluation is Dead” and “The End of Performance Reviews,” the evaluation of performance is not going away. In fact, performance assessment and review are becoming a normal, routine, built-in, and ever-present aspect of work in all types of organizations.
It is not the case that companies are abandoning ratings and performance measurement and evaluation. They are actually implementing performance systems more clearly aligned with best practices, as described in this book, that involve and ongoing evaluation of and conversation about performance.

Many companies are getting rid of the labels “performance evaluation,” “performance review,” and even “performance management.” Instead, they use labels such as “performance achievement,” “talent evaluation and advancement,” “check-ins,” and “employee development.” But they still implement performance management, but use new, more fashionable, and perhaps less threatening labels.

Everyone does performance management one way or another. Results of a survey of about 1,000 HR professionals in Australia showed that 96 percent of companies implement some type of performance management system. And, results of a survey of 278 organizations, about two-thirds of which are multinational corporations from 15 different countries, showed that about 91 percent of organizations implement a formal performance management system.

**PERFORMANCE MANAGEMENT PAYS OFF**

A study by Development Dimensions International (DDI), a global human resources consulting firm specializing in leadership and selection, showed that performance management pays off. Organizations with formal and systematic performance management systems are 51 percent more likely to perform better than the others financially, and 41 percent more likely to perform better on customer satisfaction, employee retention, and other important metrics.

Performance management systems are a key tool that organizations use to translate business strategy into business results by influencing “financial performance, productivity, product or service quality, customer satisfaction, and employee job satisfaction.” 79 percent of the CEOs surveyed in this study said that the performance management system implemented in their organizations drives the “cultural strategies that maximize human assets.”

Based on these results, it is not surprising that senior executives of companies listed in the *Sunday Times* list of best employers in the United Kingdom believe that performance management is one of the top two most important HR management priorities in their organizations.

Paraphrasing Mark Twain, I can tell you with certainty that the death of performance has been vastly exaggerated.
Imagining an organization without performance management

Imagine an organization without a performance management system. Not a pretty picture. You cannot do any of the things that are critical for talent management and the success of your organization:

- Connect the behaviors and results produced by employees to your organization’s strategic priorities.
- Make fair and appropriate administrative decisions such as promotions, salary adjustments, and terminations.
- Inform employees about how they are doing and provide them with information on specific areas that need improvement.
- Give employees information on expectations of peers, supervisors, customers, and the organization, and what aspects of work are most important.
- Give employees information about themselves that can help them individualize their career paths. For example, if they don't know their strengths, they cannot chart a more successful path for their future.
- Learn who are your high-potential and star performing employees.
- Anticipate where you will need to hire people and with which particular skill set.
- Evaluate the effectiveness of HR initiatives. For example, you don’t have accurate data on employee performance to evaluate whether employees perform at higher levels after participating in a training program.

Making Performance Management Work in Your Business

Do you want to make sure performance management works in your business? It should be clear by now that performance management is much more than just performance appraisal.

Distinguishing performance management from performance appraisal

Many organizations have what is labeled a “performance management” system. But it actually is a performance appraisal system. And performance appraisal is not the same thing as performance management.
A system that involves employee evaluations once a year without an ongoing effort to provide feedback and coaching so that performance can be improved is not a true performance management system. This performance appraisal system is the measurement and description of an employee’s strengths and weaknesses. And while performance appraisal is an important component of performance management, it is just a part of a bigger whole because performance management is much more than just performance measurement.

Much like those that focus on performance appraisal only, “performance management” systems that don’t make explicit the employee contribution to the organizational goals are not true performance management systems. When you make an explicit link between employee and team performance objectives and the organizational goals also you are establishing a shared understanding about what is to be achieved and how it is to be achieved.

Table 1-1 summarizes main differences between performance management and performance appraisal. Think about the system at your organization. Is it truly performance management, or performance appraisal?

### TABLE 1-1

<table>
<thead>
<tr>
<th>Performance Management</th>
<th>Performance Appraisal</th>
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<td>Driven by the line manager</td>
<td>Driven by the HR function</td>
</tr>
<tr>
<td>Strategic business purpose</td>
<td>Mostly administrative purpose</td>
</tr>
<tr>
<td>Ongoing feedback</td>
<td>Feedback once a year</td>
</tr>
<tr>
<td>Emphasis on past, present, and future</td>
<td>Emphasis mostly on past</td>
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### Adapting performance management to today’s reality

Performance management has a long history and is actually not something new.

Did you know that the Wei dynasty in China, which was in power between the years 220 and 265, implemented a performance evaluation system for government employees? Here’s a cool fact: It was a nine-rank system, by which workers were rated based on their performance. A low ranking meant the worker would be fired.

Now, fast forward to nineteenth-century England. The performance of officers in the Royal Navy was rated by their peers.
At approximately the same time, Robert Owen, a Welsh industrialist, set up a large cotton mill in New Lanark (Scotland). By the way, you can still visit it today. He mounted a block of wood on each machine with four sides painted, based on this performance rating system: white was best, then yellow, then blue, and the worst, which was black. At the end of each workday, the marks were recorded, and each worker was evaluated by turning the block to the appropriate side, which would face the aisle. Owen would walk the mill floor daily to see the block color on each machine.

But the nature of work and organizations today is quite different from those in China in the third century and England and Scotland in the nineteenth century. Due to technological advancements, globalization, and demographic changes, we are now in the middle of a new industrial revolution.

Technological changes have occurred on an ongoing basis in the past two centuries. But, the Internet and cloud computing have fundamentally changed the way we work. These advancements give everyone in the organization, at any level and in every functional area, amazing access to information — instantaneously from anywhere. Vast amounts of data, what is often referred to as “Big Data,” are collected on an ongoing basis: what employees are doing, what they are producing, with whom they are interacting, and where they are doing what they are doing.

What does this mean for performance management? The old days of paper-and-pencil performance evaluations are mostly gone. So are the old days of static in-house enterprise technology platforms. Instead, performance management can be implemented using dynamic online systems accessed via web and mobile apps.

**Get your head in the clouds**

The use of cloud computing for performance management is much more than a mere translation of paper evaluation forms to digital format. Cloud computing technology allows supervisors and peers to provide performance evaluations on an ongoing basis and in real time — and employees to receive feedback also on an ongoing basis and in real time. Using cloud computing for performance management allows organizations to update goals and priorities and communicate them also real-time to all employees, thereby allowing them to also update their team and individual goals and priorities. So, the cascading of goals from the organization to its units, and then to individual employees can be implemented successfully across thousands of employees in just a few weeks.

Another advantage of using cloud computing for performance management is that it leads to a clearer understanding of the role of managers in the performance management process. For example, we can quickly learn how often they are
communicating with direct reports about their performance. Also, we can quickly learn how often “check-ins” take place.

Zalando, an e-retailer delivering merchandise to about 15 European countries, is taking advantage of technological advancements to improve its performance management system. It put in place an online app that crowdsources performance feedback from meetings, problem-solving sessions, completed projects, launches, and campaigns. Zalando employees can request feedback from their supervisors, peers, and internal customers that lets people provide both positive and more critical comments about each other in a playful and engaging way. An important innovation is that the system then weighs responses by how much exposure the rater has to the ratee. Every time an employee requests feedback, the online app prompts a list of questions that can be answered by moving a slider on the touchscreen of a smartphone or tablet. Clearly, this is very different from a traditional annual performance appraisal, which is currently the target of sharp criticism.

The availability of Big Data is also changing performance management in important ways. For example, about 80 percent of organizations use some type of electronic performance monitoring (EPM). In its early days, EPM included surveillance camera systems and computer and phone monitoring systems. But, today EPM includes wearable technologies and smartphones, including Fitbits and mobile GPS tracking applications.

In today’s workplace, every email, instant message, phone call, and mouse-click leaves a digital footprint, all of which can be used as part of a performance management system. But we should not be enamored by the presence of Big Data, and instead, should think about “Smart Data.”

**Context matters**

The availability of online tools allows for the customization of performance management systems such that every step can be customized and tailored to local contexts. For example, consider the case of providing feedback. People from more individualistic cultures, such as the United States, expect to receive feedback and many performance management systems include training for supervisors on how to provide one-on-one feedback in the most effective way. However, in collectivistic cultures, such as China and Guatemala, open discussions about an individual’s performance clash with cultural norms about harmony, and the direct report may perceive negative feedback as an embarrassing loss of face.
Successful performance management systems need to consider local norms — including societal and organizational cultural issues.

**Adapting performance management for different generations**

In the United States and many other Western countries, Baby Boomers, who are people born approximately between 1946 and 1964, are retiring in large number. Members of Generation X, who were born approximately between 1965 and 1976, and Generation Y or Millennials, born approximately between 1977 and 1995, are now entering the workforce in large numbers. This presents a challenge but also an opportunity for performance management systems.

Gen X and Gen Y employees are “digital natives.” Also, they are used to immediate feedback — just like when receiving a grade immediately after completing a web-based exam in high school and college. So you need to consider generational differences for the performance management system to be effective. For example, it is important to include “check-in” mechanisms to give managers and direct reports the opportunity to discuss performance issues on an ongoing and real-time basis.

**Designing and Implementing a Performance Management System**

Performance management is an ongoing process. Unlike performance appraisal, it most certainly doesn’t take place just once a year. And it is not “owned” by the HR function. The HR function plays a critical role in terms of offering support and resources such as in-person and online training opportunities and online tools that can be used to measure performance and share feedback.

Performance management must be owned and managed by each unit, and supervisors play a critical role. After all, the principal responsibility of managers is to manage, right?

The components of a performance management system are closely related to each other and the poor implementation of any of them has a negative impact on the performance management system as a whole. The components in the performance management process are shown in Figure 1–1.
Step 1: Establishing prerequisites

There are two important prerequisites that must exist before the implementation of a successful performance management system. First, there is a need to know the organization’s mission and strategic goals. This knowledge, combined with knowledge regarding the mission and strategic goals of their unit, allows employees to make contributions that will have a positive impact on the unit and on the organization as a whole.

Second, there is a need to know the position in question: what tasks need to be done, how they should be done, and what KSAs are needed. Such knowledge is obtained through a work analysis. If you have good information regarding how a job is done, then it is easier to establish key performance indicators for job success.

Strategic planning

The first prerequisite is strategic planning, which allows an organization to define its purpose and reasons for existing, where it wants to be in the future, the goals it wants to achieve, and the strategies it will use to attain these goals. Once the goals for the entire organization are established, similar goals cascade downward,
with units setting objectives to support the organization's overall mission and objectives. The cascading continues downward until each employee has a set of goals compatible with those of the entire organization. The same process applies to large, small, and medium-size organizations.

An important objective of any performance management system is to enhance each employee's contribution to the goals of the organization. If there is a lack of clarity regarding where the organization wants to go, or if the relationship between the organization's mission and strategies and the unit's mission and strategies is not clear, there will be a lack of clarity regarding what each employee needs to do and achieve to help the organization get there.

**Work analysis**

The second important prerequisite before a performance management system is implemented is to understand the job in question. This is done through what is called a work analysis: a process for determining the key components of a particular job, including activities, tasks, products, services, and processes.

A work analysis is a fundamental prerequisite of any performance management system because without a work analysis, it is difficult to understand what constitutes the required duties for a particular position. If you don’t know what an employee is supposed to do on the job, you will not know what needs to be evaluated and how to do so.

As a result of a work analysis, you get information regarding the tasks to be carried out and the knowledge, skills, and abilities (KSAs) required of a particular job:

- **Knowledge** includes having the information needed to perform the work, but not necessarily having done it earlier.
- **Skills** refer to required attributes that are usually acquired by having done the work in the past.
- **Abilities** refers to having the physical, emotional, intellectual, and psychological aptitude to perform the work, though neither having done the job nor having been trained to do the work is required.

The tasks and KSAs needed for jobs are typically presented in the form of a job description, which summarizes the job duties, required KSAs, and working conditions for a particular position.
The following job description includes information about what tasks are performed (operation of a specific type of truck). It also includes information about the required knowledge (e.g., manifests, bills of lading), skills (like keeping truck and trailer under control, particularly in difficult weather conditions), and abilities (such as physical and spatial abilities needed to turn narrow corners).

**Job Description for Trailer Truck Driver: Civilian Personnel Management Service, U.S. Department of Defense**

Operates gasoline- or diesel-powered truck or truck tractor equipped with two or more driving wheels and with four or more forward speed transmissions, which may include two or more gear ranges. These vehicles are coupled to a trailer or semitrailer by use of a turntable (fifth wheel) or pintle (pivot) hook. Drives over public roads to transport materials, merchandise, or equipment. Performs difficult driving tasks such as backing truck to loading platform, turning narrow corners, negotiating narrow passageways, and keeping truck and trailer under control, particularly on wet or icy highways. May assist in loading and unloading truck. May also handle manifest, bills of lading, expense accounts, and other papers pertinent to the shipment.

How do you do a work analysis? Interviews are a very popular work analysis method. During a work analysis interview, the work analyst asks the interviewee to describe what he or she does during a typical day at the job from start to finish. Then, once a list of tasks has been compiled, people doing the job, called job incumbents, have an opportunity to review the information and rate each task in terms of frequency and criticality.

To do a work analysis, use the five-point scale anchors shown in Table 1-2.

<table>
<thead>
<tr>
<th>Scale Anchors for Rating Tasks in a Work Analysis</th>
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</thead>
<tbody>
<tr>
<td><strong>Frequency</strong></td>
</tr>
<tr>
<td>0: not performed</td>
</tr>
<tr>
<td>1: every few months to yearly</td>
</tr>
<tr>
<td>2: every few weeks to monthly</td>
</tr>
<tr>
<td>3: every few days to weekly</td>
</tr>
<tr>
<td>4: every few hours to daily</td>
</tr>
<tr>
<td>5: hourly to many times each hour</td>
</tr>
</tbody>
</table>
Rating both frequency and criticality is necessary because some tasks may be performed regularly (such as making coffee several times a day), but may not be very critical.

After you collected the data, multiply the frequency scores by the criticality scores to obtain an overall score for each task.

So, if making coffee receives a frequency score of 4 ("every few hours to daily") and a criticality score of 0 ("not critical"), the overall score would be $4 \times 0 = 0$. Considering frequency scores alone would have given the wrong impression that making coffee is a task that deserves a prominent role in the job description. Overall scores for all tasks can be ranked from highest to lowest to obtain a final list of tasks.

There are many work analysis questionnaires available online. You can use them for a variety of positions. For example, the state of Delaware uses a work analysis questionnaire available at [www.delawarepersonnel.com/class/forms/jaq/jaq.shtml](http://www.delawarepersonnel.com/class/forms/jaq/jaq.shtml). This questionnaire includes 18 multiple choice job content questions. Job content information is assessed through three factors: knowledge and skills, problem solving, and accountability and end results.

You then use the information from a work analysis for writing a job description.

### USE O*NET FOR WORK ANALYSIS

No time to do your own work analysis and create your own job descriptions? Do you need a job description for a position for which you have not hired anyone yet? No problem! You can get generic job descriptions from the Occupational Informational Network (O*NET; [www.onetonline.org](http://www.onetonline.org)). O*NET is a comprehensive database of worker attributes and job characteristics that provides a common language for defining and describing occupations. The information available via O*NET serves as a foundation for a job description. For each job, O*NET gives information on tasks, knowledge, technology skills, knowledge, skills, abilities, work activities, detailed work activities, work context, job zone, education, interests, work styles, work values, and credentials. You can then adapt generic O*NET descriptions to accommodate specific local characteristics of your own organization.

O*NET is a particularly useful resource for small businesses because for most of them, conducting a work analysis may not be feasible simply because there are not sufficient numbers of people in any particular position to collect data from.
Jobs change. So check job descriptions for accuracy and update them on an ongoing basis.

Why are job descriptions so important for performance management? They provide the **key performance indicators** (i.e., yardsticks) that will be used in measuring performance. These KPIs concern behaviors (i.e., how to perform) or results (i.e., what outcomes should result from performance).

In our truck driver example, a behavioral yardstick could involve the skill “equipment maintenance.” For example, a supervisor may rate the extent to which the employee “performs routine maintenance on equipment and determines when and what kind of maintenance is needed.” Regarding results, these KPIs usually fall into one of the following categories: quality, quantity, cost-effectiveness, and timeliness. In the truck driver example, results-oriented KPIs can include number of accidents (or quality) and amount of load transported over a specific period of time (or quantity).

**INTEGRATING JOB DESCRIPTIONS INTO THE PERFORMANCE MANAGEMENT SYSTEM AT AllianceHealth DEACONESS HOSPITAL**

Take the case of AllianceHealth Deaconess Hospital in Oklahoma City, Oklahoma, which includes a workforce of more than 500 healthcare professionals. AllianceHealth Deaconess Hospital has been able to effectively integrate employees’ job descriptions within their performance management system. The need for this integration was reinforced by results from an employee survey showing that employees did not know what they were being evaluated on. So, with the input of employees, the hospital updated each of the 260 job descriptions. Now, each employee’s job description is part of the performance review form.

The new forms incorporate tasks and behaviors specific to individual jobs. For example, each nurse is evaluated on “how well they safely, timely, and respectfully administers patient medication and on his or her planning and organization skills.” Also, Deaconess Hospital has been able to link each employee’s performance to the strategic goals of the organization. That is, all employees are rated on the following core behaviors considered to be of top strategic importance for (1) adaptability, (2) building customer loyalty, (3) building trust, and (4) contributing to team success.
Step 2: Planning performance

Now that you know the organization’s strategic goals and have information about the position, the supervisor and the employee formally meet to discuss, and agree upon, what needs to be done and how it should be done. This performance planning discussion includes a consideration of both results and behaviors, as well as a development plan.

Performance planning includes the consideration of results and behaviors and the development plan. A discussion of results needs to include key accountabilities (that is, broad areas for which an employee is responsible), specific objectives for each key accountability (such as goals to be reached). A discussion of behaviors needs to include competencies (clusters of knowledge, skills, and abilities). Finally, the development plan includes a description of areas that need improving and goals to be achieved in each area.

Results and key accountabilities

Results refer to the outcomes of what employees do — what employees produce. A consideration of results includes the key accountabilities, or broad areas of a job for which the employee is responsible for producing results. This information is typically obtained from the job description.

A discussion of results also includes specific objectives that the employee will achieve as part of each accountability. Objectives are specific statements of important and measurable outcomes.

Take the job of a university professor. Two key accountabilities are teaching (preparation and delivery of instructional materials to students) and research (creation and dissemination of new knowledge). An objective for teaching could be “to obtain a student evaluation of teaching performance of 3 on a 4-point scale by the end of the academic year.” An objective for research could be “to publish two articles in high-quality scholarly refereed journals per year.”

Although it is important to measure results, if you only focus on results, you can end up having an incomplete picture of employee performance. For example, for some jobs, it is difficult to establish specific and measurable objectives. For other jobs, employees may have control over how they do their jobs, but not over the results of their behaviors. For example, the sales figures of a salesperson could be affected more by the assigned sales territory than by the salesperson’s ability and performance.
Behaviors

*Behaviors*, or how a job is done, thus constitute an important component of the planning phase. This is probably why results from a survey indicated that in addition to sales figures, salespeople would like to be appraised on such behavioral KPIs as communications skills and product knowledge.

A consideration of behaviors includes discussing competencies, which are measurable clusters of KSAs that are critical in determining how results will be achieved. Examples of competencies are customer service, written or oral communication, creative thinking, and dependability.

Returning to the example of the professor, assume that teaching is done online and there are technology-related problems outside of his control (for example, the university does not offer IT support to students who need it), so that the resulting teaching evaluations are lower than stated in the objective. This is an example of a situation in which behaviors should be given more importance than results. In this situation, the evaluation could include competencies such as online communication skills (such as in the chat room) because technology-related problems are outside of the professor’s control.

An important step before the review cycle begins is for the supervisor and employee to agree on a development plan. At a minimum, this plan should include identifying areas that need improvement and setting goals to be achieved in each area. Development plans usually include both results and behaviors.

PERFORMANCE PLANNING AT DISCOVER

The Discover credit card was launched in 1986. The company has expanded to over the years to include numerous banking services. Discover is taking several steps to ensure that performance planning and employee development support the organization's business goals. Discover has initiated an approach that addresses the development needs of specific business units by assigning HR professionals to attend business meetings regularly to gain an understanding of what knowledge, skills, and abilities are required. The company asks managers to go through the same curriculum with classroom and online learning opportunities. These managers form discussion groups to talk about what they have learned and how it applies to the challenges of their specific role. Also, part of the strategy includes meeting with employees to agree upon metrics in the performance planning stage, creating an action plan, and following up with evaluations and ratings to determine to what degree the learning experience was successful.

In short, Discover uses the various stages of the performance management process to ensure that employee development is a focus that matches the mission of providing a workplace that supports high performance.
Step 3: Executing performance

After the review cycle begins, the employee strives to produce the results and display the behaviors agreed upon earlier as well as to work on developmental needs.

The employee has primary responsibility and ownership of this process. Employee participation doesn’t begin at the performance execution stage, however. Employees need to have active input in the development of job descriptions and the creation of the rating form.

At the performance execution stage, make sure the following success factors are present:

- **Commitment to goal achievement.** The employee must be committed to the goals that were set. One way to enhance commitment is to allow the employee to be an active participant in the process of setting the goals.

- **Check-ins and performance touchpoints.** The employee has performance touchpoints with many people inside and outside of the organization on an ongoing basis. So he should not wait until the review cycle is over to solicit performance feedback in the form of check-ins. Also, the employee should not wait until a serious problem develops to ask for coaching. The employee needs to take a proactive role in soliciting performance feedback and coaching from her supervisor. Supervisors and others with whom the employee has performance touchpoints (for example, team members) can provide performance feedback but are generally busy with multiple obligations.

  The burden is on the employee to communicate openly and regularly via ongoing check-ins with her performance touchpoints.

- **Collecting and sharing performance data.** The employee should provide the supervisor with regular updates on progress toward goal achievement, in terms of both behaviors and results.

- **Preparing for performance reviews.** The employee should not wait until the end of the review cycle approaches to prepare for the review. On the contrary, the employee should engage in an ongoing and realistic self-appraisal, so immediate corrective action can be taken, if necessary. The usefulness of the self-appraisal process can be enhanced by gathering informal performance information from peers and customers (both internal and external).

Although the employee has primary responsibilities for performance execution, the supervisor also needs to do her share of the work. Supervisors have primary responsibility over the following success factors:
» **Observation and documentation;** Supervisors observe and document performance on an ongoing basis. It is important to keep track of examples of both good and poor performance.

» **Updates;** As the organization’s goals change, update and revise initial accountabilities and objectives (in the case of results) and competencies (in the case of behaviors).

» **Feedback;** Supervisors provide feedback on progression toward goals and coaching to improve performance on a regular basis, and certainly before the review cycle is over.

» **Resources;** Supervisors provide employees with resources and opportunities to participate in development activities. Thus, they should encourage and sponsor participation in training, classes, and special assignments.

Supervisors have a responsibility to ensure that the employee has the necessary technology and other resources to perform the job properly.

» **Reinforcement;** Supervisors must let employees know that their outstanding performance is noticed by reinforcing effective behaviors and progress toward goals. Also, supervisors should provide feedback regarding negative performance and how to remedy the observed problem. Observation and communication are not sufficient. Performance problems must be diagnosed early, and appropriate steps must be taken as soon as the problem is discovered.

The employee has primary responsibility, but both the employee and the manager are jointly involved in performance execution.

**Step 4: Assessing performance**

In the assessment phase, both the employee and the manager are responsible for evaluating the extent to which the desired behaviors have been displayed, and whether the desired results have been achieved. Employee involvement in the process increases employee ownership and commitment to the system. Also, it provides important information to be discussed during the performance review.

Although many sources can be used to collect performance information such as supervisors and other team members, in most cases the direct supervisor provides the information. This also includes an evaluation of the extent to which the goals stated in the development plan have been achieved.
PART 1
Getting Started with Performance Management

It is important that both the employee and the manager take ownership of the assessment process. The employee evaluates his own performance, and so does the manager. The fact that both parties are involved in the assessment provides good information to be used in the review phase. When both the employee and the supervisor are active participants in the evaluation process, there is a greater likelihood that the information will be used productively in the future.

The inclusion of self-ratings helps emphasize possible discrepancies between self-views and the views that important others (such as supervisors, other team members, customers) have of what employees are doing, how they are doing it, and what results they are producing. It is the discrepancy between these views that is most likely to trigger development efforts, particularly when feedback from the supervisor and others is more negative than are employee self-evaluations.

Including self-appraisals is also beneficial regarding important additional factors. Self-appraisals can reduce an employee’s defensiveness during an appraisal meeting and increase the employee’s satisfaction with the performance management system, as well as enhance perceptions of accuracy and fairness, and therefore, acceptance of the system.

PERFORMANCE EXECUTION AT IBM

As an example of how performance execution involves both employees and supervisors, take the case of IBM. IBM recently transitioned from the previous once-a-year “stack ranking” review that compared employees to a more frequent and personalized review focusing on the employee’s own goals.

Before deciding on a new performance management system, IBM’s HR department asked for employees’ inputs through its internal social media site. Employees reported they wanted more frequent feedback and the ability to change their goals as the year progressed. IBM recognized that the fast-paced business environment meant that new things come along, leading to employees experimenting and iterating. This meant that employees are often not working on what they originally proposed at the beginning of the year.

Then a new system was designed that allows employees to set annual goals and short-term milestones. Based on continuous feedback from managers, employees are able to update their goals and milestones throughout the year.

By allowing employees to change and develop their own goals throughout the year, IBM can now avoid irrelevant year-end discussions, and have richer dialogue through frequent check-ins with employees.
Step 5: Reviewing performance

The performance review stage involves the formal meeting between the employee and the manager to review their assessments. This meeting is usually called the performance review or appraisal meeting.

Although good performance management systems include ongoing check-ins, the formal appraisal meeting is important because it provides a formal setting in which the employee receives feedback on his performance.

In spite of its importance in performance management, the appraisal meeting is often regarded as the Achilles’ heel of the entire process. This is because many managers are uncomfortable providing performance feedback, particularly when performance is deficient. This high level of discomfort, which often translates into anxiety and trying to avoid the appraisal interview, can be mitigated through training those responsible for providing feedback.
Providing effective feedback is extremely important because it leads not only to performance improvement, but also to employee satisfaction with the system. For example, a study published in *Journal of Applied Social Psychology* involving more than 200 teachers in Malaysia, including individuals with distinct Chinese, Malay, and Indian cultural backgrounds, found that when they received effective feedback, they reported greater satisfaction with the performance management system even when they received low performance ratings.

People are apprehensive about both receiving and giving performance information, and this apprehension reinforces the importance of a formal performance review as part of any performance management system.

In most cases, the appraisal meeting is regarded as a review of the past, that is, what was done (results) and how it was done (behaviors). For example, a survey published in the journal *Employee Relations* including more than 150 organizations in Scotland showed that performance management systems in more than 80 percent of organizations emphasize the past.

The appraisal meeting should also include a discussion of the employee’s developmental progress as well as plans for the future. The conversation should include a discussion of goals and development plans that the employee will be expected to achieve over the period before the next formal review session. In addition, a good appraisal meeting includes information on what new compensation and rewards, if any, the employee could receive as a result of her performance.
The appraisal discussion focuses on the past (what has been done and how), the present (what compensation is received or denied as a result), and the future (goals to be attained before the upcoming review session).

As I mention earlier, the discussion about past performance can be challenging, particularly when performance levels have not reached acceptable levels.

The example below includes a script to help you visualize what the first few seconds of an effective appraisal meeting is like.

**Script for Effective Performance Review Meeting**

Good afternoon, Lucy, please have a seat. As you know, we take performance very seriously and we scheduled our meeting today to talk about the work you have done over the past year. Because we believe in the importance of talking about performance issues, I blocked an hour of my time during which I won't take any phone calls and I also won't be texting or emailing with anyone. I want to be able to focus 100% on our conversation because talking about performance will be helpful to both of us.

There should be no surprises, given that we have been communicating about your performance on an ongoing basis. You have also received feedback not only from me, but also from your peers.

Let's go through this process step by step. First, I would like you to tell me about your own views about your performance during the past year. Specifically, please share with me what are the things you believe you did particularly well and areas in which you think you may have been able to do better. As a second step, I will tell you about the performance evaluation I prepared. As a third step, we will talk about the issues on which you and I agree. As a fourth step, we can talk about issues for which we may have different perspectives. I will explain the reasoning behind my views and I want to hear the reasoning behind yours. In terms of my evaluation of your work, I want to first make sure we agree on what are the specific goals and objectives of your job. Then we will talk about the results you achieved this year and the section on the evaluation form about job skills and competencies. After we talk about that, I will tell you what my overall rating is and why I believe this is an appropriate score.

Ok, let's go ahead and start.

Try to implement the following six recommendations for conducting productive performance reviews:

- Identify what the employee has done well and poorly by citing specific positive and negative behaviors.
- Solicit feedback from your employee about these behaviors. Listen for reactions and explanations.
Discuss the implications of changing, or not changing, the behaviors. Positive feedback is best, but an employee must be made aware of what will happen if any poor performance continues.

Explain to the employee how skills used in past achievements can help him overcome any current performance problems.

Agree on an action plan. Encourage the employee to invest in improving his performance by asking questions such as “What ideas do you have for _____?” and “What suggestions do you have for _____?”

Set up a meeting to follow up and agree on the behaviors, actions, and attitudes to be evaluated.

The performance management process includes a cycle, which starts with establishing prerequisites and ends with conducting the formal performance review. But, the cycle is not over after the formal review. In fact, the process starts all over again.

Because markets change, customers’ preferences and needs change, and products change, there is a need to monitor the prerequisites continuously so that performance planning, and all the subsequent stages, are consistent with the organization’s strategic objectives. In the end, one of the main goals of any performance management system is to promote the achievement of organization-wide goals. Obviously, if managers and employees are not aware of what these strategic goals are, it is unlikely that the performance management system will be instrumental in helping accomplish strategic business objectives.
2 percent of HR executives from Fortune 500 companies say that their performance management system serves mostly two purposes: salary decisions and learning about employees’ weaknesses and strengths. But performance management can do more, a lot more, for you and your business. It can help you ensure all employees are pulling in the same direction, that rewards and other decisions are fair, it can help you implement organizational changes, and much more. This is especially true if you deploy a state-of-the-science system and everyone in the organization gets something out of it.

In this chapter, you will learn how to use performance management for many useful purposes and discover how to create an excellent system that benefits all members of your organization.
Using Performance Management to Achieve Multiple Purposes

So performance management is mostly used for salary administration, performance feedback, and for learning about employee strengths and weaknesses. Overall, performance management can serve the following six purposes: strategic, administrative, informational, developmental, organizational maintenance, and documentation.

**Strategic objectives**

Performance management systems help top management achieve strategic business objectives. Performance management links the goals of individuals with the goals of their teams, which in turn are connected with the goals of the entire organization. And even if an individual isn’t able to reach his or her goals, the fact that performance management formally and explicitly links them to the team and the organization’s goals is very useful in communicating what are the most crucial business strategic initiatives.

**Administrative objectives**

Performance management is also useful for providing useful information used in making administrative decisions about employees. For example, these include decisions include salary adjustments, promotions, employee retention or termination, recognition of top individual performance, identification of high-potential employees, identification of poor performers, layoffs, and merit increases.

The government in Turkey mandates performance management systems in all public organizations in that country. The reason? They serve an important administrative purpose because they aim at preventing favoritism, corruption, and bribery, and send a clear message that administrative decisions should be impartial and based on merit.

**Informational objectives**

Performance management systems serve an important informational purpose because they are a means to communicate. First, they inform employees about how they are doing and provide them with information on specific areas that need improvement. Second, related to the strategic purpose, they provide information regarding expectations of peers, supervisors, customers, and the organization, and what aspects of work are most important.
Developmental objectives

Overall, performance management helps employees develop and grow because it improves communication, clarifies roles and expectations in terms of career paths, and includes useful feedback.

First, performance management systems serve as an important communication device. One, they inform employees about how they are doing and provide them with information on specific areas that need improvement. Two, related to the strategic purpose, they provide information regarding expectations of peers, supervisors, customers, and the organization, and what aspects of work are most important.

A second aspect of the developmental purpose is that employees receive information about themselves that can help them individualize their career paths. For example, by learning about their strengths, they are better able to chart a more successful path for their future. Thus, the developmental purpose refers to both short-term and long-term aspects of development.

Third, as I mention earlier, feedback is an important component of a well-implemented performance management system. But for feedback to be useful, it needs to be used in a developmental manner. So managers should use feedback to coach employees and improve performance on an ongoing basis. This feedback allows for the identification of strengths and weaknesses as well as the causes for performance deficiencies.

Feedback is useful only if employees are willing to receive it and the organization takes concrete steps to remedy any deficiencies. You should try to create a “feedback culture” that reflects support for feedback, including feedback that is non-threatening and is focused on behaviors and coaching.

Organizational maintenance objectives

Another purpose of performance management systems is to provide information to be used for several organizational maintenance purposes. First, consider workforce planning, which is a set of systems that allows organizations to anticipate and respond to needs emerging within and outside the organization, to determine priorities, and to allocate human resources where they can do the most good.

An important component of any workforce planning effort is the talent inventory, which is information on current resources (such as skills, abilities, promotional potential, and assignment histories of current employees). Buying talent is extremely expensive, and top performers know their worth in the market and their value through social media and career sites. In the case of executives, the stock market is a good metric. For example, when Kasper Rosted left his position...
of CEO at packaged-goods company Henkel to become CEO of Adidas, Adidas gained $1 billion in market cap due to an increase in the share price. Performance management systems are the primary means through which accurate talent inventories can be assembled. Also, these are critical in terms of keeping track of high-potential employees.

Other organizational maintenance purposes served by performance management systems include assessing future training needs, evaluating performance achievements at the organizational level, and evaluating the effectiveness of HR initiatives. For example, accurate data on employee performance can be used to evaluate whether employees perform at higher levels after participating in a training program. This type of evaluation cannot be conducted effectively in the absence of a good performance management system.

USING PERFORMANCE MANAGEMENT TO ACHIEVE MULTIPLE PURPOSES AT SELCO CREDIT UNION

Several companies implement performance management systems that allow them to accomplish the multiple objectives described in this chapter. For an example of one such company, consider the case of SELCO Credit Union in Eugene, Oregon, a not-for-profit consumer cooperative that was established in 1936. SELCO offers many of the same services offered by other banks, including personal checking and savings accounts, loans, and credit cards. Being members of the credit union, however, allows individual members a say in how the credit union is run, something a traditional bank doesn't permit.

Recently, SELCO scrapped an old performance appraisal system and replaced it with a new multipurpose and more effective performance management system. First, the timing of the new system is now aligned with the business cycle, instead of the employee's date of hire, to ensure that business needs are aligned with individual goals. This alignment serves both strategic and informational purposes. Second, managers are given a pool of money that they can work with to award bonuses and raises as needed, which is more effective than the complex set of matrices that had been in place to calculate bonuses. This improved the way in which the system is used for allocating rewards, and therefore, serves an administrative purpose. Third, managers are required to sit down and have regular conversations with their employees about their performance and make note of any problems that arise. This gives the employees a clear sense of areas in which they need improvement and also provides documentation if disciplinary action is needed. This component serves both informational and documentation purposes. Finally, the time that was previously spent filling out complicated matrices and forms is now spent talking with the employees about how they can improve their performance, allowing for progress on an ongoing basis. This serves a developmental purpose.
Documentation objectives

Finally, performance management systems allow you to collect useful information that can be used for several necessary — and sometimes, legally mandated — documentation purposes. Performance management systems allow for the documentation of important administrative decisions, such as terminations and promotions. This information can be especially useful in the case of litigation.

Now think about the performance management system implemented in your organization. Table 2–1 summarizes each of the purposes served by a performance management system. Which of these purposes are being served by the system in your firm? Which are not? What are some of the barriers that prevent achieving some of the six purposes and what can be done about it?

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Achieved in your organization?</th>
<th>If not, why not? What can be done about it?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic:</strong> To help top management achieve strategic business objectives</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Administrative:</strong> To produce valid and useful information for making administrative decisions about employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Informational:</strong> To inform employees about how they are doing and about the organization’s, customers’, and supervisors’ expectations</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Developmental:</strong> To allow managers and peers to provide coaching to their employees</td>
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<td></td>
</tr>
<tr>
<td><strong>Organizational maintenance:</strong> To create a talent inventory and provide information to be used in workplace planning and allocation of human resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Documentation:</strong> To collect useful information that can be used for various purposes (e.g., terminations)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Answering the “What’s in It for Me” Question

Slack resources are a luxury few organizations have. So, given the many competing projects implemented at any given time, some organizations are reluctant to implement a performance management system. So, the question is: What is the
value added of performance management? And what’s in it for me if I put the time and effort necessary? What will be the payoffs?

**Convincing top management of performance management’s value**

The need to align organization and unit priorities with the performance management system is one of the key factors contributing to obtaining the much-needed top management support for the system. A good question that top management is likely to, and frankly, should ask is: “Why is performance management important and even necessary?”

One answer to this question is that performance management is the primary tool that will allow top management to carry out their vision. The performance management system, when aligned with organization and unit priorities, is a critical tool to

- Allow all employees to understand where the organization stands and where it wants to go
- Provide tools to employees (for example, motivation and developmental resources) so that their behaviors and results will help the organization achieve its targets

Fundamentally, the implementation of any performance management system requires that the “What’s in it for me?” question be answered convincingly. In the case of top management, the answer to the “What’s in it for me?” question is that performance management can serve as a primary tool to realize their vision and achieve strategic objectives.

**Building support in the entire organization**

Building support for the system doesn’t stop with top management, however. All participants in the system need to understand the role they play and also receive a clear answer to the “What’s in it for me?” question. Accordingly, communication about the system is key. This includes a clear description of the system’s mechanics (for example, how the performance will be defined and measured, when the performance review meetings will take place, and how to handle disagreements between supervisor and employees) and the system’s consequences (such as the relationship between performance evaluation and compensation).

Not involving people in the process of system design and implementation can create resistance, and the performance management system will end up causing more harm than good.
BUILDING SUPPORT FOR PERFORMANCE MANAGEMENT AT BANKERS LIFE AND CASUALTY

Bankers Life and Casualty, headquartered in Chicago, is an insurance company specializing in insurance for seniors. This is how they built support for their performance management system. When Edward M. Berube was appointed as its president and CEO, he understood that Bankers Life and Casualty was facing important challenges, including new customer demands, the impact of the Internet, outsourcing, and increased competition. So Bankers Life and Casualty engaged in a very aggressive marketing campaign, which included retaining actor Dick Van Dyke as the company spokesperson. In spite of these efforts, however, internal focus groups revealed that employees did not have a clear understanding of how each person could help achieve the organization’s strategic objectives, including focusing on the following three key areas: distribution scope, scale, and productivity; home office productivity and unit costs; and product revenue and profitability.

Bankers Life and Casualty realized that it could establish a better link between strategic business objectives and what employees do on a daily basis by improving its performance management system. First, the HR and communications teams spoke candidly with the CEO about his expectations. The CEO responded with overwhelming support, stating that the performance management system would be implemented for every employee on preestablished dates, and that he would hold his team accountable for making this happen. Then, to implement the performance management system, each unit met with its VP. During these meetings, each VP discussed how his or her unit’s objectives were linked to the corporate objectives. Next, HR and Communications led discussions surrounding objective setting, giving feedback, and writing development plans. Managers were then given the opportunity to share any feedback, concerns, or questions that they had about the program. During this forum, managers exchanged success stories and offered advice to one another. These success stories were then shared with the CEO. The CEO then shared these stories with those who reported directly to him to strengthen the visibility of his support for the program.

In short, the performance management system at Bankers Life and Casualty helped all employees understand their contributions to the organization’s strategic plan. This was a key issue that motivated the CEO to lend unqualified support to the system. This support gave a clear message to the rest of the organization that the performance management system was an important initiative that added value to the entire organization. The support of the CEO and other top executives, combined with a high degree of participation from all employees and their ability to voice concerns and provide feedback regarding the system, was a critical factor in the success of the performance management system at Bankers Life and Casualty.
Realizing the awesome benefits of performance management

President Kennedy famously said, “Ask not what your country can do for you; ask what you can do for your country.” Well, in the case of performance management, I will tell you not what you can do for performance management, but what performance management can do for you.

There are many things performance management can do for managers and their direct reports, and the organization. First, this is what performance management can do for employees:

- **Improved self-insights and development**: Employees develop a better understanding of themselves and of the kind of development activities that are of value to them as they progress through the organization. Participants in the system also gain a better understanding of their particular strengths and weaknesses, which can help them better define future career paths.

- **Improved self-esteem**: Receiving feedback about one's performance fulfills a basic human need to be recognized and valued at work. This, in turn, increases employees' self-esteem.

- **Improved motivation**: Receiving feedback about one's performance increases the motivation for future performance. Knowledge about how one is doing and recognition about one's past successes provide the fuel for future accomplishments.

- **Improved understanding of job requirements**: The job of the person being evaluated is clarified and defined more clearly. In other words, employees gain a better understanding of the behaviors and results required of their specific position. Employees also gain a better understanding of what it takes to be a successful performer.

And this is what performance management can do for managers and your organization:

- **Improved employee engagement**: Employees who are engaged feel involved, committed, passionate, and empowered. Also, these attitudes and feelings result in behaviors that are innovative, and overall, demonstrate good organizational citizenship and active participation in support of the organization. Employee engagement is an important predictor of organizational performance and success, and consequently, engagement is an important contribution of good performance management systems.
» **Improved voice behavior:** Voice behavior involves making suggestions for changes and improvements that are innovative, challenge the status quo, are intended to be constructive, and are offered even when others disagree. For example, the performance review meeting can lead to a conversation during which the employee provides suggestions on how to reduce cost or speed up a specific process.

» **Decreased employee misconduct:** Employee misconduct is an increasingly pervasive phenomenon that has received widespread media coverage. Such misconduct includes accounting irregularities, churning customer accounts, abusing overtime policies, giving inappropriate gifts to clients and potential clients hoping to secure their business, and using company resources for personal purposes. Although some people engage in misconduct compared to others due to individual differences in personality and other attributes, having a good performance management in place provides the appropriate context so that misconduct is clearly defined and labeled as such. Also, performance management can be a detection tool for misconduct before it leads to irreversible negative consequences.

» **Declines in performance are addressed early on:** Because good performance management systems include ongoing performance measurement, declines in performance can be noticed. This allows for immediate feedback and continuous coaching. When such declines are observed, remedial action can be taken immediately and before the problem becomes so entrenched that it cannot be easily remedied.

» **Improved employee motivation, commitment, and intentions to stay in the organization:** When employees are satisfied with their organization’s performance management system, they are more motivated to perform well, be committed to their organization, and not try to leave the organization. For example, satisfaction with the performance management system makes employees feel that the organization has a great deal of personal meaning for them. In terms of turnover intentions, satisfaction with the performance management system leads employees to report that they will probably not look for a new job in the next year and that they don't often think about quitting their present job.

» **Improved insights about direct reports:** Direct supervisors and other managers in charge of the appraisal gain new insights into the person being appraised. Gaining new insights into a person’s performance helps the manager build a better relationship with that person. Also, supervisors gain a better understanding of each individual's contribution to the organization. This can be useful for direct supervisors, as well as for supervisors once removed.
» Improved and more timely differentiation between good and poor performers: Performance management systems allow for a quicker identification of good and poor performers. This includes identifying star performers — those who produce at levels much higher than the rest. For example, without a good performance management system, it isn’t easy to know who are the particular programmers who are producing more and better code.

Performance management systems help you discover high-potential employees who can be identified as future leaders — also called “HiPos.” For example, PepsiCo’s performance management system includes what it calls Leadership Assessment and Development (LeAD). A unique aspect of this system is the emphasis on identifying HiPos by measuring specific job and leadership requirement in the future.

» Improved understanding of the meaning of performance: Performance management systems allow managers to communicate to their direct reports their assessments regarding performance. Thus, there is greater accountability in how managers discuss performance expectations and provide feedback. When managers possess these competencies, direct reports receive useful information about how their performance is seen by their supervisor.

» More fair and more appropriate administrative actions: Performance management systems provide valid information about performance that can be used for administrative actions, such as merit increases, promotions, and transfers, as well as terminations. In general, a performance management system helps ensure that rewards are distributed on a fair and credible basis. In turn, such decisions based on a sound performance management system lead to improved interpersonal relationships and enhanced supervisor–direct report trust.

A good performance management system can help mitigate explicit or implicit emphasis on age as a basis for decisions. This is particularly important given the aging working population in the United States, Europe, and many other countries around the world.

» Better protection from lawsuits: Data collected through performance management systems can help document compliance with regulations (for example, equal treatment of all employees, regardless of sex or ethnic background). When performance management systems are not in place, arbitrary performance evaluations are more likely, resulting in an increased exposure to litigation for the organization.

» Organizational change is facilitated: Performance management systems can be a useful tool to drive organizational change. For example, assume an organization decides to change its culture to give top priority to product quality and customer service. Once this new organizational direction is established, performance management is used to align goals and objectives
IBM used performance management as a tool for organizational change in the 1980s when it wanted to switch focus to customer satisfaction: The performance evaluation of every member in the organization was based, to some extent, on customer satisfaction ratings, regardless of function (i.e., accounting, programming, manufacturing, etc.). For IBM, as well as many other organizations, performance management provides tools and motivation for individuals to change, which, in turn, helps drive organizational change.

What an Ideal Performance Management System Looks Like

All organizations face practical and resource constraints. So the harsh reality is that performance management systems are seldom implemented in an ideal way. For example, there may not be sufficient funds to deliver training to all people involved, supervisors may have biases in how they provide performance ratings, or people may be just too busy to pay attention to a performance management system that seems to require too much time and attention. However, regardless of practical constraints, you should strive to place a check mark next to each of the following characteristics: the more features that are checked, the more likely it will be that the system will live up to its promise and deliver the benefits for employees, managers, and organizations I described in the previous section.

Contextual issues: Making everything fit

The first things you need to think about are the following contextual issues:

- **Strategic congruence**: The system should be congruent with the unit and organization’s strategy. In other words, individual goals must be aligned with unit and organizational goals.

- **Context congruence**: The system should be congruent with the organization’s culture as well as the broader cultural context of the region or country. Consider the example of an organization that has a culture in which communication isn’t fluid and hierarchies are rigid. In such organizations, an upward feedback system, in which individuals receive comments on their performance from their direct reports, would be resisted and not very effective.
Regarding broader cultural issues, in countries such as Japan, there is an emphasis on the measurement of both behaviors (how people do the work) and results (the results of people's work), whereas in the United States, results are typically preferred over behaviors. Thus, implementing a results-only system in Japan won't be effective. Specifically, although performance is measured similarly around the world, the interpersonal aspects of the system are adapted and customized to the local culture. For example, performance management systems in the subsidiaries are more likely to differ from those in the headquarters as power distance differences (that is, the degree to which a society accepts hierarchical differences) increase between countries.

» **Meaningfulness:** The system must be meaningful in several ways:

- The evaluations conducted for each job function must be considered important and relevant.

- Performance assessment must emphasize only those functions that are under the control of the employee. For example, there is no point in letting an employee know she needs to increase the speed of service delivery when the supplier doesn't get the product to her on time.

- Evaluations must take place at regular intervals and at appropriate moments. Because one formal evaluation per year is usually not sufficient, my recommendation is frequent informal reviews.

- The system should provide for the continuing skill development of evaluators.

- The results should be used for important administrative decisions. People will not pay attention to a performance system that has no consequences in terms of outcomes that they value.

Consider a comparison of performance management systems in the former East versus former West Germany. In former West German companies, there is a stronger link between the performance management system and administrative decisions such as promotions. This relationship was weaker in former East German companies, and this difference is probably due to the socialist political system in the former German Democratic Republic, which has had a long-lasting effect.

» **Inclusiveness:** Good systems include input from multiple sources on an ongoing basis. First, the evaluation process must represent the concerns of all the people who will be affected by the outcome. Consequently, employees must participate in the process of creating the system by providing input regarding what behaviors or results will be measured and how. This is particularly important in today's diverse and global organizations, which include individuals from different cultural backgrounds, and this leads to
All participants must be given a voice in the process of designing and implementing the system. Such inclusive systems lead to more successful systems, including less employee resistance, improved performance, and fewer legal challenges.

**Practical issues: Striving for effectiveness and fairness**

Of course, a system that is not practical, it won’t be implemented. So, you need to make sure your system meets the following criteria:

- **Practicality:** Systems that are too expensive, time-consuming, and convoluted will obviously not be effective. Good, easy-to-use systems (for example, performance data are entered via user-friendly web and mobile apps) are available for managers to help them make decisions. Also, the benefits of using the system (like increased performance and job satisfaction) must be seen as outweighing the costs (such as time, effort, and expense).

- **Identification of effective and ineffective performance:** The performance management system should provide information that allows for the identification of effective and ineffective performance. That is, the system should allow for distinguishing between effective and ineffective behaviors and results, thereby also allowing for the identification of employees displaying various levels of performance effectiveness.

In terms of making administrative decisions, a system that ranks all levels of performance and all employees similarly is useless.

- **Acceptability and fairness:** A good system is acceptable and is perceived as fair by all participants.

Perceptions of fairness are subjective and the only way to know if a system is seen as fair is to ask the participants about the system. Perceptions of fairness include four distinct components:

- You can ask about *distributive justice*, which includes perceptions of the performance evaluation received relative to the work performed, and perceptions of the rewards received relative to the evaluation received, particularly when the system is implemented across countries. For example, differences in perceptions exist in comparing employees from more...
individualistic (like the United States) to more collectivistic (like Korea) cultures. If a discrepancy is perceived between work and evaluation or between evaluation and rewards, then the system is seen as unfair.

» You can ask about *procedural justice*, which includes perceptions of the procedures used to determine the ratings as well as the procedures used to link ratings with rewards.

» You can ask about perceptions of *interpersonal justice*, which refers to the quality of the design and implementation of the performance management system. For example, what are employees’ perceptions regarding how they are treated by their supervisors during the performance review meeting? Do they feel that supervisors are empathic and helpful?

» You can ask about *informational justice*, which refers to fairness perceptions about performance expectations and goals, feedback received, and the information given to justify administrative decisions. For example, are explanations perceived to be honest, sincere, and logical?

Because a good system is inherently discriminatory, some employees will receive ratings that are lower than those received by other employees. However, you should strive to develop systems that are regarded as fair from the distributive, procedural, interpersonal, and informational perspectives because each type of justice perception leads to different outcomes. For example, a perception that the system isn’t fair from a distributive point of view will lead to a poor relationship between employee and supervisor and lowered satisfaction of the employee with the supervisor. On the contrary, a perception that the system is unfair from a procedural point of view leads to decreased employee commitment toward the organization and increased intentions to leave.

One way to improve all four justice dimensions is to set clear rules that are applied consistently by all supervisors.

**Technical issues: Sweating the details**

In the end, the system must also meet technical standards to work, including the following:

» **Thoroughness**: The system should be thorough regarding four things:
  - All employees should be evaluated (including managers).
  - All major job responsibilities should be evaluated (including behaviors and results).
• The evaluation should include performance spanning the entire review period, not just the few weeks or months before the formal review meeting.

• Feedback should be given on positive performance aspects as well as those that are in need of improvement.

**Specificity:** A good system should be specific: It should provide detailed and concrete guidance to employees about what is expected of them and how they can meet these expectations.

**Reliability:** A good system should include measures of performance that are consistent and free of error. For example, if two supervisors provided ratings of the same employee and performance dimensions, ratings should be similar.

**Validity:** The measures of performance should also be valid. Validity refers to the fact that the measures include all relevant performance facets and don’t include irrelevant information. In other words, measures are relevant (include all critical performance facets), not deficient (don’t leave any important aspects out), and are not contaminated (don’t include factors outside of the control of the employee or factors unrelated to performance). In short, measures include what is important and don’t assess what isn’t important and outside of the control of the employee.

**Openness:** Good systems have no secrets. First, performance is evaluated frequently and performance feedback is provided on an ongoing basis. Therefore, employees are continually informed of the quality of their performance. Second, the review meeting consists of a two-way communication process during which information is exchanged, not delivered from the supervisor to the employee without his or her input. Third, communications are factual, open, and honest.

**Correctability:** The process of assigning ratings should minimize subjective aspects; however, it is virtually impossible to create a system that is completely objective because human judgment is an important component of the evaluation process. When employees perceive an error has been made, there should be a mechanism through which this error can be corrected. Establishing an appeals process, through which employees can challenge what may be unjust decisions, is an important aspect of a good performance management system.

**Standardization:** Good systems are standardized. This means that performance is evaluated consistently across people and time. To achieve this goal, the ongoing training of the individuals in charge of appraisals, usually managers, is a must.

**Ethicality:** Good systems comply with ethical standards. This means that the supervisor suppresses his or her personal self-interest in providing evaluations. In addition, the supervisor evaluates only performance dimensions for which she has sufficient information, and the privacy of the employee is respected.
A study conducted for Mercer, a global diversified consulting company, showed that the 1,200 workers surveyed stated that they could improve their productivity by an average of 26 percent if they were not held back by a lack of “direction, support, training, and equipment.” So implementing a performance management system that includes the characteristics just described will pay off. Successfully implementing a performance management system can give workers the direction and support that they need to improve their productivity.

Table 2–2 lists the characteristics of an ideal performance management system. Think about the performance management system implemented in your organization. Which of the features listed in the table below are included in the system you are considering? How far is your system from the ideal?

### TABLE 2-2

An Ideal Performance Management System

<table>
<thead>
<tr>
<th>Ideal Performance Management System Characteristic</th>
<th>Present in Your Organization?</th>
<th>If not, why not? What can be done about it?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Contextual Issues</strong></td>
<td></td>
<td></td>
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<tr>
<td>Strategic congruence</td>
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<td>Context congruence</td>
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<tr>
<td>Meaningfulness</td>
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<tr>
<td>Inclusiveness</td>
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<tr>
<td><strong>Practical Issues</strong></td>
<td></td>
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<tr>
<td>Practicality</td>
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<tr>
<td>Identification of effective and ineffective performance</td>
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<tr>
<td><strong>Technical Issues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thoroughness</td>
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<td>Specificity</td>
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<tr>
<td>Reliability</td>
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<td>Validity</td>
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<tr>
<td>Openness</td>
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<tr>
<td>Correctability</td>
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<tr>
<td>Standardization</td>
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<tr>
<td>Ethicality</td>
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</table>
Performance management systems serve as important feeders to other human resources and development activities. Performance management is a key component of talent management in organizations. It allows for assessing the current talent and making predictions about future needs both at the individual and organizational levels. Implementing a successful performance management system is a requirement for the successful implementation of many other HR functions, including training and development, workforce planning, and compensation.

Training and development

Consider the relationship between performance management and training and development. Performance management provides information on developmental needs for employees. In the absence of a good performance management system, it isn’t clear that organizations will use their training resources in the most efficient way (that is, to train those who most need it in the most critical areas).

One organization that is able to link its performance management system to training initiatives is General Electric (GE). GE’s performance management system includes over 180,000 salaried employees spread across almost 180 countries. Recently, GE updated its performance management practices, moving from a formal once-a-year performance review to an app-based system that allows managers to provide more immediate feedback and coaching to their employees. The app accepts voice and text inputs, attached documents, and even handwritten notes. Managers can use the app’s categories such as “priorities,” “touch points,” “summary,” and “insights,” to send short messages (up to 500 characters) to individual team members or groups. For example, a manager can use the app to provide suggestions to employees on areas of developmental needs and where employees may benefit from additional training. Based on these data, the manager, employee, and the HR department can work together to schedule training classes and off-site training opportunities. GE is already seeing the benefits of this direct connection between performance management and training, with some divisions reporting a fivefold increase in employee productivity.

Most organizations don’t use performance management systems to determine training content and waste an opportunity to use the performance management system as the needs assessment phase of their training efforts. A survey including 218 HR leaders at companies with at least 2,500 employees revealed that there is tight integration between performance management and learning/development activities in only 15.3 percent of the organizations surveyed.
Workforce planning

Performance management also provides key information for workforce planning.

An organization’s talent inventory is based on information collected through the performance management system. Development plans provide information on what skills will be acquired in the near future. This information is also used in making recruitment and hiring decisions. Knowledge of an organization’s current and future talent is important when deciding what types of skills need to be acquired externally and what types of skills can be found within the organization.

Compensation

There is an obvious relationship between performance management and compensation systems. Compensation and reward decisions are arbitrary in the absence of a good performance management system.
One of the very useful purposes of performance management is to connect employee behaviors and results with the organization’s strategic goals. If this link is not there, the performance management system becomes a bureaucratic burden and a waste of time rather than something that adds value to the organization.

So it is important that priorities and goals at the organizational level cascade down to the units and eventually all the way down to each individual employee — and for performance management to play an important role in making these connections happen.
For this cascading to take place, you as a manager need to become a performance management leader, which means you need to be an effective coach, make sure performance is defined and measured clearly, and know whether the performance management system is working — and apply fixes where needed. All these tasks are covered in this chapter.

Ensuring Performance Management Delivers Strategic Value

A strategic plan describes what the organization does, its destination, and possible barriers that stand in the way of that destination. It also includes approaches for moving forward.

Key ingredients of a strategic recipe

A strategic plan needs to have the following components:

- **Mission statement**: the organization’s most important reason for its existence. A mission statement gives information on the purpose of the organization and its scope.

- **Vision statement**: a statement of future aspirations. In other words, the vision statement includes a description of what the organization would like to become in the future — about 5–10 years out.

- **Objectives**: specific information about how the mission will be implemented. Objectives also provide a good basis for making decisions by keeping the goals in mind.

- **Strategies**: game plans or how-to procedures to reach the stated objectives. The strategies address issues of growth, survival, turnaround, stability, innovation, talent acquisition, and leadership.

After the organization’s mission, vision, objectives, and strategies have been defined, senior management proceeds to meet with department or unit managers, who solicit input from all people within their units to create unit-level mission and vision statements, objectives, and strategies.

Strategic planning is a tool useful for allocating resources in a way that provides organizations with a competitive advantage because resources are assigned in a more effective and more targeted manner. A strategic plan serves as a blueprint that defines how the organization will allocate its resources in pursuit of its most critical and important objectives.
Making performance management strategic

A critical issue for strategic planning success is to ensure that each unit or department’s mission and vision statements, objectives, and strategies are consistent with those at the organizational level.

Then job descriptions, which include information on tasks performed and knowledge, skills, and abilities needed for each position and each employee in the organization, are revised and updated to make sure they are consistent with unit and organizational priorities.

The performance management system defines performance for each individual, and the source of this information is their job descriptions. So if job descriptions are consistent with the strategic plan of the unit and the organization, the way performance is defined and measured is a result of a cascading process of priorities, shown in Figure 3-1.

**FIGURE 3-1**: Cascading of strategic priorities and goals from the organization to its units and individual job descriptions.

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KeyBank is a good example of the cascading process shown in Figure 3-1. In the state of Utah, the bank first involved managers at all hierarchical levels to develop an organization mission statement. Next, they developed objectives and strategies that would help achieve KeyBank’s mission. The mission statement, objectives, and strategies at the organizational level were used as the foundation for developing the strategies for individual branches. To develop these, senior managers met with branch managers to discuss the organization’s objectives and strategies and to explain the importance of adopting similar ones in each branch. Then, each of the branch managers met with their employees to develop branch mission statements and objectives. One important premise in this exercise was that each branch’s mission statement and objectives had to be aligned with the corporate mission statement, objectives, and strategies.

After organizational and branch objectives and strategies were aligned, managers and employees reviewed individual job descriptions. That is, each job description was tailored so that individual tasks, duties, and responsibilities were clear and contributed to meeting the department’s and the organization’s objectives. Involving employees in this process helped them to gain a clear understanding of how their performance affected the branch, and in turn, the organization.

Even if an employee isn’t able to reach individual goals, the fact that performance management formally and explicitly links them to the goals of the unit and the organization goals is very useful in communicating what are the most crucial business strategic initiatives.

**Developing Performance Management Leadership Skills**

If you manage people, you play a critical role in making sure the cascading of priorities I described in the previous section actually happens. In other words, you need to become a performance management *leader*, meaning that you guide employees so their performance is aligned with the mission, vision, objectives, and strategies of your unit and your organization.

To transition from being a manager to becoming a performance management leader, you must learn a few important skills.

First, you need to be able to serve as a coach. Second, you need to know how to give positive feedback — both positive and negative.
Becoming an effective coach

Coaching is a collaborative, ongoing process in which the manager interacts with direct reports and takes an active role and interest in their performance.

Good coaches do three things: They direct, motivate, and reward employee behavior.

Coaching happens every day. It is about helping to correct and improve any performance that doesn’t meet expectations. But it is also about long-term performance and involves ensuring that each employee’s development plan is being achieved.

Being a coach is similar to serving as a consultant, and for coaching to be successful, you must establish a helping relationship.

Do you want to be an effective coach? Then follow these success factors:

» **Establish a good coaching relationship.** For coaching to work, the relationship between the coach and the employee must be trusting and collaborative. You need to listen to understand. You need to try to walk in the employee’s shoes and view the job and organization from his or her perspective. You need to coach with empathy and compassion. Such compassionate coaching will help develop a good relationship with the employee.

» **Make sure the employee is the source and director of change.** You must understand that the employee is the source of change and self-growth. Accordingly, you need to facilitate the employee's setting the agenda, goals, and direction.

The purpose of coaching is to change employee behavior and set a direction for what the employee will do better in the future. This type of change will not happen if the employee isn't in the driver's seat.

» **Make sure you understand that the employee is whole and unique.** You must understand that each employee is a unique individual with several job-related and job-unrelated identities (for example, computer network specialist, father, skier) and a unique personal history. You must try to create a whole and complete and rich picture of the employees so that they bring their whole selves to work and are fully engaged. It will be beneficial if you have knowledge of the employee's life and can help the employee connect his life and work experiences in meaningful ways.

» **Facilitate employee growth.** Your main role is one of facilitation. You must direct the process and help with the content of a developmental plan but not take control of these issues. You need to maintain an attitude of exploration: Help expand the employee's awareness of strengths, resources, and challenges. And you need to facilitate goal setting.
You need to understand that coaching isn’t something done to the employee, but done with the employee.

### Giving effective feedback

Giving feedback to an employee regarding her progress toward achieving her goals is a key component of the coaching process. Feedback is information about past behavior that you give with the goal of improving future performance.

Feedback includes information about both positive and negative aspects of job performance and lets employees know how well they are doing.

### Positive feedback

Although most people are a lot more comfortable giving feedback on good performance than they are on poor performance, you need to follow best practices when you give praise — what is also called positive feedback — so that the feedback is useful in terms of future performance.

Here are some best practices you should implement:

- **Positive feedback should be sincere and given only when it is deserved.** If you give praise repeatedly and when it isn’t deserved, employees are not able to see when a change in direction is needed.

- **Positive feedback should be about specific behaviors or results.** You should give feedback within context so that employees know what they need to repeat in the future.

- **In giving positive feedback, you should take your time and act pleased.** Don’t rush through the information.

- **Don’t give positive feedback by referring to the absence of the negative.** For example, avoid saying “not bad” or “better than last time.” Instead, praise should emphasize the positives and be phrased, for example, as “I like the way you did that” or “I admire how you did that.”

### Constructive feedback

*Constructive feedback* includes information that performance has fallen short of expectations. This type of feedback is sometimes referred to as “negative feedback,” but I prefer to use “constructive feedback” because this label has a more positive and future-oriented connotation.
The goal of providing constructive feedback is to help employees improve their performance in the future; it isn’t to punish, embarrass, or chastise them.

It is not easy to give constructive feedback. Why? Managers fear negative reactions such as employees becoming defensive and even angry. Friendships at work can be damaged.

But not giving constructive feedback when it’s due has very negative consequences for the entire organization. Take the following advice from Francie Dalton, founder and president of Columbia, Maryland–based Dalton Alliances, Inc.:

In organizations where management imposes no consequences for poor performance, high achievers will leave because they don’t want to be where mediocrity is tolerated. But mediocre performers will remain because they know they’re safe. The entire organizational culture, along with its reputation in the marketplace, can be affected by poor performers.

Constructive feedback is most useful when early coaching has been instrumental in identifying warning signs and the performance problem is still manageable. And constructive feedback is most likely to be accepted when it is given by a source who uses straight talk and not subtle pressure and when it is supported by hard data.

The traditional approach to giving feedback is called weaknesses–based approach:

- Identifying employee weaknesses: deficiencies in terms of their job performance, knowledge, and skills
- Giving negative feedback on what the employees are doing wrong or what the employees did not accomplish
- Asking them to improve their behaviors or results by overcoming their weaknesses

As a more effective alternative, try using a strengths–based approach, which involves:

- Identifying employee strengths in terms of their exceptional job performance
- Asking employees to improve their behaviors or results by making continued or more intensive use of their strengths

In using a strengths–based approach to giving feedback, the key issue is to highlight how strengths can generate success on the job, and this motivates employees to intensify the use of their strengths to produce even more positive behaviors and results.
Here’s how to do it:

1. **Start the conversation** with something like, “I want to talk to you about some of the great things that you’ve been doing lately, as well as areas where you can improve. I’d like this time to be about how I can help you be your very best.”

2. Request assistance from the employee in **identifying strength areas** by asking, “In what ways do you feel like you’ve been standing out?”

3. Identify **how employee strengths**, which are used in some types of behaviors and results, can be used in others.

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### Defining and Measuring Performance

As a performance management leader, you need to help employees define performance and clarify what performance is.

Performance is a combination of two things:

- **Behaviors and actions**: what an employee does
- **Results and products**: the outcomes of an employee’s behavior

Do you see the arrows creating a circular motion in Figure 3-2? This means that behaviors & actions affect results & products and vice versa. For example, if an employee puts a lot of time in preparing for an important client presentation (behavior), the client will be pleased (result). In turn, if the client is satisfied (result), this will motivate the employee to allocate sufficient time to client presentations in the future (behavior).
Behaviors & actions and results & products create a virtuous and self-reinforcing cycle that together constitute performance. Effective performance management systems include measures of both behaviors and results.

### Measuring performance as behaviors

To measure behaviors, you first cluster them into competencies. These are clusters of knowledge, skills, and abilities (KSAs) that are critical in determining how results will be achieved. Examples of competencies are customer service, written or oral communication, creative thinking, and dependability.

Competencies are not directly observable, so you rely on key performance indicators (KPIs), which are observable and measurable behaviors that tell you the extent to which the competency is there or not.

An indicator is a behavior that, if displayed, shows that the competency is present.

Take the case of a professor teaching an online course. An important competency is “communication.” This competency is defined as “the set of behaviors that enables a professor to convey information so that students are able to receive it and understand it.” For example, one of the KPIs is whether the professor is conveying information during preassigned times and dates. That is, if the professor is not present at the chat room at the prespecified dates and times, no communication is possible.

Another behavioral indicator of the competency communication is whether the responses provided by the professor address the questions asked by the students or whether the answers are only tangential to the questions asked.

### Measuring performance as results

To measure results, you first need to answer the following two questions:

> What are the key accountabilities — different areas in which this individual is expected to focus efforts?

Take the position of Training Specialist/Consultant at Target Corporation. Target focuses exclusively on general merchandise retailing, and is the second largest discount store retailer in the United States, behind Walmart. An accountability for this position is “Process leadership”: Leads the strategy and direction of assigned processes. Coordinates related projects and directs or manages resources. This is extremely important to the functioning of Target leadership and the ability of executives to meet strategic business goals. If this position is managed improperly, then it will lead to a loss of time and money in training costs and leadership ineffectiveness.
Within each accountability, what are the expected performance objectives — goals that should be achieved?

Again, for the position of Training Specialist/Consultant at Target, and the accountability Process leadership, examples of objectives are: (a) Establish leadership development processes and training programs within budget and time commitments and (b) Meet budget targets and improve executive leaders’ “leadership readiness” scores across organization by 20 percent in the coming fiscal year.

Key accountabilities are broad areas of a job for which the employee is responsible for producing results. Objectives are statements of important and measurable outcomes for each accountability.

Developing Employee Performance

Employee development is a component of a state-of-the-science performance management systems. For employee development to be successful, it has to be a joint activity entered into by both the employee and the manager.

To do so, the first step is to create a personal development plan.

Creating development plans

To be most useful, personal development need to answer the following questions:

- How can I continually learn and grow in the next year?
- How can I do better in the future?
- How can I avoid performance problems faced in the past?
- Where am I now and where would I like to be in terms of my career path?

Information to be used in designing development plans comes from the performance evaluation form. You can design a development plan based on each of the performance dimensions evaluated. For example, if the performance dimension “communication” is rated as substandard, this area would be included in the development plan.
Do you have a development plan? If not, this is a good time for you to create one. Make sure your plan includes answers to each of the four questions I asked above.

Implementing development plans

The direct supervisor has an important role in the creation and completion of the employee’s development plan.

Because of the critical role of the direct supervisor in the employee development process, it is a good idea for the supervisor to have her own development plan as well. This will help the supervisor understand the process from the employee's perspective, anticipate potential roadblocks and pain points, and create a plan in a collaborative fashion.

If you are a manager, make sure you do the following if you want your employees’ development plans to be implemented effectively:

» Explain what is required of the employee to reach a required performance level

» Refer to appropriate development activities

» Review and make suggestions about development objectives

» Check on the employee’s progress toward development objective achievement

» Offer the opportunity for regular check-ins and reinforcing positive behaviors

To be successful in implementing each of these five success factors, supervisors themselves need to be motivated to support the employees’ completion of their development objectives. For this to happen, supervisors must be held accountable and rewarded for doing a good job of helping their employees develop.

Assessing Performance Management Effectiveness

Is performance management delivering the anticipated, and hoped for, value added? To answer this question, you need to use good measures to monitor and evaluate the system.
You can use both quantitative and qualitative measures that give you very useful information on what is working, what is not, and what needs to be fixed.

**Using quantitative measures**

You can gather the following types of data to assess your system:

- **Number of people evaluated:** One of the most basic measures is the number of employees who are actually participating in the system. If performance evaluations have not been completed for some employees, you need to find out who they are and why a performance review has not been completed.

- **System satisfaction:** You can distribute a confidential survey to measure the perceptions of the system's users, both raters and ratees. This survey can include questions about satisfaction with equity, usefulness, and accuracy.

- **Overall cost/benefit ratio:** A fairly simple way to address the overall impact of the system is to ask participants to rate the overall cost/benefit ratio for the performance management system. This is a type of bottom-line question that can provide convincing evidence for the overall worth of the system. The cost/benefit ratio question can be asked in reference to an individual (employee or manager), her job, and her organizational unit.

- **Unit-level and organization-level performance:** Another indicator that the system is working well is provided by the measurement of unit- and organization-level performance. Such performance indicators are customer satisfaction with specific units and indicators of the financial performance of the various units or the organization as a whole. You need to be aware that it may take some time for changes in individual and group performance level to be translated into unit- and organization-level results. You should not expect results as soon as the system is implemented; however, you should start to see some tangible results at the unit level a few months after the system is in place.

**Using qualitative measures**

You can collect the opinions of those involved in your system:

- **Quality of qualitative performance data:** An indicator of quality of the performance data refers to the information provided in the open-ended sections of the appraisal forms. For example, how much did the rater write? What is the relevance of the examples provided?
Quality of follow-up actions: A good indicator of the quality of the system is whether it leads to important follow-up actions in terms of development activities or improved processes. For example, to what extent follow-up actions involve exclusively the supervisor as opposed to the employee? If this is the case, then the system may not be working as intended because this is an indicator that employees are not sufficiently involved. Also, to what extent have employees learned from their successes and failures and applying those lessons to the future?

Quality of performance discussion meeting: You can distribute a confidential survey to all employees on a regular basis to gather information about how the supervisor is managing the performance discussion meetings. For example, is the feedback useful? Has the supervisor made resources available so the employees can accomplish the developmental plan objectives? How relevant was the performance review discussion to their job? To what degree have developmental objectives and plans been discussed? To what extent does the supervisor’s way of providing feedback encourage direct reports to receive more feedback in the future?
Few organizations use their existing performance management systems in effective ways. And you already know that performance management isn’t living up to its promise in terms of turning human capital into a source of competitive advantage. There is big disconnect between what performance management is supposed to do in terms of turning human capital into an organization’s source of competitive advantage and what it actually does in most organizations.

Performance management is usually vilified as an “HR department requirement.” In many organizations, performance management means that managers must comply with their HR department’s request and fill out tedious, and often useless, evaluation forms. These evaluation forms are often completed only because it is required by the “HR cops.” Unfortunately, the only tangible consequence of this type of evaluation process is that managers have to spend time away from their “real” job duties.
Consider Sally’s situation:

Sally is a sales manager at a pharmaceutical company. The fiscal year will end in one week. She is overwhelmed with end-of-the-year tasks, including reviewing the budget she is likely to be allocated for the following year, responding to customers’ phone calls, dealing with vendors, and supervising a group of ten salespeople. It’s a very hectic time, probably the most hectic time of the year. She receives a phone call from the Human Resources (HR) department: “Sally, we have not received your performance reviews for your ten direct reports; they are due by the end of the fiscal year.” Sally thinks, “Oh, again, those performance reviews. What a waste of my time!” From Sally’s point of view, there is no value in filling out those seemingly meaningless forms. She doesn’t see her direct reports in action because they are visiting customers most of the time. All that she knows about their performance is based on sales figures, which depend more on the products offered and geographic territory covered than the individual effort and motivation of each salesperson. And based on her own experience, she thinks that little will happen in terms of compensation and rewards, regardless of her ratings. These are lean times in her organization, and salary adjustments are based on seniority rather than on merit. She has less than three days to turn in her forms. What will she do? In the end, she decides to follow the path of least resistance: to please her employees and give everyone the maximum possible rating. In this way, Sally believes the employees will be happy with their ratings and she will not have to deal with complaints or potentially contentious follow-up meetings. Sally fills out the forms in less than 15 minutes and gets back to her “real job.”

There is something very wrong with this picture, which unfortunately happens all too frequently in many organizations. I am sure you can relate to Sally’s situation. Although Sally’s HR department calls this process “performance management,” it actually is not.

In Sally’s organization, “performance management” is just a useless bureaucratic requirement that wastes everyone’s precious time and does more harm than good.

Done right, performance management is a continuous process of identifying, measuring, and developing the performance of individuals and teams and aligning performance with the strategic goals of the organization.

This chapter shows you how to avoid Sally’s situation. To do so, you need to anticipate both what can go wrong when you implement performance management and also what can go wrong if you chose to avoid performance management or, more specifically, performance ratings. In addition, you have to create an appeals process and a communication plan.
Anticipating Damage Caused by Flawed Performance Management

What happens when performance management systems don’t work as intended, as in the case of Sally’s organization? What are some of the negative consequences you can anticipate will result from low-quality and poorly implemented systems? The following sections cover the damage cause to all involved.

Damage caused to employees

Here’s what happens to employees when performance management is poorly implemented:

» Lowered self-esteem: Self-esteem is lowered if feedback is provided in an inappropriate and inaccurate way, which in turn creates employee resentment.

» Decreased motivation to perform: Motivation is lowered for many reasons, including the feeling that superior performance isn’t translated into meaningful tangibles such as pay increase or intangibles such as personal recognition rewards.

» Employee burnout and job dissatisfaction: When the performance assessment instrument isn’t seen as valid and the system isn’t perceived as fair, employees feel increased levels of job burnout and job dissatisfaction. As a consequence, employees become increasingly irritated.

Damage caused to managers

Poorly implemented systems don’t provide the benefits provided by well-implemented systems, yet they take up managers’ time. Such systems are resisted because of competing obligations and allocation of resources (e.g., time). What is sometimes worse, managers simply choose to avoid the system altogether.

Damage caused to relationships

As a consequence of a deficient system, the relationships among the individuals involved are damaged, often permanently.

» Emerging biases: Personal values, biases, and relationships replace organizational standards.
Varying and unfair standards and ratings: Both standards and individual ratings vary across and within units and are also unfair.

Damage caused to the organization

Organizations certainly suffer in tangible ways from poor performance management:

Increased turnover. If the process isn't seen as fair, employees become upset and leave the organization. Some will quit, but others will withdraw psychologically. This means that they will be at work physically but not mentally because they will minimize their effort and engage in cyberloafing until they are able to find another job elsewhere.

Turnover is particularly a problem for the case of star performers, who are attracted to organizations that recognize individual contributions.

Use of misleading information: If a standardized system isn't in place, there are multiple opportunities for fabricating information about an employee's performance.

Wasted time and money: Performance management systems cost money and time. These resources are wasted when systems are poorly designed and implemented.

Unclear ratings system: Because of poor communication, employees do not know how their ratings are generated or how the ratings translate into rewards.

Increased risk of litigation: Expensive lawsuits are filed by individuals who feel they have been appraised unfairly.

Learning from Flawed Performance Ratings

Many of the negative consequences I describe in the preceding section are directly related to the issue of performance ratings. For example, ratings are biased, unjustified, inaccurate, and a waste of time and resources; their use can lead to the departure of star performers and even litigation. You can learn a lot from these flawed performance ratings in terms of what is broken with performance management — and hopefully take remedial action.
Performance ratings are often the canary in the coalmine, rather than the problem per se.

What do I mean? Before modern methods became available, coal miners in the early twentieth century used to carry a caged canary with them down into the mine tunnels. When toxic gases such as carbon monoxide were present, the canary would faint, or even die, quickly alerting the miners of imminent danger.

So the canary was not the problem but a sign of the presence of unobserved toxic gases. Similarly, what are the unseen reasons why performance ratings are biased, impractical, and cause more harm than good? What are the “toxic gases” that are producing problems in the ratings?

Here are three reasons why performance ratings are dysfunctional:

» Ratings are not directly related to an organization's strategic goals.
» Ratings don't refer to performance dimensions that are under the control of the employee.
» It takes too long for supervisors to fill out complicated and convoluted evaluation forms.

So when ratings are not working, you need to look under the surface to understand why. Then you can think about how to create a better connection between them and your organization's strategic objectives, performance dimensions that are under the employee's control, and how to gather ratings in a more practical manner.

**Why Performance Ratings Are Here to Stay**

Biases and other problems with performance ratings have not gone unnoticed. So in the past few years, organizations such as Eli Lilly, Adobe, Microsoft, Accenture, Goldman Sachs, IBM, Morgan Stanley, New York Life, Medtronic, Juniper Networks, and Gap announced that they were going to seriously curtail or even eliminate their use. In fact, surveys results by WorldatWork and Willis Towers Watson Talent Management show that between 8 percent and 14 percent of large corporations in North America have eliminated performance ratings since 2014.

Although the elimination of ratings seems to be the latest fad, performance management without ratings was implemented by GE in the 1960s. In addition to no summary ratings, this system at GE included frequent discussions of performance and an emphasis on mutual goal planning and problem solving. But years later,
GE not only brought ratings back with a vengeance but became famous for the use of former CEO Jack Welch’s “vitality curve” in which employees were ranked in the top 20%, middle 70%, or bottom 10% of the performance distribution. Going full circle, GE is now one of the companies reevaluating their use of the annual reviews!

Despite widespread media coverage and hype about many companies “abandoning performance reviews and ratings,” many of these companies quickly realized that even if performance ratings are abolished, supervisors evaluate the performance of their direct reports implicitly — and so do peers — even if evaluations forms and ratings are not used. That is, we are always passing judgment about who is doing what at work and how well.

Also, without performance ratings, how are we going to identify, reward, and retain top performers? How will organizations make fair compensation and promotion decisions and deal with possible discrimination lawsuits?

The answer is that performance ratings — good-quality performance ratings — are needed. This is why companies such as Deloitte and many others that tried to eliminate performance ratings are now using ratings again — but they emphasize developmental feedback.

Clearly, measuring performance isn’t easy. However, this isn’t a good excuse to abandon ratings. Also, to make sure ratings measure what matters and measure those things well, setting up an appeals process is an important feature to minimize potential negative consequences of performance management.

**Setting Up an Appeals Process**

Making sure you implement an appeals process is important in gaining employee acceptance for the performance management system and minimizing potential damage. Why? Because it allows employees to understand that if there is a disagreement regarding performance ratings or any resulting decisions, then such disagreements can be resolved in an amicable and nonretaliatory way.

**Dealing with judgmental and administrative issues**

With an appeals process, employees can question two types of issues: judgmental and administrative.
Judgmental issues are about the validity of the performance evaluation. For example, an employee may believe that a manager’s performance ratings for that employee don’t reflect her actual performance.

Administrative issues are about policies and procedures. For example, an employee may argue that his supervisor did not meet with him as frequently as she did with his coworkers and that the feedback he is receiving about his performance isn’t as thorough as that received by his coworkers.

Setting up a three-level appeals process

A good appeals process includes the following three steps:

1. When an appeal is first filed, the HR department serves as a mediator between the employee and the supervisor. An appeal sent to the HR department is usually called a Level 1 appeal. The HR department is in a good position to judge whether policies and procedures have been implemented correctly, and also, has good information about the various jobs, levels of performance expected, and levels of performance of other employees within the unit and organization. The HR department gathers the necessary facts and brings them to the attention of either the rater to encourage reconsideration of the decision that caused the appeal or to the complainant to explain why there have been no biases or violations. In other words, the HR department either suggests corrective action to the supervisor or informs the employee that the decision or procedures were correct.

2. If the rater doesn’t believe corrective action should be taken or if the employee doesn’t accept the HR decision, and the appeal continues, then the process moves to Level 2. In Level 2, there is an outside arbitrator that usually consists of a panel of peers and managers. The panel reviews the case, asks questions, interviews witnesses, researches precedents, and reviews policy. Then they simply take a vote to make the decision.

3. In many cases, the Level 2 vote represents the final decision. In other cases, the vote is forwarded to a high-level manager (vice president or higher level), who takes the panel’s vote into consideration in making the final decision. This is Level 3.

Figure 4-1 will help you visualize these three levels.

Take a close look at Figure 4-1 and think about the appeals process at your organization. From your perspective, how does this process compare to the one summarized in the figure? Is there anything missing that your organization should consider adding?
What follows is the appeals process at the University of Lethbridge. How does it compare to the process at your own organization? What are some of the features of the process that could be implemented in your organization?

**Purpose**

The Appeal Process is a means for Employees and Supervisors to resolve disagreements involving the Performance Evaluation process. This Appeal Process doesn't in any way circumvent or prohibit an employee from the invocation of Article 12: Grievance Procedure.
Principles

All appeals:

1. Are to be conducted with diplomacy and impartiality.
2. Aspire to construct and provide the best possible information.
3. Maintain confidentiality and respect for the individual.

Process

If an Employee disagrees with the result of their Performance Evaluation, as conducted by their Supervisor, the Employee may appeal in writing to the Office of Human Resources. A request for appeal must be received within ten (10) Work Days of the date of the Employee's signature on the Performance Evaluation. The deadline for all written appeals is the last work day in June. Late applications shall not be subject to appeal except under extraordinary circumstances as determined by the Associate VP HR and Admin. Submission of an appeal must be with the use of the Performance Evaluation Appeal Form.

Level 1

Following the receipt of an appeal, a member of the Human Resources Department will conduct a confidential investigation, gathering information in discussion with the Employee, the Supervisor, and where necessary other informed parties. A recommendation for resolution will be put forward by HR to the Supervisor and Employee. If an agreement cannot be reached at Level 1 then the appeal will move to Level 2 of the Appeals Process.

Level 2

The appeal will be brought before a Performance Evaluation Committee whose membership shall consist of three (3) AUPE (Alberta Union of Provincial Employees) Representatives, three (3) Representatives of the Board and a Facilitator from Human Resources. The committee members will remain consistent for all appeals relating to the evaluation period except in circumstances where members with a substantial personal or professional relationship with the employee under appeal shall not participate in the review.

The committee will consider the information collected by Human Resources in Level 1, as well as any relevant evidence that may be offered by the Employee and the Supervisor, and may seek out other sources that the committee deems to be of relevance to the appeal. The committee will have five (5) Work Days from the date the committee was convened to review the evidence and then formally issue a ruling.
Another thing you can do to make sure you minimize potential damage done by poor performance management is to set up a good communication plan and make sure you deal with resistance to change.

Questions that your communication plan should answer

In general, having more and better knowledge of the performance management system leads to greater employee acceptance and satisfaction and helps you minimize or even prevent possible negative consequences of performance management.

As shown in Figure 4–2, a good communication plan answers the following questions:

- **What is performance management?** Answering this question involves providing general information about performance management, how performance management systems are implemented in other organizations, and the general goals of performance management systems.

Source: www.uleth.ca/hr/performance-management-appeals-process-appeals-form
How does performance management fit into our strategy? To answer this question, you should provide information on the relation between performance management and strategic planning. Specifically, information is provided on how the performance management system will help accomplish strategic goals.

What’s in it for me? A good communication plan describes the benefits of implementing performance management for all those involved.

How does it work? Answering this question entails giving a detailed description of the performance management process and timeline — for example, when meetings will take place, what the purposes of each meeting are, and when decisions about rewards will be made.
What are my responsibilities? The communication plan should include information on the role and responsibilities of each person involved at each stage of the process. For example, it includes a description of the employees’ and supervisors’ main responsibilities in the performance management process.

How is performance management related to other initiatives? The communication plan should include information on the relationship between performance management and other initiatives and systems, such as training, promotion, and succession planning.

PERFORMANCE MANAGEMENT COMMUNICATION PLAN IN U.S. FEDERAL AGENCIES

Here’s the performance management communication plan use by U.S. Federal Agencies, specifically for the position of Senior Executive Service (SES). This is a position in several U.S. federal agencies, such as the Department of Justice, Department of Interior, Department of Energy, and Department of Commerce. SES members serve in key leadership positions directly below the top presidential appointees. SES members link the appointees to the rest of the federal government, and they are charged with overseeing various governmental in U.S. federal agencies.

The communication plan that the Department of Justice implemented for this performance management system answers each of the questions included in Figure 4-2:

- **What is performance management?** The plan states the reasons for the department's implementing a performance management system and discusses what it is expected to accomplish. For example, it explains that performance management aims at promoting efficient and effective attainment of the department’s mission, program objectives, and strategic planning initiatives, and it also aims at motivating high levels of achievement and accountability. It also includes definitions of several key terms, including performance management system, performance, progress review, rating levels, and annual summary rating.

- **How does performance management fit into our strategy?** The plan includes a list of principles that guide the system, including, “The Department of Justice federal leaders and managers create a climate for excellence by communicating their vision, values and expectations clearly.” It goes on to detail all the ways in which leaders in the agency do this. Also, the director of the Office of Personnel Management (OPM) describes how the system would be used to implement key principles, including excellence.
• **What’s in it for me?** There is clear information on how the performance management system will help the SES members be more effective leaders so that the department’s mission can be achieved.

• **How does it work?** The plan outlines the steps in a performance management process, detailing the managers’ responsibilities at each step. For example, it outlines the performance dimensions, the rating categories, and how to assign an overall rating.

• **What are my responsibilities?** The communication plan outlines the responsibilities of the SES members as well as their rating official, the person in charge of rating their performance. The plan emphasizes that leaders must create a culture performing at a high level by continually communicating expectations and rewarding high-achieving performers.

• **How is performance management related to other initiatives?** The communication plan touches briefly on the importance of linking system outcomes to performance-based pay. The importance of training to maximize performance is also considered.

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### Dealing with cognitive biases

Even if a communication plan answers all or most of the important questions, the fact that the information has been made available doesn’t necessarily mean the communication plan will be successful in gaining acceptance.

Why? People resist the performance management system due to cognitive biases. These are “mental filters” that affect what information is taken in and how it is processed.

There are three types of biases that affect the effectiveness of a communication plan, even if yours is an excellent one. Also, these biases are accentuated when people are not willing or interested in change. These biases are:

- **Selective exposure:** A tendency to expose our minds only to ideas with which we already agree. Those employees who already agree that performance management is a good idea become involved in the communication plan activities, including reading about the system and attending meetings describing how the system works. On the contrary, those who don’t see much value in a performance management system choose not to read information about it and not to attend meetings about it.
Selective perception: A tendency to perceive a piece of information as meaning what we would like it to mean even though the information, as intended by the communicator, means the exact opposite. Someone who believes performance management is about only rewards and punishments incorrectly interprets that receiving formal performance feedback at the end of each quarter translates exclusively into receiving a pay increase or a bonus.

Selective retention: A tendency to remember only those pieces of information with which we already agree. If an employee perceives his employer as vindictive, that employee won't remember information about how the appeals process works or about other fair and equitable aspects of the system.

Selective exposure, selective perception, and selective retention biases are pervasive and could easily render the communication plan ineffective.

Fortunately, there are several ways to minimize the negative impact of these biases, and therefore, help mitigate potential damage done by performance management:

- **Involve employees.** Involve employees in the design of the system. People support what they help create. The higher the level of participation is in designing the system, the greater the support for the system will be.

- **Understand employee needs.** Understand the needs of the employees and identify ways in which these needs can be met through performance management. For example, do they want more feedback? Are they interested in development activities that would eventually lead to a promotion or a different job within the organization?

- **Strike first.** Create a positive attitude toward the performance system before any negative attitudes and rumors are created. Make communications realistic and don't set up expectations you cannot deliver. Discuss some of the arguments that might be used against the system and provide evidence to counter them.

- **Provide facts and consequences.** Because of the presence of cognitive biases, facts don't necessarily speak for themselves. Clearly explain facts about the system and also explain what they mean or what the consequences are. Don't let employees draw their own conclusions because they may differ from yours.

- **Put it in writing.** In Western cultures, written communications are usually more powerful and credible than spoken communications because they can be carefully examined and challenged for accuracy. Create documentation, which is often posted online for everyone to download, describing the system.

- **Use multiple channels of communication.** Use multiple methods of communication, including face-to-face (especially in the case of small and medium-size organizations) and virtual meetings, email, TED talks, and short
video clips. In other words, allow employees to be exposed repeatedly to the same message delivered using different communication channels. Of course, make sure that all channels convey consistent information.

✈️ **Use credible communicators.** Use credible sources to communicate the performance management system. In companies where HR department members are perceived as “HR cops” because they continually emphasize what cannot be done as opposed to how one’s job can be done better, it is better to use a different department or group. Instead, in such situations, communication should be delivered by people who are trusted and admired within the organization. It also helps if those delivering the communication and endorsing the system are regarded as key and powerful organizational players.

✈️ **Say it, and then, say it again.** Repeat the information frequently. Because people can absorb only a small amount of information at a time, and may be resistant to change, the information must be repeated frequently.

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**DEALING WITH COGNITIVE BIASES AND RESISTANCE TO CHANGE AT U.S. DEPARTMENT OF JUSTICE**

Let’s go back to the Department of Justice communication process I describe earlier in this chapter. That plan attempts to minimize negative biases and gain support for the performance management system. For example, although it is a government agency and the performance management system is a federal mandate, the OPM offered to help managers tailor the systems to their specific agencies. This helps employees become more involved and is also helpful in addressing the specific needs of the employees in the various agencies. The director of the OPM, who is a credible source of information on the performance management system, set a positive tone and even appealed to employees’ patriotism by including a message from the United States President, reminding them of the importance of serving the American people.

The communication plan also provides facts and conclusions about the system. For example, it explains the reasoning for realigning the performance management system with the fiscal year, how to carry out this timeline, and the importance of doing so. The communication plan is also posted on the department’s website. There are also links to other websites with information about performance management. It isn’t clear whether the Department of Justice disseminated the information using other media, such as short video clips. But all in all, the plan implemented by the Department of Justice is a good example of a communication plan that attempts to minimize the detrimental impact of cognitive biases and resistance to change.
Designing an Effective Performance Management System
IN THIS PART . . .

Observe and document performance accurately.

Define performance within your organization.

Measure results, competencies, and behaviors in employees.

Collect and use performance data to your advantage.

Develop an accurate ratings system.
Performance management systems receive crucial top management support when the system makes clear contributions to the organizational and unit priorities. Without this support, a performance management system may not even get off the ground. Also, for performance management to be successful, if needs to deliver strategic value for the organization. In other words, performance management needs to help the organization reach its strategic objectives.

How, then, are these strategic organizational objectives identified? How does an organization know what the “target” should be, what it is trying to accomplish, and how to do it?

The HR function plays a key role as a strategic partner in helping to answer these questions. The HR function is often vilified as being merely operational and not able to think or act strategically — unfortunately sometimes for good reason. Well, over the past two decades or so, an entire new field of research and practice has emerged, called strategic human resource management (SHRM). SHRM is about planning and implementing HR policies and activities with the goal of enabling an organization to achieve its objectives. Performance management is a perfect vehicle to demonstrate the strategic role and contributions of the HR function because it allows for explicit and clear links between what HR is doing and the
organization’s mission, vision, and objectives. By being involved, and hopefully, leading the rollout of the performance management system, the HR function can serve as an expert internal consultant who deserves and secures a “seat at the table” of the top management team.

If you work in the HR function and want to make it to the top of your organization, you need to follow in the footsteps of the few Fortune 500 CEOs with an HR background: Samuel R. Allen at John Deere, James C. Smith at Thomson Reuters, Steven L. Newman at Transocean, and Mary Barra at General Motors. What did they do? They served as strategic partners while heading their respective HR units, which is what propelled their trajectory into the very top of their organizations.

Regardless of whether you work in the HR function or you are a manager or employee in any other function in the organization, it’s useful for you to learn how to create a strategic plan and link performance management to it. This way, you will ensure that performance management creates value for you and your organization.

### Linking Performance Management with Strategic Business Objectives

Strategic planning involves describing the organization’s destination, assessing barriers that stand in the way of that destination, and selecting approaches for moving forward. Among other useful outcomes, strategic planning allows for the allocation of resources in a way that provides organizations with a competitive advantage because resources are assigned in a more effective and more targeted manner. Overall, a strategic plan serves as a blueprint that defines how the organization will allocate its resources in pursuit of its most critical and important objectives.

### Making sure the strategic plan does what it is supposed to do

The mere presence of a strategic plan doesn’t guarantee that this information will be used effectively as part of the performance management system. In fact, countless organizations spend thousands of hours creating strategic plans that are mostly talk and lead to no tangible actions. I am sure you have seen or heard of many organizations that spend too much time and effort crafting their mission and vision statements without undertaking any concrete follow-up actions. The process then ends up being a huge waste of time and a source of frustration and long-lasting cynicism. And this is even worse when there is frequent leadership turnover and a strategic planning process is put into motion over and over again, usually leading to
nothing more than reports and updated website content. In those situations, it’s
typical to hear people say, “Oh no, again! Another CEO and another strategic plan!”
For example, a worldwide survey of senior executives from 197 companies with
combined sales exceeding $500 million showed that less than 15 percent spent any
time evaluating how the previous year’s strategic plan affected current perfor-
mance. The study also found that corporate strategies routinely only deliver between
50 percent and 63 percent of their potential financial performance.

To make sure that strategy cascades down the organization and leads to concrete
actions, you need to make a conscious effort to link the strategic plan with what
everyone does in the organization on a daily basis.

Figure 5-1 provides a useful framework for understanding the relationship
between an organization’s strategic plan, a unit’s strategic plan, and job descrip-
tions, which include information on what employees do and what should be mea-
sured in the performance management system.

The organization’s strategic plan includes a mission statement and a vision state-
ment, as well as objectives and strategies that will allow for the fulfillment of the
mission and vision.
Get the managers involved

The strategies are created with the participation of managers at all levels. The higher the level of involvement, the more likely it is that managers will see the resulting strategies favorably.

As soon as the organizational strategies have been defined, senior management proceeds to meet with department or unit managers, who in turn, solicit input from all people within their units to create unit-level mission and vision statements, objectives, and strategies. A critical issue is to ensure that each unit or department’s mission and vision statements, objectives, and strategies are consistent with those at the organizational level. Job descriptions are then revised and updated to make sure they are consistent with unit and organizational priorities. So again, because they are driven by the job descriptions, as a result, the performance management system includes results, behaviors, and development plans for individuals that are consistent with the organizational- and department-level priorities.

Does the process of aligning organizational, unit, and individual priorities actually work in practice? Is it doable? The answer to these questions is “yes,” and the benefits of doing so are widely documented. In other words, performance management systems have a critical role in translating strategy into action. In fact, a 2017 study published in Journal of Accounting and Management that included 338 organizations in 42 countries found that performance management is the third most important factor affecting the success of a strategic plan. This is particularly true for organizations that operate in rapidly changing environments, regardless of their size, industry, and age.

Keep score

One way to formalize the link between strategic planning and performance management is through the implementation of a balanced score card, which involves creating indicators of individual performance along four separate “perspectives” of an organization’s success. For the case of a bank, consider the following:

- **Financial** (cost control, sales growth rate, profit growth rate)
- **Customer** (service product quality, customer satisfaction, service timing)
- **Internal process** (information delivery, interaction between employees and clients, standard operation process)
- **Learning and growth** (corporate image, competitiveness, employee satisfaction)

As an example of linking strategy and performance management, let’s discuss the case of KeyBank (the primary subsidiary of KeyCorp), which offers financial services and has assets of $134.5 billion. In the state of Utah, KeyBank successfully developed a performance management system that is aligned with the strategic
plan of the organization. To do this, the bank first involved managers at all hierarchical levels to develop an organization mission statement. Next, they developed objectives and strategies that would help achieve KeyBank’s mission. The mission statement, objectives, and strategies at the organizational level served as the foundation for developing the strategies for individual branches. To develop these strategies, senior managers met with branch managers to discuss the organization’s objectives and strategies and to explain the importance of adopting similar ones in each branch. Subsequently, each of the branch managers met with their employees to develop branch mission statements and objectives. One important premise in this exercise was that each branch’s mission statement and objectives had to be aligned with the corporate mission statement, objectives, and strategies. After organizational and branch objectives and strategies were aligned, managers and employees reviewed individual job descriptions. That is, each job description was tailored so that individual tasks, duties, and responsibilities were clear and contributed to meeting the department’s and the organization’s objectives. Involving employees in this process helped them to gain a clear understanding of how their performance affected the branch, and in turn, the organization. Figure 5-2 includes a revised and updated version of Figure 5-1 showing how this was done at KeyBank.
Making sure HR does what it is supposed to do

The HR function can and should play a critical role in creating and implementing the strategies that will allow the organization to realize its mission and vision. Specifically, the HR function can make the following contributions:

- **Communicate knowledge of strategic plan.** The HR function is a good conduit to communicate the various components of the strategic plan (e.g., mission, vision, and objectives) to all the employees.

- **Outline knowledge, skills, and abilities (KSAs) needed for strategy implementation.** The HR function, through job analyses and the resulting job descriptions, serves as a repository of knowledge regarding what KSAs are needed for a successful implementation of the strategic plan. Thus, the HR function is in a unique situation to provide information about whether the current workforce has the KSAs needed to support the strategic plan, and if not, to offer suggestions about what types of employees should be hired and what types of plans (for example, training and development initiatives) should be put in place to develop the needed KSAs internally.

- **Propose compensation systems.** The HR function can provide useful information on what type of compensation system should be implemented to motivate employees to support the strategic plan.

In addition to serving as a necessary guide for individual and team performance, knowledge of organization- and unit-level mission and vision provides the HR function with information about how to design the performance management system. Specifically, there are many choices in how the system is designed. For example, the system might place more emphasis on behaviors (processes) than on results (outcomes), or the system might emphasize more short-term criteria (quarterly objectives) than long-term criteria (triennial). Here are some of these choices:

- **Criteria:** Behavioral criteria versus results criteria
- **Participation:** Low employee participation vs. high employee participation
- **Temporal dimension:** Short-term criteria versus long-term criteria
- **Level of criteria:** Individual criteria versus team/group criteria
- **System orientation:** Developmental orientation versus administrative orientation
- **Compensation:** Pay for performance (that is, merit-based) vs. pay for tenure/position
As a result of the strategic planning process, knowledge of the organization and unit vision and mission allows the HR function to serve as an internal consultant and to make informed decisions about performance management design choices. For example, assume an organization is producing a mature product in a fairly stable industry. In this situation, an emphasis on behaviors, rather than results, is preferred because the relationship between processes and outcomes is well known, and the top priority is that employees display reliable and consistent behaviors in making the product. Regardless of the type of criteria used, be it behaviors or results, these must be observable so the person rating the criteria needs to have the ability to observe what is rated and verifiable (that is, there needs to be evidence to confirm the criteria rated).

To be most useful and impactful, an organization’s performance management system must rely on its strategic plan. The job descriptions, which serve as roadmaps for what individuals are supposed to do, how, and what results will be produced must be aligned with the vision, mission, objectives, and strategies of the organization and unit. Organizations can expect greater returns from implementing a performance management system when such alignment is in place. Also, to the extent that the HR function is involved in the design and implementation of the performance management system, it will gain credibility and will be seen as a strategic and valued contributor to the entire organization.

**CONNECTING INDIVIDUAL AND FIRM OBJECTIVES AND PERFORMANCE AT DELL**

Dell is one of the top players in the personal computer industry through its mode of online direct selling. Dell's main strategic business strategy is to be a low-cost leader in an industry that deals with a product that has now become a commodity. However, in addition to a low-cost strategy, Dell has a customer relationship business strategy of maintaining customer service at a high level, while reducing costs.

Dell's performance management system provides a strong link between individual objectives and organizational performance by including a results component (cost) and a behavioral component (customer service). At Dell, both low cost and high levels of customer service (for both internal and external customers) are important dimensions of the performance management system. Also, the system is strongly linked not only to the strategic objectives (low cost and high levels of customer service), but also to the organization's "winning culture" (which includes achievement of personal and business objectives through its focus on interaction between managers and team members).
Conducting an External and Internal Analysis of Strengths, Weaknesses, Opportunities, and Threats

The first step in conducting a strategic plan is to step back to take in the “big picture.” You do this what is called an environmental or SWOT analysis (strengths, weaknesses, opportunities, and threats) analysis. An environmental analysis identifies external and internal issues so that you can understand what is going on in the context and industry where your organization operates, enabling you to make decisions about what the performance management system looks like against the backdrop of this broader context.

Analyzing the external environment

How do you conduct an analysis of the external environment? You need to understand what are the opportunities and threats.

- **Opportunities** are characteristics of the environment that can help your organization succeed. Examples of such opportunities might be markets not currently being served, untapped talent pools, and new technological advances.

- **Threats** are characteristics of the external environment that can prevent the organization from being successful. Examples of such threats range from economic recession to the launch of innovative products and services on the part of competitors.

A common framework for understanding industry-based threats is the now classic work by Michael E. Porter, called “five-force analysis.” These include three forces from horizontal competition (i.e., the threat of substitute products or services, the threat of established rivals, and the threat of new entrants), and two forces from vertical competition (i.e., the bargaining power of suppliers and the bargaining power of customers).

In addition to the more general five-force analysis proposed by Michael Porter, you need to think about the following more specific factors and how they affect your organization:

- **Economic**: For example, is there an economic recession on the horizon? Or is the current economic recession likely to end in the near future? How would these economic trends affect our business?

- **Political/legal**: For example, how will political changes domestically or in the international markets we are planning on entering affect our entry strategy?
» Social: For example, what is the impact of the entry of Millennials in the workforce (and the massive retirement of Baby Boomers)?

» Technological: For example, what technological changes are anticipated in our industry and how will these changes affect how we do business?

» Competitors: For example, how do the strategies and products of our competitors affect our own strategies and products? Can we anticipate our competitors’ next move?

» Customers: For example, what do our customers want now, and what will they want in the next five years or so? Can we anticipate such needs?

» Suppliers: For example, what is the relationship with our suppliers now and is it likely to change, and in what way, in the near future?

Understanding external trends is critical for business of all sizes. But it is particularly challenging for multinational organizations because they are concerned with both domestic and international trends. Monitoring the external environment is so important in the strategic planning of multinational organizations that a survey of U.S. multinational corporations showed that 89 percent of departments responsible for the assessment of the external environment report directly to a member of the board of directors.

ANALYSIS OF THE EXTERNAL ENVIRONMENT AT FRONTIER AIRLINES

Frontier Airlines is an affordable-fare airline headquartered at Denver International Airport, and serving more than 55 cities in the United States, Mexico, the Dominican Republic, and Cuba with approximately 275 daily flights. Frontier started operating in July 1994 when there were two key opportunities in the external environment. First, two major competing airlines (Continental and United, which merged in the year 2012) had downsized their Denver operations and therefore opened up service gaps in several major markets that Frontier filled. Second, the city of Denver replaced the heavily congested Stapleton Airport with the much larger Denver International Airport.

In February 2004, United Airlines, the largest carrier operating out of Denver International Airport, made changes in the environment that resulted in a direct horizontal threat to Frontier: United Airlines launched its own low-fare affiliate. The new affiliate, Ted, was going head-to-head with Frontier. Peter McDonald, then vice president for operations for United Airlines, reported that Ted's cost per available seat mile was in the ballpark of Frontier's 8.3 cents. So what had been an opportunity for Frontier no longer remained one, given the launching of Ted. To make things even worse for Frontier, Southwest Airlines, another low-cost competitor, also entered the Denver market a few years later. Now, Frontier is only the third largest carrier in Denver after United and Southwest.
Analyzing the internal environment

How do you conduct an analysis of the internal environment? You need to think about strengths and weaknesses.

**Strengths** are internal characteristics that the organization can use to its advantage. For example, what are the organization’s assets and the staff’s key skills? Continuing with the Frontier airlines example I mentioned in a nearby sidebar, several key executives from other airlines were recruited, an important strength that was needed, given the emergence of horizontal threats. These executives created a senior management team with long-term experience in the Denver market.

**Weaknesses** are internal characteristics that hinder the success of your organization. These could include an obsolete organizational structure that doesn’t allow for effective organization across units; the misalignment of organizational-, unit-, individual-level objectives; a talent pool with skills that have become obsolete, given changes in the industry and in technology.

Here are the factors you need to think about in your internal analysis.

**Organizational structure:** For example, is the current structure conducive to fast and effective communication?

**Organizational culture:** Organizational culture includes the unwritten norms and values espoused by the members of the organization. For example, does the current organizational culture encourage or hinder innovation and entrepreneurial behaviors on the part of middle-level managers? Is there a culture in which new ideas and suggestions are quickly suppressed with the argument that “this has never been done before”?

**Politics:** For example, are the various units competing for resources in such a way that any type of cross-unit collaboration is virtually impossible? Or are units open and collaborative in cross-unit projects?

**Processes:** For example, are the supply chains working properly? Are all touchpoints with customers working properly? Can customers reach us when they need to and receive a satisfying response when they do?

**Size:** For example, is the organization too small or too large? Is it growing too fast? Can it manage growth (or downsizing) effectively?

Table 5-1 below includes a summary list of external and internal trends to be considered when you conduct an environmental analysis.
Think about your current employer and take a look at this table. Where does your organization stand in regard to each of these important external and internal issues? Regarding the external issues, what are some of the opportunities and threats? Regarding the internal issues, what are some of the strengths and weaknesses?

### TABLE 5-1

<table>
<thead>
<tr>
<th>External Factors</th>
<th>Internal Factors</th>
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<tr>
<td>Driven by the line manager</td>
<td>Driven by HR</td>
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<tr>
<td>Driven by strategic business considerations</td>
<td>Driven by operational/administrative issues</td>
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<td>Political/legal</td>
<td>Organizational culture</td>
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### Conducting a gap analysis

Now that you know the external and internal issues facing your organization, you can use information on opportunities, threats, strengths, and weaknesses to do a **gap analysis**.

With a gap analysis, you look at the external environment in relation to the internal environment. Essentially, you pair external opportunities and threats with internal strengths and weaknesses so that you can learn whether or not you are facing a competitive situation as ranked from most to least competitive in the following list:

- **Opportunity + Strength = Leverage.** The best combination of external and internal factors happens when there is an opportunity in the environment and a matching strength within the organization to take advantage of that opportunity. These are obvious directions that the organization should pursue.
» **Opportunity + Weakness = Constraint.** In a constraint situation, the external opportunity is present; however, the internal situation isn’t conducive to taking advantage of the external opportunity. At IBM (see the nearby sidebar), this situation could have taken place if IBM did not have the internal capabilities to develop software and other products for the network-connected devices and specialized components. The external opportunity would still be there, but, absent the internal capabilities, it would not turn into an advantageous business scenario.

» **Threat + Strength = Vulnerability.** In this situation, there is an external threat, but this threat can be contained because of the presence of internal strengths. If this had been the case at IBM, the company would not have been able to take advantage of a new situation; nevertheless, existing strengths would have allowed IBM to continue to operate in other areas.

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**IBM LEVERAGES ITS STRENGTHS**

IBM is the world’s largest information technology company. IBM has concluded that the personal computer-driven client-server computing models no longer apply and that network-based computing is taking over. IBM’s CEO Virginia (Ginni) Rometty said, “Digital is the wires, but digital intelligence, or artificial intelligence as some people call it, is about much more than that. This next decade is about how you combine those and become a cognitive business. It’s the dawn of a new era.”

So IBM shifted the focus to servers, databases, and software for transaction and data management. Also, IBM recognized the upsurge of network-connected devices, including smartphones and tablets. To take advantage of this external opportunity, IBM now focuses its resources on supporting network systems, developing software for the network-connected devices, and manufacturing specialized components.

These are the types of products that IBM offers today: cloud, cognitive, data and analytics, internet of things, it infrastructure, mobile, and security. This is a long way from IBM’s first products involving clocks and cash registers! IBM built up its software capabilities through internal development and outside acquisitions. In short, IBM developed a leverage factor by identifying internal strengths that matched external opportunities, which in turn leads to a successful business model.
Threat + Weakness = Problem. In the worst scenario, there is an external threat and an accompanying internal weakness. For example, in the 1980s, IBM refused to adapt to the demands of the emerging microcomputer market (today’s personal systems including desktops, laptops, and notebooks). IBM did not have the internal capability to address customers’ needs for personal systems, and instead, continued to focus on its internal strength: the mainframe computer. IBM’s poor performance in the early 1990s was a direct consequence of this problem situation: The external threat (increasing demand for personal systems and dwindling demand for mainframe computers) was met with an internal weakness (lack of ability to shift internal focus from the mainframe to the personal systems and devices).

Creating and Understanding Your Organization’s Mission and Vision

Now that you understand your organization’s leverage, constraints, vulnerabilities, and problems, you need to understand who you are as an organization and what you do. This information will then be included in the organization’s mission statement.

Creating your mission

The mission statement summarizes the organization’s most important reason for its existence. Mission statements provide information on the purpose of the organization and its scope. They need to answer the following questions:

- Why does the organization exist?
- What is the scope of the organization’s activities?
- Who are the customers served?
- What are the products or services offered?

Creating your vision

An organization’s vision is a statement of future aspirations. In other words, the vision statement includes a description of what the organization would like to become in the future — about 5 to 10 years out.
You create your vision statement typically after the mission statement because you first need to know who you are and your purpose before you can figure out who you want to be in the future.
Mission and vision statements are often combined, and therefore, in many cases, it is difficult to differentiate one from the other. In such cases, the vision statement usually includes two components: a core ideology, which is referred to as the mission, and an envisioned future, which is what is referred to as the vision per se. The core ideology contains the core purpose and core values of an organization, and the envisioned future specifies long-term objectives and a picture of what the organization aspires to in the long term.

Are you interested in creating a powerful, useful, and state-of-the-art vision statement? Then your vision statement needs to have the following characteristics:

- **Brief**: A vision statement should be brief so that employees can remember it.
- **Verifiable**: A good vision statement should be able to stand the reality test.
- **Bound by a timeline**: A good vision statement specifies a timeline for the fulfillment of various aspirations.
- **Current**: Outdated vision statements are not useful. Vision statements should be updated on an ongoing basis, ideally as soon as the old vision is fulfilled.
- **Focused**: A good vision statement isn’t a laundry list of aspirations, but rather, focuses on just a few (perhaps not more than three or four) aspects of an organization’s performance that are important to future success.
- **Understandable**: Vision statements need to be written in a clear and straightforward manner so that they are understood by all employees.
- **Inspiring**: Good vision statements make employees feel good about their organization’s direction and motivate them to help achieve the vision.
- **A stretch**: Consider Microsoft’s vision statement in the 1980s of “putting a computer on every desk and in every home,” which was the vision when CEO Bill Gates started the MS-DOS operating system. This vision statement was such a stretch that it was considered ludicrous at a time when the mainframe computer still reigned supreme and the first personal computers were being made and sold. But that vision became a reality. Two decades later, Microsoft revised its vision as follows: “putting a computer in every car and every pocket.” Once again, this vision has now become a reality — in the form of car dashboards and smartphones.
PART 2
Designing an Effective Performance Management System

Setting Up Objectives and Strategies Based on Your Mission and Vision

Ok, now you know your organization’s external opportunities and threats. You also know the internal strengths and weaknesses. And you have your mission and vision.

So you now can realistically establish objectives that will further your mission. The purpose of setting such objectives is to formalize statements about what your organization hopes to achieve in the medium- to long-range period (that is, within the next three to five years). Also, once you set objectives, you need to know what strategies you will implement to reach them.

MISSION AND VISION STATEMENTS
AT SPECTRUM BRANDS

Spectrum Brands provides an example of combining mission and vision into one statement. Spectrum Brands is a global consumer products company and a leading supplier of batteries, kitchen appliances, shaving and grooming products, personal care products, pet supplies, and home and garden products. Spectrum Brands’ combined mission and vision statement is the following:

Spectrum Brands is a rapidly growing, global, diversified, market-driven consumer products company.

- We will continue to grow our company through a combination of strategic acquisitions and organic growth.
- We will strengthen our brands and generate growth through emphasis on brand strategy/marketing and innovative product technology, design and packaging.
- We will leverage IT infrastructure, distribution channels, purchasing power and operational structure globally to continue to drive efficiencies and reduce costs.
- We will profitably expand distribution in all served markets.

This statement includes components of a mission statement (i.e., “a rapidly growing, global, diversified, market-driven consumer products company”) as well as components of a vision statement (e.g., “will strengthen our brands and generate growth through emphasis on brand strategy/marketing and innovative product technology, design and packaging”). Thus, this statement combines the present (i.e., who the company is, what it does) with the future (i.e., aspirations).
Setting up objectives

Objectives provide more specific information regarding how the mission will be implemented. Objectives also provide a good basis for making decisions by keeping the desired outcomes in mind.

Objectives provide the basis for how to define and measure performance because they allow for a comparison of what needs to be achieved versus what each unit, group, and individual is achieving. Also, objectives can also be a source of motivation and provide employees with a more tangible target for which to strive.

Matthew S. Levitch, president and CEO of Harley-Davidson, Inc. (the motorcycle manufacturer) since May 2015, said that a major objective is to

“...deliver those customer-growth objectives, not chassis-growth objectives. It sounds kind of trite: We’re not really in the business of manufacturing motorcycles. We’re in the business of building customers. When I joined [in 1994], we had made 86,000 motorcycles the prior year. Compare that to the peak in 2006 at about 350,000. It’s less today, but we’re working hard to get that volume back up. But the emphasis has shifted from making motorcycles to what I would say is identifying and finding customers — with product, with distribution, with everything we do at the company.”

Operationally speaking, this means that Harley-Davidson is trying to achieve the following:

- **Lead in every market.** Harley-Davidson plans to achieve the leadership position in the 601cc motorcycle segment. As the company’s CEO Matt Levitch put it, “This isn't just about competing, but winning.”

- **Grow sales at a faster rate.** Harley-Davidson plans to grow its retail sales in the United States as well as internationally at a faster pace. In the next five years, the company plans to add 150–200 dealers globally to achieve this objective.

- **Grow earnings faster than revenues.** Harley-Davidson has stated an objective of growing its revenues over the next five years. It is also aiming at growing its earnings faster than its revenues through 2020.

These objectives provide a clear direction for Harley-Davidson. In fact, they provide useful information to guide unit-level objectives as well as individual and team performance. The entire organization has a clear sense of focus because all members know that there are clear objectives in terms of market presence, growth, sales, earnings, and financial performance.
Setting up strategies

So you now know what our organization is all about (mission), what it wants to be in the future (vision), and what it needs to do to get there (objectives).

What remains is a discussion of how to fulfill the mission and vision and how to achieve the objectives. This is done by creating strategies, which are descriptions of game plans or how-to procedures to reach the stated objectives. The strategies could address issues of growth, survival, turnaround, stability, innovation, talent acquisition, and leadership, among others.

Did you know that there is an entire field of study called “strategic management studies” devoted to the development and implementation of strategies? In fact, Deloitte, Boston Consulting Group, Bain & Company, KPMG, and Accenture offer consulting services in the domain of business strategy. Also, there are hundreds of books written on this topic. To give you a brief overview of some possibilities, consider the following strategies, out of many, that could be implemented:

- **Operations**: Addressing issues about the global economic environment in terms of market, capital, interest rates, labor costs, taxes, regulations, and available infrastructure
- **Competitiveness**: Operating at optimum levels of productivity and efficiency: continuous benchmarking, use of statistical tools for process optimization, total quality model, gathering data on customer expectations and experiences
- **Optimal use of resources**: Optimization of global collaboration with suppliers, parts standardization and reduction, and flexible manufacturing and services
- **Global corporate culture**: Respecting cultural values of different regions, constant training at all levels, policies of respect and recognition to individuals, and selecting highly qualified employees
- **Research and development**: Ongoing initiatives aimed at innovation and creativity

Linking Your Organization’s and Unit’s Strategic Plans with Job Descriptions

As shown in Figure 5-1 earlier in this chapter, the organization’s strategic plan has a direct impact on the units’ strategic plans. Similarly, the vision statement, objectives, and strategies of the various units need to be congruent with the overall organizational vision, objectives, and strategies.
Linking the strategy of the organization and its units

The congruence between the mission of the organization and its various units is important, regardless of the type of industry and the size of the organization. High-performing organizations have a clear alignment in the mission and vision of the overall and unit-level mission and vision statements.

Going back to the example of Microsoft, see the example below including a job announcement describing the position of Performance Solutions Group Manager in Microsoft’s training and education unit.

Consider the case of Microsoft Corporation and how the organization’s mission statement is linked to one particular unit — Training and Education.

**Microsoft’s Mission**

Our mission is to empower every person and every organization on the planet to achieve more.

What we value

- **Innovation**: Learn about innovations from our computer science research organization. With more than 1,000 researchers in our labs, it’s one of the largest in the world.

- **Diversity and inclusion**: Explore how we maximize every person’s contribution — from our employees to our customers — so that the way we innovate naturally includes diverse thought.

- **Corporate social responsibility**: See how we work to be a responsible partner to those who place their trust in us, conducting business in a way that is inclusive, transparent, and respectful of human rights.

- **Philanthropies**: Find out how we empower people by investing technology, money, employee talent, and the company's voice in programs that promote digital inclusion.

- **Environment**: Discover how we lead the way in sustainability and use our technologies to minimize the impact of our operations and products.

- **Trustworthy computing**: Check out how we deliver secure, private, and reliable computing experiences based on sound business practices.
Now, consider the mission statement Microsoft’s Training and Education unit:

With the charter to enable Microsoft engineering workgroups to realize their full potential for innovation and performance through world-class learning strategies, Microsoft Training and Education (MSTE) provides performance support strategies to support the overall corporation’s software engineering efforts. Our efforts include the design, development, and delivery of learning programs, on-line information, and resources for Microsoft employees. MSTE's integrated suite of technical offerings supports our objective of having a significant impact on Microsoft's business. We promote best practices, cross-group communication, Microsoft expertise and Industry expertise.

As you can see, the mission of the training and education unit regarding the realization of people’s full potential for innovation and performance is consistent with the overall mission to empower every person, which plays a central role. Of course, MSTE’s mission is more focused on issues specifically relevant to the training and education function. But the link between the two mission statements is obvious.

The organization’s strategic plan, including the mission, vision, objectives, and strategies, cascades down to all organizational levels. Thus, each division, branch, department, or unit also creates its own strategic plan, which should be consistent with the organization’s overall plan.

**Linking the organization and units with job descriptions**

Continuing with the sequence of components shown in Figure 5-1, job descriptions also need to be congruent with the organization and unit mission, vision, objectives, and strategies.

Job descriptions are important because they serve as a roadmap for what individuals are supposed to do, how, and what results will be produced. So, if job descriptions are consistent with the organization and unit mission, vision, objectives, and strategies, results produced by individuals and teams will contribute to the success of their units and organization as a whole.

Job descriptions are particularly important for new employees because they set clear expectations from day one.
After the strategic plan is completed, it is useful to update the existing job descriptions to make sure employees are focusing on the things that matter the most for the organization. Take this example from Microsoft:

**Job Description for Performance Solutions Group Manager in Microsoft’s Training and Education Unit**

As the Performance Solutions Group Manager, you will be accountable for developing and delivering on a portal strategy that touches over 20,000 employees worldwide and involves a complex data delivery system. Additionally, the person is responsible for defining the cutting-edge tool suite used by the team to develop and maintain the portal, the content housed by the group, and all e-learning solutions. Key initiatives include redesigning the Engineering Excellence Guide within the next 6 months and evolving it over the next 18 months to 3 years to become the industry-leading performance support site. Key challenges include maintaining and managing the cutting-edge tool suite used by the team and driving a clear vision for an industry-leading portal and content delivery plan.

Qualifications for this position are a minimum of five years of senior management experience, preferably in knowledge management, e-learning, or Web-based product development roles; ability to think strategically and exercise sound business judgment on behalf of Microsoft; excellent leadership, communication, interpersonal, and organizational skills; firsthand experience delivering/shipping Web-based learning and content management solutions; proven record of successful team management; and ability to work well independently and under pressure, while being flexible and adaptable to rapid change. Knowledge of performance support and training procedures and processes is preferred. With the charter to enable Microsoft engineering workgroups to realize their full potential for innovation and performance through world-class learning strategies, Microsoft Training and Education (MSTE) provides performance support strategies to support the overall corporation’s software engineering efforts. Our efforts include the design, development, and delivery of learning programs, online information, and resources for Microsoft employees. MSTE’s integrated suite of technical offerings supports our objective of having a significant impact on Microsoft’s business. We promote best practices, cross-group communication, Microsoft expertise and Industry expertise.

This job description makes the link between the individual position and MSTE quite clear. First, the description includes MSTE’s mission statement so that individuals become aware of how their specific role fits within the overall mission of the department. Second, the job description includes language to the effect that the work must lead to an “industry leading” product, which is consistent not only with MSTE’s mission, but also with Microsoft’s overall mission. Third, in the needed qualifications section, there is a clear overlap between those needed for
this specific position and those mentioned in MSTE’s as well as in Microsoft’s overall mission. In short, the person working as performance solutions group manager has a clear sense not only of her position, but also of how behaviors and expected results are consistent with expectations about MSTE and Microsoft in general.

The tasks and knowledge, skills, and abilities (KSAs) included in individual job descriptions must be congruent with the organization’s and unit’s strategic plans. Job descriptions should include activities that, if executed well, will help execute the mission and vision.

Job descriptions that are detached from strategic priorities will lead to performance evaluations focused on behaviors and results that are not central to an organization’s success, and the performance management system will be seen as irrelevant and a big waste of time by managers and employee alike.
Performance management systems don’t help employees develop and improve their performance if managers don’t guide and facilitate the employee development process. To do so, if you are a manager, you must learn several important skills to become a performance management leader.

What do performance managers do? They serve as coaches. They observe and document performance accurately. And they give both positive feedback (including praise) and constructive feedback (also referred to as negative feedback).

Are you ready to learn how to do each of these things and become a performance management leader? Ok, let’s do it.

Becoming an Effective Coach

Coaching is a collaborative and ongoing process in which the manager interacts with direct reports and takes an active role and interest in their performance.
Good coaches do three things: They direct, they motivate, and they reward employee behavior.

Coaching is a day-to-day and ongoing function that involves observing performance, complimenting good work, and helping to correct and improve any performance that doesn’t meet expectations. Coaching is also concerned with long-term performance and involves ensuring that each employee’s development plan is achieved.

Effective coaches establish a helping and trusting relationship, and this is particularly important when the supervisor and direct report don’t share similar cultural backgrounds, as is often the case with expatriates or when implementing global performance management systems.

Of course, coaching isn’t beneficial to large organizations only. In fact, it’s particularly important in small and medium-sized enterprises (SMEs) as well. A study conducted in the United Kingdom involving more than 1,200 SME managers over a three-year period showed that coaching training was seen as a very positive experience. Also, for some of the SME managers, coaching training was seen as a “life changing experience.”

Four guiding principles of effective coaches

There are four guiding principles you need to follow to become an effective coach:

- **A good coaching relationship is essential.** For coaching to work, the relationship between the coach and the employee must be trusting and collaborative. As noted by industrial and organizational psychology Professor Farr and Jacobs from Penn State University, the “collective trust” of all those involved in the process is necessary. You must listen in order to understand. In other words, the coach needs to try to walk in the employee’s shoes and view the job and organization from his or her perspective. Overall, you need to coach with empathy and compassion.

  Establishing a good relationship with your employees and being a compassionate coach has an important benefit for you as a coach: It’s an antidote to the chronic stress experienced by many managers. Why? The experience of compassion elicits responses within the human body that arouse the parasympathetic nervous system (PSNS), which can help mitigate stress.

- **The employee is the source and director of change.** You must understand that the employee is the source of change and self-growth. After all, the purpose of coaching is to change employee behavior and set a direction for
what the employee will do better in the future. This type of change will not happen if the employee isn’t in the driver’s seat. Accordingly, you need to facilitate the employee’s setting the agenda, goals, and direction.

» **The employee is whole and unique.** You must understand that each employee is a unique individual with several job-related and job-unrelated identities such as customer service rep, father, avid football fan, and a unique personal history. The coach must try to create a whole and complete and rich picture of the employee so that employees bring their whole selves to work and are fully engaged. It will be beneficial if you have knowledge of the employee’s life and can help the employee connect his life and work experiences in meaningful ways.

» **The coach is the facilitator of the employee’s growth.** Your main role is one of facilitation. You must direct the process and help with the content of a developmental plan. You must resist the temptation to take control. Keep an attitude of exploration: Help expand the employee’s awareness of strengths, resources, and challenges, and also help with goal setting.

You need to understand that coaching isn’t something done to the employee, but done with the employee.

Based on the four guiding principles, it’s evident that coaching requires quite a bit of effort from the managers. But when done right, you can become a true performance management leader and your organization is able to create a healthy “coaching culture.”

### Seven behaviors of effective coaches

Given the available empirical evidence, coaching helps turn feedback into results. For this to happen, you need to engage in the following specific behaviors:

» **Establish development objectives.** You work jointly with the employees in creating the development plan and its objectives.

» **Communicate effectively.** You maintain regular and clear communication with employees about their performance, including both behaviors and results.

» **Motivate employees.** You must reward positive performance. When you do it, employees are motivated to repeat the same level of positive performance in the future.

» **Document performance.** You observe employee behaviors and results. You gather evidence about instances of good and poor performance.

Diagnose performance problems and performance decline. You must listen to employees and gather information to determine whether performance deficiencies and declines in performance are the result of a lack of knowledge and skills, abilities, or motivation or whether they stem from situational and contextual factors beyond the control of the employee. Diagnosing performance problems is important because such a diagnosis dictates whether the course of action should be, for example, providing the employee with resources so she can acquire more knowledge and skills, or addressing contextual issues that are beyond the control of the employee (for example, the employee is usually late in delivering the product because he receives information too late).

Develop employees. You provide financial support and resources for employee development (for example, funding training, allowing time away from the job for developmental activities). By helping employees plan for the future and by giving challenging assignments, you help employees learn new things.

Not all coaches follow the four guiding principles or engage in the seven behaviors I just described. But managers who do become performance management leaders. In fact, some have become legendary, as is the case of Jack Welch, whom I discuss in a nearby sidebar.

JACK WELCH: LEGENDARY PERFORMANCE MANAGEMENT LEADER

Jack Welch was an extremely dedicated performance management leader when he was CEO of General Electric (GE). To get involved with his employees, Welch spoke during a class held at a three-week developmental course for GE's high-potential managers. Over the course of his career, he attended more than 750 of these classes, engaging over 15,000 GE managers and executives. During these presentations, he expected to answer hard questions and he communicated honestly and candidly with his employees. Also, he invited all the participants to talk with him after the course concluded. In addition to attending these sessions, he held meetings with his top 500 executives every January.

Although Welch did not engage in formal coaching, he used the opportunities to communicate his expectations and receive feedback from the various business groups at GE. Welch also conducted formal performance reviews in which he engaged in several of the seven behaviors, including establishing developmental objectives, motivating employees, documenting performance, giving feedback, and diagnosing performance.
Understanding your coaching style

Your personality and behavioral preferences influence your coaching style. There are four main coaching styles: driver, persuader, amiable, and analyzer.

You can adopt a driving style in which you tell your employee being coached what to do. Assume that you want to provide guidance regarding how to deal with a customer. In this situation, the preference for a driver is to say to the employee, "You must talk to the customer in this way." Such coaches are assertive, speak quickly and often firmly, usually talk about tasks and facts, are not very expressive, and expose a narrow range of personal feelings to others.
Coaches can use a **persuading style** in which they try to sell what they want the employee to do. Someone who is a persuader would try to explain to the employee why it's beneficial for the organization, as well as for the employee himself, to talk to a customer in a specific way. Like drivers, persuaders are assertive, but they tend to use expansive body gestures, talk more about people and relationships, and expose others to a broad range of personal feelings.

Other coaches may adopt an **amiable style** and want everyone to be happy. Such coaches are likely to be more subjective than objective and direct employees to talk to customers in a certain way because it “feels” like the right thing to do or because the employee feels it’s the right way to do it. Such coaches tend not to be very assertive and to speak deliberately and pause often, seldom interrupt others, and make many conditional statements.

Coaches may have a preference for an **analyzing style** in which they are logical and systematic and then follow rules and procedures when providing a recommendation. To use the same example, such analyzer coaches may tell employees to talk to a customer in a specific way “because this is what the manual says.” Analyzers are therefore not very assertive, but like drivers, are likely to talk about tasks and facts rather than personal feelings.

No style is necessarily superior to the others. Performance management leadership involves sometimes providing direction, sometimes persuading employees how to do things a certain way, sometimes showing empathy and creating positive effects, and sometimes paying close attention to established rules and procedures.

If you adopt only one of the coaching styles, and never the others, you will not be able to help employees develop and grow. Ineffective coaches stick to one style only and cannot adapt to using any of the other styles. On the other hand, adaptive coaches, who are able to adjust their style according to an employee’s needs, are most effective.

**Observing and Documenting Performance**

If you think that observing and documenting performance is easy, think again. Why? You have three type of constraints going against you:

- **Time constraints**: Managers and peers are too busy to gather and document information about an employee’s progress toward his developmental goals. So, too much time may elapse between the assignment of the activity and when there is a check on the employee's progress.
Situational constraints: Many managers are often unable to observe employees as they engage in developmental activities and don't have firsthand knowledge about their performance. For example, managers don't observe the extent to which an employee enrolled in an online course is an active participant and contributor or a passive learner. In this context, it's appropriate to gather performance data from peers or others who are able to observe performance directly.

Activity constraints: When the developmental activity is highly unstructured, such as an employee reading a book, the manager has to wait until the activity is completed to assess whether the activity has been beneficial.

How can you address these constraints and make sure that you will be able to observe and evaluate an employee’s performance regarding developmental activities, which is critical you to become a performance management leader? See the nearby sidebar for a description of how this is done at Hallmark.

You also need to understand the forces that motivate managers to invest time and effort, or not, in the development of their employees. Clearly, some managers will be more motivated than others to help their direct reports because they may be “givers” rather than “takers.” In other words, there are individual differences in how different people behave toward others.

TRAINING MANAGERS TO BECOME PERFORMANCE MANAGEMENT LEADERS AT HALLMARK

Hallmark sought to help managers become performance management leaders. To do this, it initiated a coaching training program that has been well received and viewed as a strategic benefit to the company. U.S.-based Hallmark is a retailer and wholesaler of greeting cards, stationery, flowers, and gifts, with operations in the United States and Great Britain. The training aimed at improving skill on how to increase two-way communication, with a greater frequency of communication and increased interaction of managers with employees. Training sessions included self-assessment, small group role-playing, and viewing video clips to enhance understanding of the role of communication. Engagement training focused on gaining the trust of employees as well as their involvement and ownership in business outcomes. Follow-up resources were also made available for managers to continue to improve their leadership competency. Following the training in this area, managers gave positive feedback, and employee surveys have shown that employee engagement has increased at all levels of the organization.
In spite of differences in how people tend to behave naturally, it’s important that managers see a direct connection between their efforts to develop people around them and outcomes for themselves.

What does the manager gain if her employee’s developmental activities are supervised appropriately? What does the manager gain if she becomes a performance management leader? You need to be able to answer these questions convincingly if you hope managers in your organization will become performance management leaders.

**Why documenting performance is so important**

I cannot overemphasize the importance of documenting an employee’s progress toward the achievement of developmental goals. Similarly, it’s critical to document employee performance in general. Why is this so important for performance management leaders to do so? Consider the following reasons:

- **Minimize memory errors.** Observing and evaluating developmental activities, and performance in general, is a complex cognitive task. Thus, documentation helps prevent memory-related errors.

- **Eliminated mystery and create trust.** When documentation exists to support evaluations, there is no mystery regarding the outcomes. This, in turn, promotes trust and acceptance of decisions based on the evaluation provided.

- **Plan for the future.** Documenting developmental activities and their outcomes enables discussion about specific facts instead of assumptions and hearsay. An examination of these facts permits better planning of developmental activities for the future.

- **Provide legal protection.** Specific laws prohibit discrimination against members of various classes (such as gender or religion) in how developmental activities are allocated. For example, it’s prohibited to provide male employees with better developmental opportunities than female employees. So keeping accurate records of what developmental activities employees have completed and with what degree of success, as well as performance in general, provides a good line of defense in case of litigation based on discrimination or wrongful termination.
Documenting performance accurately

What can performance management leaders do to document performance regarding developmental activities, and performance in general, in a useful and constructive way? Here are seven success factors:

» **Be specific.** Document specific events and outcomes. Avoid making general statements, such as “He’s lazy.” Provide specific examples to illustrate your point, for example, “He turns in reports after deadlines at least once a month.”

» **Use adjectives and adverbs sparingly.** The use of evaluative adjectives (e.g., good, poor) and adverbs (e.g., speedily, sometimes) lead to ambiguous interpretations. In addition, it’s not be clear whether the level of achievement has been average or outstanding.

» **Balance positives with negatives.** Document instances of both good and poor performance. Don’t focus only on the positives or only on the negatives.

» **Focus on job-related information.** Focus on information that is job-related, and specifically, related to the developmental activities and goals at hand.
» **Be comprehensive.** Include information on performance regarding all developmental goals and activities and cover the entire review period as opposed to a shorter time period. Also, document the performance of all employees, not just those who are not achieving their developmental goals.

» **Standardize procedures.** Use the same method and format to document information for all employees.

» **Describe observable behavior and results.** Phrase your notes in behavioral and results terms and avoid statements that would imply subjective judgment or prejudice.

Obviously, not all managers do a good job of documenting performance about the accomplishment of developmental goals or performance in general. Do you? Think about the last time you evaluated someone else’s performance. Which of the seven success factors do you think you may have left out?

### Giving Feedback Effectively

Giving feedback to an employee regarding her progress toward achieving her goals is a key component of the coaching process. Keep in mind that feedback is information about past behavior that is given with the goal of improving future performance.

Although “back” is part of feedback, giving feedback has both a past and a future component. This is why, when done properly, I prefer to use the label “feedforward.”

Feedback includes information about both positive and negative aspects of job performance and lets employees know how well they are doing.

### Making sure feedback serves a purpose

Feedback is important in the context of performance regarding development activities and goals. However, feedback goes beyond that because it information about performance in general. Although feedback isn’t a magic bullet for performance improvement, it serves several important purposes:

» **Helps build confidence and self-efficacy:** Praising good performance builds employee confidence about future performance. It also lets employees know that their manager cares about them. Also, praising good performance
enhances self-efficacy: An employee’s belief that she will succeed in specific situations or accomplish a task.

Self-efficacy isn’t the actual probability that the employee will succeed, but an employee’s subjective belief that she will. Self-efficacy is critical because if an employee doesn't believe he has a good chance of improving his performance, he isn't likely to even try.

» **Develops competence:** Communicating clearly about what has been done right and how to do the work correctly is valuable information that helps employees become more competent and improve their performance. Also, communicating clearly about what hasn’t been done right and explaining what to do the next time provides useful information so that past mistakes are not repeated.

» **Enhances engagement:** Receiving feedback and discussing performance issues allow employees to understand their roles in the unit and organization as a whole. This, in turn, helps employees become more engaged in the unit and the organization.

The mere presence of feedback, even if it’s delivered correctly, doesn’t necessarily mean that all these purposes will be fulfilled. For example, a review of 131 studies that examined the effects of feedback on performance concluded that 38 percent of the feedback programs reviewed had a negative effect on performance. In other words, in many cases, the implementation of feedback led to lower performance levels! This can happen when, for example, feedback doesn’t include useful information or isn’t delivered in the right way.

### Avoiding the very high cost of NOT providing feedback

Sure, giving feedback takes time and effort. But consider the very high cost of not providing feedback:

» Organizations deprive employees of a chance to improve their performance.

» Organizations are stuck with chronic poor performance because employees did not recognize any performance problems and felt justified in continuing to perform at substandard levels.

» Employees develop inaccurate perceptions of how their performance is regarded by others.
Making sure feedback is beneficial

Given that, overall, feedback systems can be beneficial, what can you do to make the most of them? These are the success factors:

- **Timeliness:** Deliver feedback as close to the performance event as possible. For feedback to be most meaningful, give it immediately after the event.

- **Frequency:** Provide feedback on an ongoing basis — daily, if possible. Because performance improvement is an ongoing activity, feedback about performance is also given on an ongoing basis.

- **Specificity:** Include specific work behaviors, results, and the situation in which these behaviors and results were observed. Feedback isn’t about the employee and how the employee “is” but about behaviors and results and situations in which these behaviors and results occurred.

- **Verifiability:** Use information that is verifiable and accurate. Don’t base it on inferences or rumors. If you use information that is verifiable, feedback will be more accurate and more readily accepted.

- **Consistency:** Make feedback consistent. In other words, information about specific aspects of performance should not vary unpredictably between overwhelming praise and harsh criticism.

- **Privacy:** Give feedback in a place and at a time that prevent any potential embarrassment. This applies to both criticism and praise.

- **Consequences:** Include contextual information that allows the employee to understand the importance and consequences of the behaviors and results in question.

  Take the situation that an employee becomes frustrated and behaves inappropriately with an angry customer and the customer’s complaint is not addressed satisfactorily. Feedback should explain the impact of these behaviors (such as behaving inappropriately) and results for the organization (for example, the customer’s problem was not resolved, the customer was upset, and the customer was not likely to give repeat business to the organization).

- **Description first, evaluation second:** Focus first on describing behaviors and results rather than on evaluating and judging behaviors and results. It is better first to report what has been observed, and once there is agreement about what happened, to evaluate what has been observed.

  If evaluation takes place first, employees may become defensive and reject the feedback.
Performance continuum: Describe performance as a continuum, going from less to more in the case of good performance, and from more to less in the case of poor performance. In other words, include information on how to display good performance behaviors more often and poor performance behaviors less often.

Performance is a matter of degree, and even the worst performer is likely to show nuggets of good performance that can be described as a starting point for a discussion on how to improve performance.

Pattern identification: Feedback is most useful if it's about a pattern of poor performance, rather than isolated events or mistakes. Identifying a pattern of poor performance also allows for a better understanding of the causes leading to poor performance.

Confidence in the employee: Include a statement that the manager has confidence that the employee will be able to improve her performance. It's important for the employee to hear this from the manager, and this enhances employee self-efficacy. This reinforces the idea that feedback is about performance and not the performer.

Say that you have confidence in the employee only you really believe the employee can improve his performance. In the case of a chronic poor performance, this type of information could be used out of context later if the employee is fired.

Advice and idea generation: Feedback can include advice given by the supervisor about how to improve performance. In addition, however, the employee should play an active role in generating ideas about how to improve performance in the future.

An example of effective feedback

Alexandra, a supervisor, has observed a specific performance event and provides feedback to her direct report. Alexandra is the manager of a small retail store with approximately five employees. With a small staff, Alexandra looks for coaching opportunities on a weekly basis. Alexandra is working with Caleb today, and she has just witnessed him complete a customer sale. Caleb did not follow several steps, however, that should be included at each sale, and because the store is now empty, Alexandra decides it’s a perfect opportunity for a coaching session.

ALEXANDRA: Hey, Caleb, that was great the way that you just assisted that customer in finding her correct size in the jeans. Thanks for taking the extra time to help her.

CALEB: Thanks, Alexandra, not a problem.
ALEXANDRA: I would like to go over the sales transaction with you.

CALEB: Sure.

ALEXANDRA: After you helped the woman find her jeans, you promptly brought her over and rang her up. That was a good sale because those jeans were a full-priced item; however, you didn't complete all of the tasks associated with closing a sale. In the training last week, we discussed the importance of adding on additional sales, entering the customer's personal contact information in our system, and letting them know about upcoming sales.

CALEB: Yes, I just remembered us talking about that. When customers seem in a hurry, I feel bad about asking them additional questions.

ALEXANDRA: That's a very valid concern. Can we think of ways to increase the efficiency of adding these few steps into the sales transaction process so that you feel comfortable performing them in the future? I would like to help you do that because increasing the number of items you sell during each transaction could help you win the upcoming sales contests.

CALEB: That would be great. I would really like some new ideas about talking to customers.

ALEXANDRA: No problem. I know that you are a very capable salesperson. You have great customer service skills, and I think that you can improve your sales and possibly win one of the upcoming contests.

Alexandra and Caleb then generate ideas about how to improve Caleb’s performance.

In this vignette, Alexandra demonstrated several of the suggestions to enhance the positive effects of feedback. She was specific about the behaviors and results, the information was verifiable, and it was timely because the behavior had just occurred. Also, because Alexandra communicates her expectations on a weekly basis, the information she provides is consistent. Finally, she described the behavior first, and then, evaluated its effectiveness; she communicated confidence in Caleb and she offered to help him generate ideas about how to improve his effectiveness.

On the other hand, Alexandra left out several important success factors while coaching Caleb. First, she did not communicate the consequences of his behavior, for example, that his failure to follow the procedures could hurt sales for the entire store. Although the vignette doesn’t describe the idea generation portion of the feedback session, Alexandra did not describe behaviors that Caleb could use to improve his performance. Finally, Alexandra did not communicate to Caleb whether this behavior was a one-time incident or whether it was a pattern that was affecting his overall work performance.
Overall, if Alexandra continues to look for coaching opportunities with her employees, her relationship with her employees and their performance in the store will continue to improve. To be more effective as a performance management leader, however, she needs to work on communicating the patterns of behavior that result in poor performance and the consequences of continued poor performance.

Do you agree with these conclusions? What are the missing success factors in the interaction between Alexandra and Caleb? What would you have done differently if you were in Alexandra’s shoes?

**Giving praise**

Effective feedback includes information about both good and poor performance. Although most people are a lot more comfortable giving feedback on good performance than they are on poor performance, you need to follow certain guidelines when giving praise:

- **Praise should be sincere** and given only when it's deserved. If praise is given repeatedly and when it isn't deserved, employees are not able to see when a change in direction is needed.

- **Praise should be about specific behaviors** or results and be given within context so that employees know what they need to repeat in the future. For example, a manager can say the following:

  Naomi, thanks for providing such excellent service to our client. Your efforts helped us renew our contract with them for another two years. It's these types of behaviors and results that our group needs to achieve our goal for this year. And, this is exactly what our company is all about: providing outstanding customer service.

- **In giving praise, take your time and act pleased**, rather than rush through the information, looking embarrassed. Finally, avoid giving praise by referring to the absence of the negative like, for example, “not bad” or “better than last time.” Instead, praise should emphasize the positives and be phrased, for example, as “I like the way you did that” or “I admire how you did that.”

**An example of effective praise**

Consider the following vignette, which illustrates how a manager might give praise to her employee.
After the successful completion of a three-month project at a large telecommunications company, Hannah, the manager, wants to congratulate Jacob on a job well done. Hannah calls Jacob into her office one day after the project is completed.

HANNAH: Thanks for stopping by, Jacob, and thank you for all of your hard work over the past three months. I know that I might not have congratulated you on every milestone you reached along the way, but I wanted to take the time to congratulate you now. Your organizational skills and ability to interact successfully with multiple departments led to the successful completion of the project on time and within budget.

JACOB: Thanks, Hannah. I have really been putting extra effort into completing this project on time.

HANNAH: It shows, Jacob, and I appreciate all of your hard work and dedication to this team and our department. Thanks again and congratulations on a great end to a long three months.

In this vignette, Hannah delivered praise to Jacob successfully and followed the recommendations I described earlier. She was sincere and made sure not to praise Jacob too often, so that when she did praise him, it was meaningful. She described how Jacob’s organizational and project management skills led to the successful completion of the project. And, Hannah took her time in delivering the praise and made sure that Jacob took the praise seriously.

**Giving constructive feedback**

Constructive feedback includes information that performance has fallen short of what is expected. This type of feedback is sometimes called “negative feedback,” but I use constructive feedback because this label has a more positive and future-oriented connotation.

The goal of constructive feedback is to help employees improve their performance in the future. It isn’t to punish, embarrass, or chastise them.

But we all know that managers are usually not very comfortable providing constructive feedback. These are the reasons why:

**Negative reactions and consequences:** I understand that you, as a manager, are possibly concerned that employees will react negatively. Negative reactions can include being defensive and even becoming angry at the information received. In addition, you may fear that the working relationship, or even friendship, with their direct reports may be affected adversely and that giving constructive feedback can introduce elements of mistrust and annoyance.
Negative experiences in the past: You possibly received constructive feedback at some point in your career and have experienced firsthand how feelings can be hurt. Receiving constructive feedback can be painful and upsetting, and managers don’t want to put their direct reports in such a situation.

Playing “God”: You may be reluctant to play the role of an all-knowing, judgmental God. You may feel that giving constructive feedback puts you in that position.

Need for irrefutable and conclusive evidence: You may not want to provide constructive feedback until after they have been able to gather irrefutable and conclusive evidence about a performance problem. Because this task may be perceived as too onerous, some managers choose to skip giving constructive feedback altogether.

Avoiding the dreaded feedback gap

If you avoid giving constructive feedback and employees avoid seeking it, the result is a feedback gap: Managers and employees mutually instigate and reinforce lack of communication, which creates a vacuum of meaningful exchanges about poor performance.

Eventually, the manager gives the employee the message that performance is adequate. But when performance problems exist, they become more and more intense over time. For example, clients may be so dissatisfied with the service they are receiving that they eventually choose to close their accounts and work instead with the competition. At that time, it becomes impossible for you to overlook the performance problem, and you will have no choice but to deliver the feedback. At this stage of the process, however, feedback is delivered too late, it’s often punitive, and unhelpful.

Highlighting strengths

Constructive feedback is most useful when early coaching has been instrumental in identifying warning signs and the performance problem is still manageable. And constructive feedback is most likely to be accepted when it’s given by a source who uses straight talk and not subtle pressure and when it’s supported by hard data.

The traditional, also called weaknesses-based approach, involves identifying employee weaknesses: deficiencies in terms of their job performance, knowledge, and skills. Then you provide negative feedback on what the employees are doing wrong or what the employees did not accomplish. Finally, you ask them to improve their behaviors or results by overcoming their weaknesses.
In contrast, a better option is to use a strengths-based approach, which involves identifying employee strengths in terms of their exceptional job performance and asking them to improve their behaviors or results by making continued or more intensive use of their strengths.

The key feature of a strengths-based approach is to highlight how strengths can generate success on the job, and this motivates employees to intensify the use of their strengths to produce even more positive behaviors and results.

How is this done? First, the conversation can start with something like:

I want to talk to you about some of the great things that you’ve been doing lately, as well as areas where you can improve. I’d like this time to be about how I can help you be your very best.

The supervisor can request assistance from the employee in identifying strength areas by asking:

In what ways do you feel like you’ve been standing out?

Then the last step involves identifying how employee strengths, which are used in some types of behaviors and results, can be used in others.

### Giving feedback to Millennials, Post Millennials, and Baby Boomers

A management theory called socioemotional selectivity theory (SST) says that younger individuals, because they are closer to the beginning of their life cycles, anchor the concept of time as time since birth. In their minds, time is mostly open-ended. So because of this particular time orientation, Millennials and Post-Millennials (that is, Generation Z) tend to have work-related goals that are clearly future-oriented: knowledge acquisition, career planning, and the development of ability and skills that will pay off in the future. We call these utility goals.

In contrast, Baby Boomers and now many Gen-Xers anchor the concept of time as time left in their careers and in life in general and see time as more limited. They tend to have work-related goals that are more present-oriented: regulating their emotions to be positive and the pursuit of positive social relationships at work. We call these social awareness goals.

Performance management leaders are aware of the needs and feedback orientations and reactions of their employees. So they modify the type of feedback so that it is most useful, given individual needs and orientations.
How can you determine whether your feedback orientation is consistent with other members of your generation? To help you ponder on this issue, answer the following questions using a five-point scale, ranging from strongly disagree to strongly agree.

Then compare your scores with those of a coworker, classmate, or family member who is a member of a different generation:

Utility goals:

1. Feedback contributes to my success at work.
2. To develop my skills at work, I rely on feedback.
3. Feedback is critical for improving performance.
4. Feedback from supervisors can help me advance in a company.
5. I find that feedback is critical for reaching my goals.

Social awareness goals:

1. I try to be aware of what other people think of me.
2. Using feedback, I am more aware of what people think of me.
3. Feedback helps me manage the impression I make on others.
4. Feedback lets me know how I am perceived by others.
5. I rely on feedback to help me make a good impression.

These questions are part of the Feedback Orientation Scale (http://journals.sagepub.com/doi/abs/10.1177/0149206310373145?journalCode=joma0).
In this chapter, I begin with a question that may seem simple, but it isn’t: What exactly is performance?

Answering this question is absolutely key if you want to implement a successful performance management system. If you don’t have a good answer, you will not know how to measure performance.

Performance Is All about Behaviors and Results

Performance is a combination of two things:

- **Behaviors and actions:** What an employee does
- **Results and products:** The outcomes of an employee’s behavior

Both of these components are important and they influence each other, as shown in Figure 7-1.
If an employee allocates a sufficient amount of efficient time to preparing for an important client presentation (behavior), the client will be pleased (result). In turn, if the client is satisfied (result), this will serve as a motivating factor for continuing to allocate sufficient time to client presentations in the future (behavior). So behaviors and results create a virtuous and self-reinforcing cycle that together constitute performance.

There are two characteristics of the behaviors and results we label “performance”:

- **Performance is evaluative**, which means that it can be judged as negative, neutral, or positive for individual and organizational effectiveness. In other words, the value of these behaviors and results can vary depending on the extent to which they make a contribution toward the accomplishment of individual, unit, and organizational goals.

- **Performance is multidimensional**, which means that there are many different types of behaviors and results that have the capacity to advance (or hinder) organizational goals.

### Defining performance as behaviors

Think of a set of behaviors that can be grouped under the general label “contribution to effectiveness of others in the work unit.” This set of behaviors can be defined as follows:

Works with others within and outside the unit in a manner that improves their effectiveness; shares information and resources; develops effective working relationships; builds consensus; constructively manages conflict.

Contribution to the effectiveness of others in the work unit could be measured by using a scale that includes anchors demonstrating various levels of competence. For example, anchors could be words and phrases such as “outstanding,” “significantly exceeds standards,” “fully meets standards,” “doesn’t fully meet standards,” and “unacceptable.”
This example shows the evaluative nature of performance because this set of behaviors is judged as positive, neutral, or negative. Also, this example illustrates the multidimensional nature of performance because there are several behaviors that, combined, affect the overall perceived contribution that an employee makes to the effectiveness of others in the work unit. In other words, you would be missing important information if you only considered, for example, “shares information and resources” and did not consider the additional behaviors listed earlier.

**Defining performance as results**

As an example of results, take the case of a salesperson whose job consists of visiting clients to offer them new products or services. The salesperson’s supervisor is back in the home office and doesn’t have an opportunity to observe the salesperson’s behaviors firsthand.

In this case, sales volume can be used as a performance measure. In other words, the supervisor makes the assumption that if the salesperson is able to produce high sales figures, then she is probably engaging in the right behaviors.

**Causes for Excellent and Poor Performance**

Why do some people perform better than others? What factors cause an employee to perform at a certain level?

As shown in Figure 7-2, a combination of three factors allows some people to perform at higher levels than others:

- **Abilities and other traits:** These include such things as cognitive abilities (that is, intelligence), personality, stable motivational dispositions, and physical characteristics and abilities. Also, knowledge and skills include job-related knowledge and skills, attitudes, and changeable motivational states.

- **Knowledge and skills:** These can be divided into declarative knowledge, which is information about facts and things, including information regarding a given task’s requirements, labels, principles, and goals; and procedural knowledge, which is a combination of knowing what to do and how to do it and includes cognitive, physical, perceptual, motor, and interpersonal skills.

- **Contextual issues:** These include HR policies and procedures (for example, compensation system), managerial and peer leadership, organizational and national culture, issues about time and timing of performance, and resources and opportunities given to employees to perform.
As shown in Figure 7–2, the three factors have an additive relationship, which means that two employees can achieve the same level of performance by having different levels of each of the three factors. For example, one employee can be more motivated and spend more hours at work, whereas another can work fewer hours, but have higher levels of skill. Yet, both show a similar level of performance.

If any of the three causes of performance is very low, then overall performance won’t be satisfactory, no matter how high the other two factors are.

Take the case of Jane, a sales associate who works in a national clothing retail chain. Jane has excellent declarative knowledge regarding the merchandise. In particular, she knows the names of all the brands; the prices for all products; sizing charts for clothes for women, men, and children; and sales promotions.

So her declarative knowledge is very high. Jane is also intelligent and physically able to conduct all the necessary tasks — both considered important traits for the job. However, her interactions with customers are not so good (that is, procedural knowledge regarding interpersonal skills). She doesn’t pay much attention to them because she is busy restocking clothes on shelves and hangers. She doesn’t greet customers and is also not good at providing answers to their questions.

Her overall performance, therefore, is poor because although she has the declarative knowledge necessary to do the job, as well as cognitive and physical traits, she lacks procedural knowledge. In short, it is necessary to have at least some level of each of the determinants of performance.

How individual differences affect performance

An important difference between abilities/traits and knowledge and skills is that knowledge and skills are more malleable — meaning that they are easier to change. In general, individual differences that cause different levels of performance and are less malleable are called traits. For example, intelligence and personality are considered traits because they are fairly stable.

Regarding personality traits, the following are called the Big Five:

- **Extroversion**: Being sociable, gregarious, assertive, talkative, and active (the opposite of extroversion is introversion)
- **Neuroticism**: Being anxious, depressed, angry, embarrassed, emotional, worried, and insecure (the opposite of neuroticism is emotional stability)
- **Agreeableness**: Being curious, flexible, trusting, good-natured, cooperative, forgiving, and tolerant
Conscientiousness: Being dependable (that is, being careful, thorough, responsible, and organized), as well as hardworking, achievement-oriented, and persevering.
Individual differences that cause performance and are easier to change (that is, more malleable) are called states. This can be done through a training program or other organizational interventions.

Clearly, people vary in terms of their motivation, which is characterized by how much energy and effort they allocate. Specifically, consider the following three choices:

- **Choice to expend effort:** “I will go to work today.”
- **Choice of level of effort:** “I will put in my best effort at work” versus “I will not try very hard.”
- **Choice to persist in the expenditure of that level of effort:** “I will give up after a little while” versus “I will persist no matter what.”

The first two are more malleable and therefore considered state motivation. For example, you could influence an employee’s choice regarding whether she shows up at work — and on time — using HR policies regarding absenteeism and tardiness. You could influence the second choice by setting clear goals.

But the third is less malleable and a more stable individual trait rather than a state. This type of trait motivation is considered a fairly stable personality trait, called *achievement motivation*, and is a facet of conscientiousness — one of the Big Five personality traits I mention earlier.

**How knowledge and skills affect performance**

What can you do to improve your own knowledge and skills and therefore improve your performance?

Let’s think about those individuals who have achieved the top level of performance in their fields. Think about Tiger Woods as a golf player, Beyoncé as a singer and songwriter, Bill Gates as Microsoft’s founder, Magnus Carlsen as a chess player, Thomas Edison as an inventor, Marie Curie as a physicist and chemist, and Socrates as a philosopher. How did they achieve such excellence? What made these individuals’ performance so extraordinary? How were they able to improve their performance constantly even when others would believe they had reached a plateau and could not possibly improve their performance?
What these individuals have in common is that they devoted a large number of hours to *deliberate practice*. Deliberate practice is different from regular practice and from simply working many hours a week.

Professor K. Anders Ericsson of Florida State University gives the following example: “Simply hitting a bucket of balls isn’t deliberate practice, which is why most golfers don’t get better. Hitting an eight-iron 300 times with a goal of leaving the ball within 20 feet of the pin 80 percent of the time, continually observing results and making appropriate adjustments, and doing that for hours every day — that’s deliberate practice.”

Top performers in all fields engage in deliberate practice consistently, daily, including weekends. The famous pianist Vladimir Horowitz was quoted as saying: “If I don’t practice for a day, I know it; if I don’t practice for two days, my wife knows it; if I don’t practice for three days, the world knows it.”

Deliberate practice involves the following five steps:

1. Approach performance with the goal of getting better and better.
2. As you are performing, focus on what is happening and why you are doing things the way you do.
3. Once your task is finished, seek performance feedback from expert sources, and the more sources, the better.
4. Build mental models of your job, your situation, and your organization.
5. Repeat steps 1–4 continually and on an ongoing basis.

Think about a particular task at which you would like to do better. This could be job-related, a hobby (for example, music, sports, cooking, playing poker), or even family-related (for example, be a better father, mother, son, daughter, or sibling). Now, create a deliberate practice program for yourself. Who are the experts from whom you could solicit feedback? How often would you practice? For how long? What would be some of your specific goals you would like to achieve, and by when?

**How context affects performance**

The third major cause of performance is *context* because performance is also determined by what is happening around the employee.

For example, HR policies and practices can have an important impact of employee performance. Take the case of IBM. In December 2016, Ginni Rometty, IBM’s CEO, said that over the next four years, the company would invest $1 billion in training and development in the United States. In contrast to IBM, working for a company
with an HR function that doesn’t offer much in terms of training means that, sooner or later, performance will suffer as skills become obsolete.

As a second example, an organizational culture that doesn’t promote excellence will also have negative consequences on performance. Take the case of a compensation system that includes paying everyone the same, regardless of employee performance. Why would such a system motivate employees to do better?

As a third example, time and the timing of performance is another contextual factor that also plays a role. Typical performance refers to the average level of an employee’s performance, whereas maximum performance refers to the peak level of performance an employee can achieve.

Employees perform at maximum levels when they understand they are being evaluated, when they accept instructions to maximize performance on the task, and when the task is of short duration.

A key issue is that the relationship between typical (what employees will do) and maximum (what employees could do) performance is very weak. What this means is that measuring performance during short time intervals is assessing maximum, and not typical, performance. Most organizations are more interested in what employees will do on a regular basis rather than what they could do during the short period of time when they are observed and evaluated. In short, the time and timing of performance observation and measurement also affect the observed levels of performance.

### EFFECTS OF CONTEXT ON PERFORMANCE AT WORLDCOM

Remember WorldCom? It's a good example of a detrimental effect of context on performance.

WorldCom was the second largest long-distance company in the United States before it collapsed in 2002. One of the reasons for its collapse was its “cult-like corporate culture” around a charismatic leader, former basketball coach Bernie Ebbers. Ebbers exercised unquestioned authority and demanded unquestioned loyalty from employees. Within this context, it was difficult, if not impossible, for employees to do anything different from what they were told — even if this meant doing things that were clearly unethical. This was an important contextual factor that affected the performance of all employees at WorldCom, regardless of their levels of abilities and traits as well as knowledge and skills.
Resources and opportunities to perform are also important contextual issues. We all know that there is a harsh reality in organizations that involves some employees receiving less resources and opportunities than others. For example, within the same firm, some consultants have more opportunities to work with important clients than others. This issue is quite obvious in sports: There is a limited amount of playing time during each game. So some athletes have more playing time than others. In both of these cases, although employees have the same levels of abilities and other traits as well as knowledge and skills, differential levels of opportunities will have a direct impact on their performance.

**Anticipating performance problems**

Because you now know that performance is affected by the combined effect of three different factors, you can use this knowledge to anticipate performance problems.

So, you need to find information that will allow you to understand whether the source of a performance problem is abilities and other traits, knowledge and skills, contextual issues, or some combination of these three factors.

For example, if an employee lacks procedural knowledge (knowing what to do and how to do it) but you believe the source of the problem is declarative knowledge (information about facts and things), you may give the employee a manual with facts and figures about products so he can acquire the knowledge that is presumably lacking. But, unfortunately this would be a waste of time and resources for you, your employee, and the organization.

Remember the case of Jane I described earlier in this chapter? Her performance problem was caused by lack of procedural knowledge, and not lack of declarative knowledge. In other words, her overall performance was poor because although she had the declarative knowledge necessary to do the job, as well as cognitive and physical traits, she lacks procedural knowledge. This is why to help her improve her performance, what you need to do is improve her procedural knowledge — information about facts and things, including information regarding a given task’s requirements, labels, principles, and goals. Improving her procedural knowledge would know change things much.

Because performance management systems are used for measuring performance, they are also excellent tools to understand the source of any performance deficiencies.

Another issue regarding the identification of performance problems relates to what is called *ownership*, or what Jocko Willink, retired United States Navy SEAL and former commander in the Battle of Ramadi in Iraq, calls extreme ownership.
Willink served in SEAL Task Unit Bruiser, the most highly decorated Special Operations unit from the war in Iraq. They faced tremendous difficulties along the way, including being involved in a “blue-on-blue”: friendly fire fratricide, which is the worst thing that could happen. One American soldier was wounded, an Iraqi soldier was dead, and others were seriously wounded. This incident led to asking very difficult questions, and the most critical one was this: “Who was responsible for this debacle?” Willink says that the very first step is to take ownership of poor performance, no matter how painful this process may be.

What Willink learned in war can be extrapolated to other contexts: Acknowledging that we have performed under par is never easy. It hurts our egos. It hurts our self-esteem. But these are short-term effects only. Unless we engage in this process, it will be very difficult to address any type of performance problem. Willink said that he “had to take complete ownership of what went wrong. That is what a leader does — even if it means getting fired.”

When addressing and anticipating performance problems, you first need to identify whether abilities and other traits, knowledge and skills (declarative and procedural knowledge), or context are hampering performance, and then, help the employee improve the specific factors that are causing poor performance.

Think about the last time when you or a coworker showed a level of performance that was not considered adequate. What were the causes of this substandard level of performance: lack of traits, knowledge and skills, or contextual issues? Which were the two most important factors? What is the evidence that led you to this conclusion?

Focusing on Four Different Performance Dimensions

I mentioned earlier that performance is multidimensional, meaning that you need to consider many different types of behaviors and results to understand performance.

There are four types or dimensions of performance: task performance, contextual performance (also called prosocial or organizational citizenship performance), counterproductive performance, and adaptive performance. A good performance management system should include key performance indicators (KPIs), or observable measures, for each of these types.
Task and contextual performance

Contextual and task performance must be considered separately because they don’t necessarily occur in tandem. An employee can be highly proficient at her task, but be an underperformer regarding contextual performance.

Task performance involves

- Activities that transform raw materials into the goods and services that are produced by the organization
- Activities that help with the transformation process by replenishing the supply of raw materials; distributing its finished products; or providing important planning, coordination, supervising, or staff functions that enable the organization to function effectively and efficiently

Contextual performance involves behaviors that contribute to the organization’s effectiveness by providing a good environment in which task performance can occur. Contextual performance includes behaviors such as the following:

- Persisting with enthusiasm and exerting extra effort as necessary to complete one’s own task activities successfully (for example, being punctual and rarely absent, expending extra effort on the job)
- Volunteering to carry out task activities that are not formally part of the job (for example, suggesting organizational improvements, making constructive suggestions)
- Helping and cooperating with others (for example, assisting and helping coworkers and customers)
- Following organizational rules and procedures (for example, following orders and regulations, showing respect for authority, complying with organizational values and policies)
- Endorsing, supporting, and defending organizational objectives (for example, organizational loyalty, representing the organization favorably to outsiders)

Both task and contextual performance are important dimensions to take into account in performance management systems. Imagine what would happen to an organization in which all employees are outstanding regarding task performance but don’t perform well regarding contextual performance. What if a colleague whose cubicle is next to yours needs to take a restroom break and asks you to answer the phone if it rings, because an important client will call at any moment? What if you said, “That isn’t MY job”? 
PART 2  Designing an Effective Performance Management System

TASK AND CONTEXTUAL PERFORMANCE AT SPRINT

Sprint is a communications services company serving 59.7 million connections. Sprint is widely recognized for developing, engineering, and deploying innovative technologies. At Sprint, all employees are evaluated and development plans are created through the use of five core dimensions: acting with integrity, focusing on the customer, delivering results, building relationships, and demonstrating leadership. The dimensions are used not only for business strategy and objectives but also as a template for what successful performance looks like at the company. These dimensions include the consideration of both task and contextual performance, and employees in the evaluation and development process are asked to write behavioral examples of how they have performed on each dimension.

For example, the delivering results dimension clearly links to performing specific tasks of one’s job. Each employee has certain tasks to complete on a regular basis to keep the business moving. On the other hand, the company is concerned about how the work gets done and contributing to a good work environment that allows for greater effectiveness. This is apparent through the dimensions that look at how employees develop relationships with others and act with integrity in their day-to-day functioning. In summary, Sprint has recognized the importance of considering both task and contextual components of a job in its performance management system. Employees are evaluated not only on results but also on how they are achieved through working with others.

CONTEXTUAL PERFORMANCE AT TRW AUTOMOTIVE

TRW Automotive Holdings Corp. designs, manufactures, and sells automotive systems and components to automotive original equipment manufacturers. The company was founded in 1904, is based in Livonia, Michigan, and has approximately 67,000 employees.

With increasing market pressures and sluggish growth, the company wanted to become more performance driven, experiment in new markets, and offer greater value to its shareholders. To do so, the senior management team developed what they labeled the “key behaviors.” These behaviors are communicated throughout the company and have a prominent role in the performance management process. The majority of these key behaviors actually focus on contextual performance. Specifically, the TRW behaviors emphasize many of the elements of contextual performance, including teamwork and trust.
Many organizations now realize that there is a need to focus on both task and contextual performance because organizations cannot function properly without a minimum dose of positive contextual behaviors on the part of all employees.

**Key differences between task and contextual performance**

Table 7-1 summarizes the main differences between task and contextual performance. First, task performance varies across jobs. For example, the tasks performed by an HR manager are different from those performed by a line manager. Also, the tasks performed by a senior HR manager are more strategic in nature compared with those performed by an entry-level HR analyst, which are more operational in nature.

On the other hand, contextual performance is fairly similar across functional and hierarchical levels. All employees, regardless of job title, function, and responsibilities, are equally responsible for volunteering to carry out task activities that are not formally part of the job. Second, task performance is role prescribed, meaning that task performance is usually included in one’s job description. In contrast, contextual performance behaviors are usually not role prescribed, but are typically expected without making them explicit. Finally, task performance is influenced mainly by abilities and skills (for example, cognitive, physical), whereas contextual performance is influenced mainly by personality (for example, conscientiousness, agreeableness).

<table>
<thead>
<tr>
<th>Task Performance</th>
<th>Contextual Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Varies across jobs</td>
<td>Fairly similar across jobs</td>
</tr>
<tr>
<td>Role prescribed</td>
<td>Not role prescribed</td>
</tr>
<tr>
<td>Antecedents: abilities and skills</td>
<td>Antecedent: personality</td>
</tr>
</tbody>
</table>

There are many pressing reasons why both task and contextual performance dimensions should be included in a performance management system:

- **Global competition** is raising the levels of effort required of employees. Thus, whereas it sufficed in the past to have a workforce that was competent in task performance, today’s globalized world and accompanying competitive forces make it imperative that the workforce also engages in positive contextual
performance. It is difficult to compete if an organization employs a workforce that doesn't engage in contextual behaviors.

Related to the issue of global competition is the need to offer outstanding customer service. Contextual performance behaviors can make a profound impact on customer satisfaction. Imagine what a big difference it makes, from a customer perspective, when an employee puts in extra effort to satisfy a customer's needs.

Many organizations are forming employees into teams. Although some teams are not be permanent because they are created to complete specific short-term tasks, the reality of today's world of work is that teams are here to stay. Interpersonal cooperation is a key determinant of team effectiveness. Thus, contextual performance becomes particularly relevant for teamwork.

Including both task and contextual performance in the performance management system provides an additional benefit: Employees being rated are more satisfied with the system and also believe the system is more fair if contextual performance is measured in addition to task performance. It seems that employees are aware that contextual performance is important in affecting organizational effectiveness, and therefore, believe that these types of behaviors should be included in a performance management system in addition to the more traditional task performance.

When supervisors evaluate performance, it is difficult for them to ignore the contextual performance dimension, even though the evaluation form they are using does not include any specific questions about contextual performance. Consequently, since contextual performance has an impact on ratings of overall performance even when only task performance is measured, it makes sense to include contextual performance more explicitly.

Counterproductive performance

Counterproductive performance involves behaviors and results that are voluntary and that violate organizational norms and threaten the well-being of the organization, its members, or both.

It may seem that counterproductive performance is simply the opposite of contextual performance, but it isn’t. Specifically, the same employee can engage in both contextual and counterproductive performance. Some KPIs of counterproductive performance include the following:

- Exaggerating hours worked
- Falsifying a receipt to get reimbursed for more money than was spent on business expenses
Starting negative rumors about the company
Gossiping about coworkers
Covering up one’s mistakes
Competing with coworkers in an unproductive way
Gossiping about one’s supervisor
Staying out of sight to avoid work
Blaming one’s coworkers for one’s mistakes
Intentionally working slowly or carelessly
Being intoxicated during working hours
Seeking revenge on coworkers
Cyberloafing
Presenting colleagues’ ideas as if they were one’s own

COUNTERPRODUCTIVE PERFORMANCE AT ENRON

Remember the corporate scandal of Enron, which led to the bankruptcy of the Enron Corporation? This was a large American energy company based in Houston, Texas, and the “Enron scandal” was the largest bankruptcy reorganization in American history, as well as the biggest audit failure. A book by McLean and Elkind, based on hundreds of interviews and details from personal calendars, performance reviews, emails, and other documents, showed that one of the primary reasons for the company’s collapse was widespread counterproductive performance. In fact, Enron executives were described as “supersmart.” For example, its former CEO, Jeffrey Keith “Jeff” Skilling, and many other top executives, had earned their MBAs from top-ranked business schools such as Harvard Business School and The University of Texas. But a performance management system that included not only task performance but also counterproductive performance could have detected unethical behaviors and accounting practices before they became widespread and led to the collapse of the entire company — including a loss of 99.5 percent of its market value in a year. Not surprisingly, when he became dean of the Harvard Business School a few years after Enron’s collapse, Professor Nitin Nohria posed the core question for the school: “Are we educating people who have the competence and character to exercise leadership in business?”
Adaptive performance

Adaptive performance is the fourth dimension of performance and is related to an individual’s adaptability to changes — be it in the organization and its goals, in the requirements of the job, or the overall work context.

Given the rapid pace of technology and other factors that are constantly changing the nature of work and organizations, adaptive performance is becoming an increasingly important performance dimension. For example, an organization may change its strategic priorities, merge or be acquired, and have more or less resources. The way employees react to and anticipate these changes is, therefore, an important performance component.

There are several KPIs of adaptive performance. Consider the following eight:

- **Handling emergencies or crisis situations**: To what extent can employees react with appropriate and proper urgency in dangerous or emergency situations; quickly analyze options for dealing with danger or crises; maintain emotional control and objectivity while staying focused on the situation at hand; and step up to take action and handle danger or emergencies?

- **Handling work stress**: To what extent can employees remain composed and cool when faced with difficult circumstances or a highly demanding workload or schedule; not overreact to unexpected news or situations; and manage frustration well by directing effort to constructive solutions rather than blaming others?

- **Solving problems creatively**: To what extent can employees use unique types of analyses to generate new, innovative ideas in complex areas; turn problems upside down and inside out to find fresh, new approaches; integrate seemingly unrelated information to develop creative solutions; and entertain wide-ranging possibilities others may miss?

- **Dealing with uncertain and unpredictable work situations**: To what extent can employees take effective action without knowing all the facts at hand; change gears in response to unpredictable or unexpected events; adjust plans, goals, actions, or priorities to deal with changing situations; not need things to be black and white; and refuse to be paralyzed by uncertainty or ambiguity?

- **Learning work tasks, technologies, and procedures**: To what extent can employees demonstrate enthusiasm for learning new approaches and technologies; do what is necessary to keep knowledge and skills current; learn new methods; adjust to new work processes and procedures, and anticipate changes in the work demands; and search for and participate in assignments or training that will prepare them for these changes?
» Demonstrating interpersonal adaptability: To what extent can employees be flexible and open-minded when dealing with others; listen to and consider others' viewpoints and opinions and alter their own opinion when it is appropriate to do so; be open and accepting of negative or developmental feedback regarding work; and work well and develop effective relationships with people with diverse personalities?

» Demonstrating cultural adaptability: To what extent can employees take action to learn about and understand the climate, orientation, needs, and values of other groups, organizations, or cultures; integrate well into and be comfortable with different values, customs, and cultures; and understand the implications of one's actions and adjust their approach to maintain positive relationships with other groups, organizations, and cultures?

» Demonstrating physically oriented adaptability: To what extent can employees adjust to challenging environmental states such as extreme heat, humidity, cold, or dirt; accommodate frequent physical pressure to complete strenuous or demanding tasks and adjust weight and muscular strength; and become proficient in performing physical tasks as necessary for the job?

When to Define Performance as Behaviors or Results and Why

Remember that performance involves both results and behaviors (as shown back in Figure 7-1). So good systems need to define performance in terms of both.

Having said that, there are situations when it is better to emphasize one or the other.

When to define performance as behaviors

The behavior approach emphasizes what employees do on the job and doesn’t consider the outcomes or products resulting from their behaviors. This is basically a process-oriented approach that emphasizes how an employee does the job and not what is produced.

The behavior approach is most appropriate when

» The link between behaviors and results isn’t obvious. Sometimes, the relation between behaviors and the desired outcomes isn’t clear. In some
cases, the desired result is not achieved in spite of the fact that the right behaviors are in place. For example, a salesperson is not able to close a deal because of a downturn in the economy. In other cases, results are achieved in spite of the absence of the correct behaviors. For example, a pilot may not check all the items in the preflight checklist, but the flight is nevertheless successful (take off and land safely and on time). When the link between behaviors and results isn't always obvious, it is beneficial to focus on behaviors, as opposed to outcomes.

**Outcomes occur in the distant future.** When the desired results will not be seen for months, or even years, the measurement of behaviors is beneficial.

**Poor results are due to causes beyond the performer's control.** When the results of an employee's performance are beyond the employee's control, it makes sense to emphasize the measurement of behaviors. For example, consider a situation involving two assembly line workers, one of them working the day shift, and the other, the night shift. When the assembly line gets stuck because of technical problems, the employee working during the day receives immediate technical assistance, so the assembly line is back in motion in less than 5 minutes. By contrast, the employee working the night shift has very little technical support, and, therefore, when the assembly line breaks down, it takes about 45 minutes for it to be up and running again. If you measured results, you would conclude that the performance of the day-shift employee is far superior to that of the night-shift employee, but this would be an incorrect conclusion. Both employees may be equally competent and do the job equally well. The results produced by these employees are uneven because they depend on the amount and quality of technical assistance they receive when the assembly line is stuck.

A popular type of behavior approach used mostly for managerial positions is called **competency modeling.** In a nutshell, competencies are clusters of knowledge, skills, and abilities (KSAs) that together determine how results are achieved. As such, competencies are not directly observable, but you can measure them by assessing behavioral indicators. For example, to measure the competency “leadership,” you can measure the behaviors that a manager uses in mentoring and developing her direct reports. For an example of competency modeling, see sidebar describing how it’s done at Dollar General.

## When to define performance as results

The results approach emphasizes the outcomes produced by the employees. It doesn’t consider how employees do the job. This is basically a bottom-line approach that isn’t concerned about employee behaviors and processes but instead focuses on what is produced (for example, sales, number of accounts acquired, time spent with clients on the telephone, number of errors).
DEFINING PERFORMANCE AS BEHAVIORS AT NASA


From launch to landing, this mission took about six months to complete. In this circumstance, it is certainly appropriate to assess the performance of the engineers involved in the mission by measuring their behaviors in short intervals during this six-month period, rather than waiting until the final result (successful or unsuccessful landing) is observed.

Now, NASA has the goal of sending humans to the Red Planet in the 2030s. That journey is already well under way. But we will have to wait more than 10 years until we are able to evaluate performance based on results. So a behavior approach is appropriate in this case.

DEFINING PERFORMANCE AS BEHAVIORS AND USING COMPETENCY MODELING AT DOLLAR GENERAL

Dollar General emphasizes a behavior approach to defining performance. Tennessee-based Dollar General operates about 13,000 stores in 43 states in the United States.

As part of the performance management system, Dollar General has identified behaviors that serve as indicators to underlying competencies. These behaviors are reviewed and used to encourage certain outcomes and provide feedback and rewards to staff members. For example, the company management sought to improve attendance among employees. In order to encourage employees to arrive at work on time, a system was developed to group employees into teams who earn points. A wall chart was created displaying a racetrack, and each team was given a car that would be moved forward by the number of points earned each day. After a certain number of laps around the track, employees on the teams with the most points would be given a choice about how to celebrate.

The program was successful within the first two weeks and increased attendance significantly. In summary, Dollar General's performance management system includes the use of a behavior approach to measuring performance.
The results approach is most appropriate when

- **Workers are skilled in the needed behaviors.** An emphasis on results is appropriate when workers have the necessary abilities, knowledge, and skills to do the work. In such situations, workers know what specific behaviors are needed to achieve the desired results, and they are also sufficiently skilled to know what to do to correct any process-related problems when the desired results are not obtained. Consider the example of a professional basketball player. A free throw is an unhindered shot made from the foul line and is given to one team to penalize the other team for committing a foul. Free throw shooting can make the difference between winning and losing in a close basketball game. Professional players know that there is really no secret to becoming a great free throw shooter: just hours and hours of dedicated practice besides actual basketball play (much like the discussion earlier in this chapter about deliberate practice). In assessing the performance of professional basketball players, the free throw shooting percentage is a key results-oriented performance indicator because most players have the skills to do it well. It’s just a matter of assessing whether they do it or not.

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**DEFINING PERFORMANCE AS RESULTS AT L BRANDS**

L Brands Inc., which used to be known as Limited Brands and The Limited, is a retailer that owns the brands Victoria’s Secret, Bath & Body Works, PINK, La Senza, and Henri Bendel. L Brands operates more than 3,000 company-owned specialty stores and employs more than 88,000 associates, who produced combined sales of $12.6 billion. L Brands aims to foster an entrepreneurial culture for its managers; therefore, managers who thrive in the company have a history of delivering impressive business results. They decided to design a new performance management system that is now used uniformly by all L Brands companies. With the involvement of outside consultants and employees, L Brands developed a performance management system wherein managers are measured on business results, including total sales, market share, and expense/sale growth ratio, as well as leadership competencies that are tailored to L Brands. A few of these competencies include developing a fashion sense, financial acumen, and entrepreneurial drive.

Overall, L Brands has been pleased with the new system because it helps align individual goals with business strategy and results. Raters like the new system because behavioral anchors help define the competencies, which make ratings more straightforward. Finally, employees comment that they appreciate the new focus on how results are achieved as opposed to the earlier focus on what is achieved (such as sales).
Behaviors and results are obviously related. In some situations, certain results can be obtained only if a worker engages in certain specific behaviors. This is the case of jobs involving repetitive tasks such as assembly line work or newspaper delivery. Take the case of a person delivering newspapers. Performance can be measured adopting a results approach: whether the newspaper is delivered to every customer within a particular time frame. For the employee to obtain this result, she needs to pick up the papers at a specific time and use the most effective delivery route. If these behaviors are not present, the paper will not be delivered on time.

Results show consistent improvement over time. When results improve consistently over time, it is an indication that workers are aware of the behaviors needed to complete the job successfully. In these situations, it is appropriate to adopt a results approach to assessing performance.

There are many ways to do the job right. When there are different ways in which one can do the tasks required for a job, a results approach is appropriate. An emphasis on results can be beneficial because it could encourage employees to achieve the desired outcomes in creative and innovative ways.

Let me emphasize again that these approaches are not mutually exclusive. Measuring both behavior and results is the approach adopted by most organizations.

**DEFINING PERFORMANCE AS BEHAVIORS AT BASECAMP**

Basecamp is a web and mobile project management company that generates more than $25 million in revenue with only 52 employees. It was recognized in Forbes's 2017 Small Giant List as being among the top 25 small businesses in the United States. Since it was founded in 1999, it has lost only four employees.

The company divides its work into six-week work cycles containing one or two “big batch projects” and four to eight “small batch projects” that take anywhere from a day to two weeks to complete.

As founder and CEO Jason Fried explains, “We don’t measure efficiency, compare actuals versus estimates. We have six weeks to get something done. However, a team decides to get it done during that time is up to them.”

In summary, Basecamp utilizes a performance management system focusing on outcomes or results in order to motivate employees and bring about business results. The company looks at what is produced in the work rather than at behaviors or how the job gets done.
As the saying goes, the devil is in the details. So the way in which we measure performance is absolutely critical in terms of the effectiveness of a performance management system.

This chapter covers how to measure performance as results, which are the outcomes of what people do. I will also explain when and why it makes the most sense to measure performance as results. And I will also explain when and why you need to also understand organizational culture, industry trends, and your organization’s leadership when choosing how to measure performance.

Performance management systems include measures of both results and behaviors.

Measuring Performance as Results

To measure results, you first need to answer the following two questions:

» What are the key accountabilities, or areas in which this individual is expected to focus efforts?

» For each accountability, what are the expected performance objectives?
Key accountabilities are broad areas of a job for which the employee is responsible for producing results. A discussion of results also includes specific objectives that the employee will achieve as part of each accountability. Objectives are statements of important and measurable outcomes.

**Determining accountabilities and their importance**

To determine accountabilities, you first need to collect information about the job. The primary sources are existing job descriptions, such as the announcement that is used to recruit for the position, as well as the unit’s and organization’s priorities. The job description gives you information on the tasks performed. You can group tasks included in the job description into clusters, based on their degree of relatedness. Each of these task clusters or accountabilities is a broad area of the job for which the employee is responsible for producing results.
After the accountabilities have been identified, you need to determine the importance of each. To understand this issue, you need to answer the following key questions:

- What percentage of the employee's time is spent performing each accountability?
- If the accountability were performed inadequately, would there be a significant impact on the work unit's mission?
- Is there a significant consequence of error? For example, could inadequate performance of the accountability contribute to the injury or death of the employee or others, serious property damage, or loss of time and money?

Determining accountabilities may, at first, seem like a daunting task. But, actually, this is not too difficult.

I think an example will be helpful to show this. Take the position of Training Specialist/Consultant — Leadership & Team Development for Target Corporation. Target focuses exclusively on general merchandise retailing and is the second largest discount store retailer in the United States, behind Walmart. A brief summary of the job description is the following:

Identifies the training and development needs of Target Corporation’s work force (in collaboration with partners), with primary emphasis on exempt team members. Designs and delivers training and development workshops and programs and maintains an ongoing evaluation of the effectiveness of those programs. Assumes leadership and strategic responsibility for assigned processes. May supervise the non-exempt staff.

Based on the job description and additional information found on Target’s web page regarding the company’s strategic priorities, a list of the accountabilities, consequences of performing them inadequately, consequences of making errors, and percentage of time spent in each follows:

- **Process leadership:** Leads the strategy and direction of assigned processes. Coordinates related projects and directs or manages resources. This is extremely important to the functioning of Target leadership and the ability of executives to meet strategic business goals. If this position is managed improperly, then it will lead to a loss of time and money in training costs and leadership ineffectiveness. (40 percent of time).

- **Supervision of nonexempt staff:** Supervises nonexempt staff working in the unit. This is relatively important to the functioning of the work unit. If nonexempt staff members are supervised improperly, then the development of the
employees and the ability to meet business targets will be compromised. (10 percent of time)

» **Coaching:** Conducts one-on-one executive coaching with managers and executives. This is extremely important to the development of internal leaders. If managers and executives are not coached to improve their performance, there is a loss of time and money associated with their poor performance as well as the cost of replacing them, if necessary. (20 percent of time)

» **Team-building consultation:** Assists company leaders in designing and delivering their own team-building sessions and other interventions. This is relatively important to the success of teams at Target. Mismanagement of this function will result in teams not meeting their full potential and wasting time and resources on conducting team sessions. (10 percent of time)

» **Assessment instrument feedback:** Delivers feedback based on scores obtained on assessment instruments of skills, ability, personality, and other individual characteristics. This is relatively important to the development of leaders. If assessment is incorrect, it could derail leader development. (10 percent of time)

» **Product improvement:** Continuously seeks and implements opportunities to use technology to increase the effectiveness of leadership and team development programs. This is important to the effectiveness of training delivery and could result in significant gains in efficiencies of the systems if carried out effectively. (10 percent of time)

### Determining objectives

After you have the list of accountabilities, the next step is to determine specific objectives. Objectives are statements of an important and measurable outcome that, when accomplished, will help ensure success for the accountability.

The purpose of establishing objectives is to identify a limited number of highly important results that, when achieved, will have a dramatic impact on the overall success of the organization. After objectives are set, employees should receive feedback on their progress toward attaining the objectives. Also, rewards should be allocated to those employees who have reached their objectives.

Objectives are clearly important because they help employees guide their efforts toward a specific target. But to be most useful, objectives must have the following characteristics:
» **Specific and clear:** Objectives must be easy to understand. In addition, they must be verifiable and measurable — for example, a directive: “Cut travel cost by 20 percent.”

» **Challenging:** Objectives need to be challenging but not impossible to achieve. They must be a stretch, but employees should feel that the objective is reachable.

» **Agreed upon:** To be most effective, objectives need to result from an agreement between the manager and the employee. Employees need an opportunity to participate in setting objectives. Participation in the process increases objective aspirations and acceptance, and it decreases objective resistance.

» **Significant:** Objectives must be important to the organization. Employees must believe that if the objective is achieved, it will have a critical impact on the overall success of the organization. In addition, achieving the objective should give the employee a feeling of congruence between the employee's performance and the goals of the organization. This, in turn, is likely to enhance feelings of value to the organization.

» **Prioritized:** Not all objectives are created equal; therefore, objectives should be prioritized and tackled one by one.

» **Bound by time:** Good objectives have deadlines and mileposts. Objectives lacking a time dimension are likely to be neglected.

» **Achievable:** Good objectives are doable; that is, employees should have sufficient skills and training to achieve them. If they don’t, then the organization should make resources available so that the necessary skills are learned and technology is made available to achieve the goals.

» **Fully communicated:** In addition to the manager and employee in question, the other organizational members who may be affected by the objectives need to be aware of them.

» **Flexible:** Good objectives are not immutable. They can, and likely will, change based on changes in the work or business environment.

» **Limited in number:** Too many objectives may become impossible to achieve, but too few may not make a sufficient contribution to the organization. Objectives must be limited in number. Between five and ten objectives per review period is a manageable number, but this can change, based on the position and organization in question.
Taking into account the characteristics of useful objectives, let’s go back to the position of position Training Specialist/Consultant—Leadership & Team Development at Target Corporation. Here are examples of possible objectives per accountability:

- **Process leadership**: Establish leadership development processes and training programs within budget and time commitments. Meet budget targets and improve executive leaders’ “leadership readiness” scores across organization by 20 percent in the coming fiscal year.

- **Supervision of nonexempt staff**: Receive acceptable managerial effectiveness rating scores from your nonexempt staff in the coming fiscal year.

- **Coaching**: Improve the managerial effectiveness scores of executive coaching clients in the coming fiscal year.

- **Team-building consultation**: Deliver necessary team-training sessions throughout the year within budget and with an acceptable satisfaction rating (as measured by the follow-up survey that is sent to every team) for team-training sessions in the coming fiscal year.

- **Assessment instrument feedback**: Deliver assessment feedback with an acceptable approval rating from your coaching clients in the coming fiscal year.

- **Product improvement**: Improve satisfaction with training delivery in the coming fiscal year by receiving acceptable scores while staying on budget.

### SMART GOALS AT MICROSOFT

Many organizations set goals following the guidelines that I describe in this chapter. For example, Microsoft Corporation has a long history of using individual goals in its performance management system. The goals at Microsoft are described by the acronym SMART: specific, measurable, achievable, results-based, and time-specific.

Research based on more than 1,000 empirical studies has demonstrated that setting goals that are specific and challenging leads to higher performance than setting an easy or vague goal, such as “I will do my best.”

Why does setting goals work? There are four main reasons why goal setting leads to better performance. First, setting a goal establishes a clear priority and clear focus over other less important tasks. Second, a specific and difficult goal increases effort over and above an easy, vague, or nonexistent goal. Third, setting goals improves persistence because there is a clear target in sight. Finally, and perhaps the most critical reason, a specific and difficult goal forces people to create and implement specific strategies, such as how to allocate time and resources, to reach the goal.
Now compare the objectives listed above with the characteristics of useful objectives. Do these objectives comply with each of the ten characteristics of good objectives? Which objectives could be improved? How, specifically?

Choosing a Measurement System Congruent with Context

In addition to practically and usefulness, context plays an important role in how to measure performance.

Reasons for measuring performance as results or behaviors have to do with the nature of the job and the nature of work. However, there are also contextual factors that play an important role in how performance is measured and these are related to the culture of the organization, characteristics of the industry, and the strategic direction chosen by the organization’s leadership.

Considering the role of organizational culture

First, consider the role of organizational culture. In some organizations, the culture is highly competitive, and there is a win–lose mentality such that employees know that to succeed and receive the rewards they want, they need to be concerned about themselves first and others last. In those organizations, it is unlikely that the performance management system will include measures of contextual performance such as competencies regarding cooperation and working with others.

As a second example, the culture in some firms is such that employees know, although this will not be found in the “employee manual,” that they are not rewarded for establishing long-term relationships with customers. Rather, the name of the game is to get as much out of customers as possible. In fact, many financial advisors working for investment banks are fully aware that pushing the products of their own banks (for example, mutual funds) to clients is seen favorably because this helps their organization’s bottom line. So a performance management system in an organization such as this one is likely to include measures of results in the form of sales volume. Because of this situation, as noted by The Wall Street Journal in an article by Michael Wursthorn from January 6, 2017, many of the largest brokerage firms in the United States are now trying to shrug off “their lingering boiler room images and sales-driven cultures, which have contributed to their loss of market share to independent peers the past several years.”
In the recent Wells Fargo scandal, employees created as many as 2.1 million phony deposit and credit cards accounts, and branch managers were told that they “would end up working for McDonald’s” if they missed sales quotas.

**Considering the role of industry trends**

Another contextual factor that affects choices in terms of performance measurement is the issue of industry trends. To continue with the financial brokerage industry, an important change is that consumers are starting to recognize that investment “advisors” actually have a conflict of interest when they recommend their bank’s own products. Accordingly, many firms are changing their performance management systems, and specifically, the way in which they measure performance.

Early in 2017, Merrill Lynch, which has $2 trillion in client assets, abandoned the traditional model in which employees’ performance is measured based on the amount of charges to customers on each transaction in a retirement account. Rather, performance is no longer measured based on revenue generated from the number of transactions, and customers are charged a flat fee based on a percentage of a portfolio’s asset. This change in how performance is now measured was a direct result of changes in the industry.

**Considering the role of leadership**

Leadership also plays an important role in how performance is measured. At Merrill Lynch, Andy Sieg, head of Merrill Lynch Wealth Management, sees the recent change in the way performance is measured as a critical strategic move. In fact, he hopes that this change in how the performance of financial advisors is measured “will help raise the level of trust in our industry because clients are going to be assured that when it comes to their retirement savings, there’s no one’s interest that is being put in front of the interest of a client.”
As the saying goes, the devil is in the details. So the way in which we measure performance is absolutely critical in terms of the effectiveness of a performance management system.

This chapter is about how to measure performance as behaviors, which is what employees do. I will also explain when and why it makes most sense to measure performance as behaviors.

Performance management systems include measures of both results and behaviors.

Measuring Competencies

To measure behaviors, we first cluster them into competencies. These are measurable clusters of knowledge, skills, and abilities (KSAs) that are critical in determining how results will be achieved. Examples of competencies are customer service, written or oral communication, creative thinking, and dependability.
Measuring two types of competencies

There are two main types of competencies.

» Differentiating competencies are those that allow you to distinguish between average and superior performers.

» Threshold competencies are those that everyone needs to display to do the job to a minimally adequate standard.

For example, for the position Information Technology (IT) Project Manager, a differentiating competency is process management. Process management is defined as “managing project activities.” For the same position, a threshold competency is change management. The change management competency includes knowledge of behavioral sciences, operational and relational skills, and sensitivity to motivators. Therefore, for an IT project manager to be truly effective, she has to possess process management and change management competencies.

Competencies should be defined in behavioral terms. Take the case of a professor teaching an online course. An important competency is “communication.” This competency is defined as the set of behaviors that enables a professor to convey information so that students are able to receive it and understand it. For example, one such behavior might be whether the professor is conveying information during preassigned times and dates. That is, if the professor is not present at the chat room at the prespecified dates and times, no communication is possible.

To understand the extent to which an employee possesses a competency, we measure key performance indicators — or KPI for short.

Each indicator is an observable behavior that gives us information regarding the competency in question. In other words, we don’t measure the competency directly, but we measure indicators that tell us whether the competency is present or not.

Figure 9–1 shows the relationship between a competency and its indicators. A competency can have several indicators, and Figure 9–1 shows a competency with five indicators. An indicator is a behavior that, if displayed, suggests that the competency is present. In the example of the competency “communication” for a professor teaching an online course, one indicator is whether the professor shows up at the chat room at the preestablished dates and times. Another behavioral indicator of this competency could be whether the responses provided by the professor address the questions asked by the students or whether the answers are only tangential to the questions asked.
As another example, consider the two competencies that define good leadership: consideration and initiation structure. Consideration is the degree to which the leader looks after the well-being of his followers. Initiating structure is the degree to which the leader lays out task responsibilities. Here are five indicators whose presence would indicate the existence of the consideration competency:

- Supports direct reports’ projects
- Asks about the well-being of employees’ lives outside of work

MEASURING COMPETENCIES AT XEROX CAPITAL SERVICES

At Xerox Capital Services (XCS), identifying leadership competencies was the first step in a successful leadership development program. XCS is jointly owned by the Xerox Corporation and General Electric. The company offers financing, risk analysis, credit approval, order processing, billing, and collection services. It employs 1,800 people in the United States and generates an estimated $146.5 million in annual revenue.

A leadership development program at XCS was focused on high-potential future leaders that were currently in premanagement roles. An important step in developing training sessions was to identify the key competencies of leaders in the organization. This process involved senior managers giving their opinions about what was most critical for leadership success in the company. After a clearly defined list of 12 competencies was identified, a curriculum was developed that included readings and a specific course each week on each topic.

In summary, XCS provides an example of the importance of identifying competencies and how the competencies can be used within the context of a performance management system.
Encourages direct reports to reach their established goals
» Gets to know employees personally
» Shows respect for employees’ work and personal lives

Describing competencies

To be most useful, a description of competencies must include the following components:

» Definition of competency
» Description of specific behavioral indicators that can be observed when someone demonstrates a competency effectively
» Description of specific behaviors that are likely to occur when someone doesn't demonstrate a competency effectively (what a competency is not)
» List of suggestions for developing the competency in question

Using the competency “consideration,” let’s discuss the four essential elements in describing a competency. I define consideration like this: It is the degree to which a leader shows concern and respect for followers, looks out for their welfare, and expresses appreciation and support. Next, I list five indicators or behaviors that can be observed when a leader is exhibiting consideration leadership. Leaders who don’t show consideration may speak with direct reports only regarding task assignments, repeatedly keep employees late with no consideration of social lives, take no interest in an employee’s career goals, and assign tasks based only on current expertise. Finally, how do leaders develop the consideration competency? One suggestion would be to ask employees, on a regular basis, how their lives outside of work are going. This may lead to knowledge about an employee’s family and interests outside of work.

Compared to the measurement of results, the measurement of competencies is intrinsically judgmental. In other words, competencies are measured using data provided by individuals who make a judgment regarding the extent to which the competency is present. So the behaviors displayed by the employees are observed and judged by raters such as the direct supervisor, peers, customers, the employee himself, and direct reports (for the case of managers). These possible raters constitute different performance touchpoints and are complementary sources of performance information.
Two types of systems are used to evaluate competencies: comparative systems and absolute systems. Comparative systems base the measurement on comparing employees with one other. Absolute systems base the measurement on comparing employees with a prespecified performance standard.

Table 9–1 lists the possible comparative and absolute systems that could be used. The next few sections in this chapter discuss how to implement each of these systems, and I also point out some advantages and disadvantages of each.

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<tr>
<th>Comparative</th>
<th>Absolute</th>
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<tr>
<td>Simple rank order</td>
<td>Essays</td>
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<td>Forced distribution</td>
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**Measuring Behaviors Using Comparative Systems**

Comparative systems of measuring behaviors imply that employees are evaluated relative to one other. You can consider the options discussed in the following sections.

**Rank order**

If a rank order system is used, employees are simply ranked from best performer to worst performer.

**Alternation rank order**

In an alternation rank order procedure, the result is a list of all employees. Then raters select the best performer (#1), then the worst performer (#n), the second best (#2), the second worst (#n−1), and so forth, alternating from the top to the bottom of the list until all employees have been ranked.
Paired comparisons

Paired comparisons is the third type of comparative system. In contrast to the simple and alternation rank order procedures, this system makes explicit comparisons between all pairs of employees to be evaluated. In other words, raters systematically compare the performance of each employee against the performance of all other employees. The number of pairs of employees to be compared is computed by \( \frac{n(n-1)}{2} \), where \( n \) is the number of employees to be evaluated. If a rater needs to evaluate the performance of 8 employees, she would have to make \( \frac{8(8-1)}{2} = 28 \) comparisons. The rater’s job is to choose the better of each pair, and each individual’s rank is determined by counting the number of times he was rated as better.

Relative percentile

The fourth type of comparison method is the relative percentile method. This type of measurement system asks raters to consider all employees at the same time and to estimate the relative performance of each by using a 100-point scale. The 50-point mark on this scale (50th percentile) suggests the location of an average employee — about 50 percent of employees are better performers and about 50 percent of employees are worse performers than this individual. Relative percentile methods may include one such scale for each competency and also include one scale on which raters evaluate the overall performance of all employees.

Figure 9–2 includes an example of a relative percentile method scale to measure the competency “communication.” In this illustration, the rater has placed Heather at roughly the 95th percentile, meaning that Heather’s performance regarding communication is higher than 95 percent of other employees. On the other hand, Don has been placed around the 48th percentile, meaning that about 52 percent of employees are performing better than him.

Forced distribution

A fifth comparison method is called forced distribution. In this type of system, employees are classified according to an approximately normal distribution — a curve that looks like a bell and has approximately the same number of performers
to the right and the left of the mean or average score (that is, the center of the distribution). For example, 20 percent of employees must be classified as exceeding expectations, 70 percent must be classified as meeting expectations, and 10 percent must be classified as not meeting expectations.

**FORCED DISTRIBUTION SYSTEM AT GENERAL ELECTRIC**

General Electric (GE) is one of the most frequently cited companies to have used a comparative rating system with a forced distribution. In recent years, the rigid system of requiring managers to place employees into three groups (top 20 percent, middle 70 percent, and bottom 10 percent) has been revised to allow more flexibility. While the normal distribution is still referenced as a guideline, the rigid 20/70/10 split has been removed, and work groups are now able to have more “A players” or “no bottom 10s.”

The company did not view the forced distribution system of the past as a match for fostering a more innovative culture in which taking risks and failure are part of the business culture. As a result, the company has begun evaluating employees relative to certain traits, including one’s ability to act in an innovative manner or have an external business focus. In summary, GE’s performance management system and revisions to the system provide an example of how decisions about how to measure performance need to consider the ramifications and resulting behaviors that are encouraged or discouraged. The consideration of culture and overall business strategy is also crucial in determining how to measure performance.

More recently, GE has revised its measurement system again. Specifically, GE has moved from a formal “once-a-year” performance review to an app-based system. Using this system allows managers to provide feedback and coaching on a more frequent basis to their employees. Performance management tasks such as recognizing employee contributions, identifying areas of concern, and offering developmental opportunities can now be offered in near real-time, rather than waiting until the annual performance appraisal. Also, performance appraisal meetings are themselves more productive as there are few surprises. Rather than using an exclusively backward-looking system, the new system is also forward-looking and focuses on development by guiding, coaching, and providing feedback to employees that helps them on their path to achieving their goals. These changes at GE reflect a shift from a performance appraisal system focused on ratings to a performance management system involving a constant and ongoing evaluation of performance.
General Electric (GE) is one organization that adopted a forced distribution system under the leadership of former CEO Jack Welch. This forced distribution system was called the “vitality curve.” In Welch’s view, forced ranking enables managers to “take care of your very best, make sure the valued middle is cared for, and weed out the weakest.” GE’s success in implementing a forced ranking system is cited as the model by many of the 20 percent of U.S. companies that have adopted it in the past three decades. At GE each year, 10 percent of managers used to be assigned the “C” grade, and if they did not improve, they were asked to leave the company. Want to learn more about this topic? See the nearby sidebar describing the evolution of forced distribution systems at Cargill and Adobe.

Cargill, Adobe, and many other companies are going through a similar process of transitioning from a performance appraisal (the dreaded once-a-year evaluation and review) to a performance management system (ongoing evaluation and feedback). Also, you may have noticed quite a bit of popular business press hype about the “demise of performance evaluation and measurement.”

However, contrary to the way this trend is usually described with such headlines as “Performance Evaluation is Dead” and “The End of Performance Reviews,” the evaluation of performance is not going away. In fact, it is becoming a normal, routine, built-in, and ever-present aspect of work in 21st century organizations. So to paraphrase Mark Twain, the death of performance management has been vastly exaggerated.

**Considering Advantages and Disadvantages of Comparative Systems**

These are clear advantages to using comparative measurement methods:

- These types of measurement procedures are usually easy to explain.
- Decisions resulting from these types of systems are fairly straightforward: It is easy to see which employees are where in the distributions.
- They tend to control several biases and errors made by those rating performance better than do those in absolute systems. Such errors include leniency (giving high scores to most employees), severity (giving low scores to most employees), and central tendency (not giving any above-expectations or below-expectations ratings).
They are particularly beneficial for jobs that are very autonomous (where employees perform their duties without much interdependence).

Individuals high in cognitive abilities are more attracted to organizations that have forced distribution systems because they expect to perform well and benefit directly from this type of system. Also, to them, it is an important signal that the organization values high achievement.

On the other hand, there are also disadvantages associated with the use of comparative systems, which may explain why a 2017 study published in the *International Journal of Selection and Assessment* reported that only about 17 percent of HR executives report that their companies use these types of systems exclusively. The disadvantages are as follows:

- Employees usually are compared only in terms of a single overall category. Employees are not compared based on individual behaviors or even individual competencies, but instead, they are compared based on an overall assessment of performance. As a consequence, the resulting rankings are not sufficiently specific so that employees can receive useful feedback. In addition, these rankings may be subject to legal challenge.

- Because the resulting data are based on rankings and not on actual scores, there is no information about the relative distance between employees. All we know is that employee A received a higher score than employee B, but we don't know if this difference is, for example, similar to the difference between employee B and employee C.

Some of these disadvantages were experienced by Microsoft and were noticed by Lisa E. Brummel, former vice president for HR. She noted that by using a forced distribution system, “people were beginning to feel like their placement in one of the buckets was a larger part of the evaluation than the work the person actually did.” Similarly, a posting on an anonymous Microsoft employees’ blog called *MiniMicrosoft* read as follows: “I LOVE this company, but I hate the Curve.”

### Anticipating problems caused by forced distributions

Many of the criticisms about forced distribution systems, and comparative systems in general, are about performance ratings. After all, ratings are often the building blocks for making employee comparisons.
Also, although many of the criticisms may seem directed at comparative rating systems, they are actually about how the system is designed and used. For example, criticisms involve saying that forced distributions are biased, unjustified, inaccurate, and may even lead to litigation. But much like performance ratings, the problem is often not the forced distribution per se, but what is measured, how it is measured, the extent to which employees participate in the process, and consequences associated with the resulting ratings.

Forced distribution systems that are perceived as being unfair and even cruel are signs that the performance management system is broken. For example, it is likely that there is no clear explanation of how ratings were produced. Also, it is likely that employees not rated at the top of the distribution feel that their contributions are not valued by their organizations.

**DITCHING PERFORMANCE RATINGS AT CARGILL AND ADOBE? NOT REALLY**

Many organizations that initially ditched forced distributions and even ratings altogether are using them again, although they use different labels and terms to refer to them. For example, Cargill introduced its “Everyday Performance Management” system, designed to incorporate daily encouragement and feedback into on-the-job conversations. Managers offer performance evaluations and feedback on an ongoing basis. As another example, consider Adobe, which is one of the most frequently discussed cases regarding its performance management system because the company reported it was able to reduce voluntary employee turnover by about 30 percent after introducing a frequent “check-in program.” Again, performance is evaluated on an ongoing basis.

As noted by Adobe’s Senior Vice President for People and Places, Donna Morris, the new system “requires executives and managers to have regular tough discussions with employees who are struggling with performance issues rather than putting them off until the next performance review cycle comes around.”

So as mentioned earlier, contrary to what one may conclude based on reading the popular business press, it is not the case that companies are abandoning distributions and ratings. They are actually implementing performance systems more clearly aligned with best practices, as described in this book, that involve a constant and ongoing evaluation of performance! These and many other companies may have eliminated the labels “performance evaluation,” “performance review,” and even “performance management.” Instead, they use labels such as “performance achievement,” “check-ins,” and “employee development.” But at the end of the day, they are implementing performance management using new labels.
Understanding the shape of the performance distribution and producing star performers

The use of a forced distribution system implies that performance scores are forced to fit under a particular distribution shape. As mentioned earlier, companies such as GE, Yahoo!, and many others have used the bell-shaped distribution for decades. And today, it is used in many colleges and universities as part of the student grading system.

Think about the following: If the distribution of performance is truly bell-shaped, this means that the majority of employees are grouped toward the center (that is, are average), and there is a very small minority of individuals who are very poor and very good performers, as shown in Figure 9-3. Also, if you use a bell curve to assign ratings, you ration the number of top performers. For example, if you use a five-point scale, many companies would tell managers that “no more than 10 percent of the direct reports get the highest rating of 5.” But what if this is an outstanding unit that had an excellent applicant pool, recruited the best among the best, and then offered training and development opportunities resulting in even better performance? Why should you limit the highest ratings to just the top 10 percent if you have, say, 40 percent as star performers?

![Normal (bell-shaped) versus heavy-tailed distribution of performance.](image-url)
My colleagues, doctoral students, and I have done research on this issue during the past 10 years and collected data on more than 800,000 workers, including researchers in 52 scientific fields: actors, actresses, directors, choreographers, and lighting specialists in the movie and TV industries; fiction and nonfiction writers; musicians; professional and collegiate athletes in football, baseball, basketball, cricket, swimming, track and field, skiing, tennis, and other sports (individual and team sports); and other types of workers, including bank tellers, call center employees, grocery checkers, electrical fixture assemblers, and wirers. The result was consistent over and over again: Performance scores are not distributed following a normal curve, but a heavy-tailed distribution.

As shown in Figure 9–3, there is a critical difference between these two types of distributions. Under a heavy-tailed distribution, we expect to see many “star performers” (those very far to the right of the mean or average). However, under a normal distribution, the presence of such extreme scores is considered an anomaly. Also, Figure 9–3 shows that performance (the area under the curves) is such that under a heavy-tailed distribution, differences between the top and average performers are much greater under a heavy-tailed compared to normal distribution.

What does all of this mean for performance management and your understanding of star performers? And by star performers, I’m talking about those individuals who not only do well in terms of their individual performance, but more importantly, have a large positive influence on numerous key outcomes, such as firm survival, retention of clients, new product development, and many other indicators of organizational performance. How can an organization produce more star performers? You can do the following:

- **Identify, and if possible, eliminate situational constraints** (that is, ceiling constraints) faced by workers to allow for the emergence of star performers. For example, what are the resources needed to facilitate the emergence of stars?
- **Allow star performers to rotate across teams** because this widens their network and takes full advantage of knowledge transfer to rising stars.
- **Make sure sufficient resources are invested in star performers** who are making clear contributions to an organization’s core strategic objectives.
- **Take care of star retention** by paying attention to their developmental network (for example, employment opportunities for significant others and long-term contracting with a star’s subordinates).
- **In times of financial challenges and budget cuts, pay special attention to star performers** because once they leave, an organization’s recovery will be very difficult. In fact, star departure can create a downward spiral of
production when average and even mediocre performers deliberately replace stars with inferior workers.

- **Star performers should be given preferential treatment**, but these perks should be clearly articulated to all workers and applied fairly. In other words, anyone can receive those perks if they achieve high levels of performance. Consider the following analogy. If a large proportion of your company sales come from just 30 percent of your customers, you would be thinking about making sure these customers are happy and how to treat them better. Also, you would probably call them to thank them and even offer to treat them to a very nice lunch or dinner. Similarly, if a minority of employees is responsible for a disproportionately large amount of results, you should talk to them and find ways to treat them better so they stay within the organization.

- **Invest a disproportionate amount of resources into stars**, which will likely generate greater overall performance and create positive gain spirals.

The easiest way to not produce star performers is to use non-performance-based incentives, encourage limited pay dispersion, and implement longevity-based promotion decisions because they emphasize homogeneity of employee performance.

**Measuring Behaviors Using Absolute Systems**

In absolute systems, raters provide evaluations of an employee's performance without making direct reference to other employees. In the simplest absolute system, a rater writes an essay describing each employee’s strengths and weaknesses and makes suggestions for improvement.

**Essays**

One advantage of the essay system is that raters have the potential to provide detailed feedback to employees regarding their performance. On the contrary, essays are almost totally unstructured, so some raters may choose to be more detailed than others. Some raters may be better at writing essays than others. Because of this variability, comparisons across individuals, groups, or units are virtually impossible because essays written by different raters, and even by the same rater regarding different employees, may address different aspects of an employee’s performance. Finally, essays don’t provide any quantitative information, making it difficult to use them in some personnel decisions (such as allocation of rewards).
Behavior checklists

A second type of absolute system involves a behavior checklist, which consists of a form listing behavioral statements that are indicators of the various competencies to be measured. The rater’s task is to indicate (‘check’) statements that describe the employee being rated. When this type of measurement system is in place, raters are not so much evaluators as they are ‘reporters’ of employee behavior. Because it is likely that all behaviors rated are present to some extent, behavior checklists usually include a description of the behavior in question (for example, “the employee arrives at work on time”), followed by several response categories, such as “always,” “very often,” “fairly often,” “occasionally,” and “never.” The rater simply checks the response category she feels best describes the employee. Each response category is weighted — for example, from 5 (“always”) to 1 (“never”) if the statement describes desirable behavior such as arriving at work on time. Then an overall score for each employee is computed by adding the weights of the responses that were checked for each item. Figure 9-4 includes an example of an item from a form using a behavior checklist measurement approach.

Anchors for behavior checklists

How do you select response categories for behavior checklist scales? Often, this decision is fairly arbitrary and equal intervals between scale points are simply assumed. For example, in Figure 9-4, you would assume that the distance between “never” and “sometimes” is the same as the distance between “fairly often” and “always” (that is, 1 point in each case). However, great care must be taken in how the anchors are selected.

Table 9-2 includes anchors that you can use for scales involving frequency, and Table 9-3 has anchors for scales of amount.

Tables 9-2 and 9-3 include anchors to be used in both seven-point and five-point scales. For most systems, a five-point scale should be sufficient to capture an employee’s performance on the behavior being rated. One advantage of using five-point scales is that they are less complex than seven-point scales. Also, five-point scales are superior to three-point scales because they are more likely to motivate performance improvement because employees believe it is more doable to move up one level on a five-point scale than it is on a three-point scale.
Table 9–4 includes anchors that can be used in scales involving agreement, and Table 9–5 includes anchors for scales about evaluation. These tables include 13 anchors that you can use for each of these types of scales.

In creating scales, you must choose anchors that are approximately equally spaced based on the anchors included in Tables 9–4 and 9–5. So if you were to create a five-point scale of evaluation using the information provided in Table 9–4, one possible set of anchors might be the following:

1. Terrible
2. Unsatisfactory
3. Decent
4. Good
5. Excellent

### TABLE 9-4
Anchors for Behavior Checklists of Evaluation

<table>
<thead>
<tr>
<th>Anchor</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Terrible</td>
<td>1.6</td>
</tr>
<tr>
<td>Bad</td>
<td>3.3</td>
</tr>
<tr>
<td>Inferior</td>
<td>3.6</td>
</tr>
<tr>
<td>Poor</td>
<td>3.8</td>
</tr>
<tr>
<td>Unsatisfactory</td>
<td>3.9</td>
</tr>
<tr>
<td>Mediocre</td>
<td>5.3</td>
</tr>
<tr>
<td>Passable</td>
<td>5.5</td>
</tr>
<tr>
<td>Decent</td>
<td>6.0</td>
</tr>
<tr>
<td>Fair</td>
<td>6.1</td>
</tr>
<tr>
<td>Average</td>
<td>6.4</td>
</tr>
<tr>
<td>Satisfactory</td>
<td>6.9</td>
</tr>
<tr>
<td>Good</td>
<td>7.5</td>
</tr>
<tr>
<td>Excellent</td>
<td>9.6</td>
</tr>
</tbody>
</table>

*Source: Adapted from [http://psycnet.apa.org/record/1974-32365-001](http://psycnet.apa.org/record/1974-32365-001)*

### TABLE 9-5
Anchors for Behavior Checklists of Agreement

<table>
<thead>
<tr>
<th>Anchor</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slightly</td>
<td>2.5</td>
</tr>
<tr>
<td>A little</td>
<td>2.7</td>
</tr>
<tr>
<td>Mildly</td>
<td>4.1</td>
</tr>
<tr>
<td>Somewhat</td>
<td>4.4</td>
</tr>
<tr>
<td>In part</td>
<td>4.7</td>
</tr>
<tr>
<td>Halfway</td>
<td>4.8</td>
</tr>
</tbody>
</table>
In this set of anchors, the distance between all pairs of adjacent anchors ranges from 1.5 to 2.3 points. Note, however, that the use of the anchor “terrible” has a very negative connotation, so you may want to use a less negative anchor, such as “bad” or “inferior.” In this case, you would choose an anchor that is closer to the next one (“unsatisfactory”) than you may want, but using the new anchor may lead to less defensive and overall negative reactions on the part of employees who receive this rating.

Behavior checklists are easy to use and to understand. But it is difficult to extract detailed and useful feedback from the numerical rating provided. Overall, however, the practical advantages of checklists explain their popularity.

Critical incidents

Every job includes some critical behaviors that make a crucial difference between doing a job effectively and doing it ineffectively. The critical incidents measurement approach involves gathering reports of situations in which employees exhibited behaviors that were especially effective or ineffective in accomplishing their jobs. The recorded critical incidents provide a starting point for assessing performance. For example, consider the following incident as recorded by a high school principal regarding the performance of Tom Jones, the head of the disability services office:

A sophomore with learning disabilities was experiencing difficulty in writing. Her parents wanted an iPad for her. Tom Jones ordered an iPad and it was delivered to the student’s teacher. No training was provided to the child, her teacher, or her parents. The iPad was never used.

**Anchor Rating**

<table>
<thead>
<tr>
<th>Anchor</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tend to</td>
<td>5.3</td>
</tr>
<tr>
<td>Inclined to</td>
<td>5.4</td>
</tr>
<tr>
<td>Moderately</td>
<td>5.4</td>
</tr>
<tr>
<td>Generally</td>
<td>6.8</td>
</tr>
<tr>
<td>Pretty much</td>
<td>7.0</td>
</tr>
<tr>
<td>On the whole</td>
<td>7.4</td>
</tr>
<tr>
<td>Very much</td>
<td>9.1</td>
</tr>
</tbody>
</table>

This recorded incident is actually the synthesis of a series of incidents:

1. A problem was detected (a student with a special need was identified).
2. Corrective action was taken (the iPad was ordered).
3. Corrective action was initially positive (the iPad was delivered).
4. Corrective action was subsequently deficient (the iPad was not used because of the lack of training).

When critical incidents are collected, this measurement method allows raters to focus on actual job behavior, rather than on vaguely defined traits. On the contrary, collecting critical incidents is very time-consuming. As is the case with essays, it is difficult to attach a score quantifying the impact of the incident (either positive or negative). A revised version of the critical incidents technique involves summarizing critical incidents and giving them to raters in the form of scales (for example, behavior checklist). One example following up on the critical incident involving Tom Jones might be the following:

<table>
<thead>
<tr>
<th>Addresses learning needs of special-needs students efficiently</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
</tr>
</tbody>
</table>

A second variation of the critical incidents technique is the approach adopted in the performance management system at the city of Irving, Texas. First, the city identified core competencies and classified them as core values, skill group competencies, or performance essentials. Then the team in charge of implementing the system wrote dozens of examples of different levels of performance on each competency — from ineffective to highly effective. In other words, this team was in charge of compiling critical incidents illustrating various performance levels for each competency. Then managers used this list by simply circling the behavior that best described each of the employees in the work unit.

As an example, take the competency Adaptability/Flexibility. For this competency, critical incidents were used to illustrate various performance levels:
A third variation of the critical incidents technique is the use of behaviorally anchored rating scales (BARS), which I describe next, as one of several types of graphic rating scales.

### Using a graphic rating scale system

The graphic rating scale is a popular tool used to measure performance. The aim of graphic rating scales is to ensure that the response categories (ratings of behavior) are clearly defined, that interpretation of the rating by an outside party is clear, and that the rater and the employee understand the rating. An example of a graphic rating scale used to rate the performance of a project manager is the following:

**Project management awareness** is the knowledge of project management planning, updating status, working within budget, and delivering project on time and within budget. Rate _________’s project management awareness using the following scale:

<table>
<thead>
<tr>
<th>Completely Ineffective</th>
<th>Somewhat Ineffective</th>
<th>Effective</th>
<th>Highly Effective</th>
<th>Exceptional</th>
</tr>
</thead>
<tbody>
<tr>
<td>Able to focus on only one task at a time</td>
<td>Easily distracted from work assignments/activities</td>
<td>Handles a variety of work assignments/activities with few difficulties</td>
<td>Handles a variety of work assignments/activities concurrently</td>
<td>Easily juggles a large number of assignments and activities</td>
</tr>
<tr>
<td>Avoids or attempts to undermine changes</td>
<td>Complains about necessary changes</td>
<td>Accepts reasons for change</td>
<td>Understands and responds to reasons for change</td>
<td>Encourages and instructs others about the benefits of change</td>
</tr>
<tr>
<td>Refuses to adopt changed policies</td>
<td>Makes only those changes with which they agree</td>
<td>Adapts to changing circumstances and attitudes of others</td>
<td>Adapts to changes and develops job aids to assist others</td>
<td>Welcomes change and looks for new opportunities it provides</td>
</tr>
<tr>
<td>Considers only own opinion when seeking solution</td>
<td>Occasionally listens to others but supports own solutions</td>
<td>Listens to others and seeks solutions acceptable to all</td>
<td>Ensures that everyone’s thoughts and opinions are considered in reaching a solution</td>
<td>Actively seeks input in addition to recognized sources and facilitates implementation of solution</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unaware or not interested</td>
<td>Needs additional training</td>
<td>Aware of responsibilities</td>
<td>Excellent knowledge and performance of skills</td>
<td>Superior performance of skill; ability to train others</td>
</tr>
</tbody>
</table>
BARS (behaviorally anchored rating scales) use graphic rating scales that employ critical incidents as anchors. BARS improve on the graphic rating scales by first having a group of employees identify all the important dimensions of a job. Then another group of employees generates critical incidents illustrating low, average, and high skills of performance for each dimension. A third group of employees and supervisors takes each dimension and the accompanying definitions and a randomized list of critical incidents. They must match the critical incidents with the correct dimensions. Finally, a group of judges assigns a scale value to each incident. Consider the following BARS for measuring job knowledge:

Job Knowledge: The amount of job-related knowledge and skills that an employee possesses.

<table>
<thead>
<tr>
<th>Scale</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Exceptional: Employee consistently displays high level of job knowledge in all areas of his or her job. Other employees go to this person for training.</td>
</tr>
<tr>
<td>4</td>
<td>Advanced: Shows high levels of job knowledge in most areas of his or her job. Consistently completes all normal tasks. Employee continues searching for more job knowledge, and may seek guidance in some areas.</td>
</tr>
<tr>
<td>3</td>
<td>Competent: Employee shows an average level of job knowledge in all areas of the job. May need assistance completing difficult tasks.</td>
</tr>
<tr>
<td>2</td>
<td>Improvement Needed: Does not consistently meet deadlines or complete tasks required for this job. Does not attempt to acquire new skills or knowledge to improve performance.</td>
</tr>
<tr>
<td>1</td>
<td>Major Improvement Needed: Typically performs tasks incorrectly or not at all. Employee has no appreciation for improving his or her performance.</td>
</tr>
</tbody>
</table>

See the following BARS which measures “Knowledge of Accounting and Auditing Standards/Theory,” which is one of ten performance dimensions identified as important for auditors:

Knowledge of Accounting and Auditing Standards/Theory: Technical foundation, application of knowledge on the job, ability to identify problem areas and weigh theory versus practice.

<table>
<thead>
<tr>
<th>Scale</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>High-Point Performance: Displays very strong technical foundation, able to proficiently apply knowledge on the job, willingly researches areas, able to identify problems, can weigh theory vs. practice considerations.</td>
</tr>
<tr>
<td>2</td>
<td>Mid-Point Performance: Can resolve normal accounting issues, has adequate technical foundation and skills, application requires some refinement, has some problems in weighing theory vs. practice, can identify major problem areas.</td>
</tr>
<tr>
<td>1</td>
<td>Low-Point Performance: Displays weak accounting knowledge and/or technical ability to apply knowledge to situations/issues on an engagement, has difficulty in identifying problems and/or weighing factors of theory vs. practice.</td>
</tr>
</tbody>
</table>
For graphic rating scales to be most useful and accurate, they must include the following features:

» The meaning of each response category is clear.

» The individual who is interpreting the ratings (for example, a human resources manager) can tell clearly what response was intended.

» The performance dimension being rated is defined clearly for the rater.

Compare the two examples of BARS shown earlier. Which is better regarding each of these three features? How would you revise and improve these BARS?

There are several types of methods for measuring performance. They differ in terms of practicality (some take more time and effort to be developed than others), usefulness for administrative purposes (some are less useful than others because they don't provide a clear quantification of performance), and usefulness for users (some are less useful than others in terms of the feedback they produce that allows employees to improve performance in the future). Practicality and usefulness are key considerations in choosing one type of measurement procedure over another.
Performance management cannot exist without performance analytics. What is this, exactly? It’s the collection of performance data, usually in the form of performance ratings. And performance ratings are collected from all relevant performance touchpoints, which include supervisors, peers, direct reports, self, and customers, as well as employee performance monitoring systems that are involved in collecting Big Data (that is, lots of data about what employees do and produce on an ongoing basis).

But what type of data should you collect from each performance touchpoint? How should you use electronic performance monitoring effectively? How can you collect performance data that are fair and accurate? How can you make sure raters don’t intentionally distort their evaluations? This chapter deals with these questions and many other issues about performance analytics, including how to collect performance data and from what sources.
The Jury Is Out: All Firms Collect Performance Data

I am sure you are aware that the issue of performance ratings is hotly debated. Although many companies such as Adobe, Microsoft, Eli Lilly, and The Gap have announced that they are “abandoning performance ratings,” they actually engage in various forms of performance analytics and continue to collect and compile performance data. But instead of using the term “performance ratings,” they use labels such as “judgments,” “achievement metrics,” and “expectations.” In other words, managers and employees continue to gather and compile data about performance, and those data are used to make administrative decisions about employees and evaluations of employees’ on-the-job behaviors and results.

Juniper is an example of a company that has supposedly “abandoned” performance ratings. Juniper is based in California and develops and markets networking products such as routers, switches, and network security software. Juniper uses the label “J Players” to refer to the performance of employees who meet expectations against four performance elements. Also, the performance of employees is calibrated based on relative contribution. Similarly, other companies use different labels in their performance analytics efforts, such as “don’t have it,” “have it,” or “knock it out of the park.” In addition, companies continue to ask managers about their recommendations regarding who should receive a pay increase or bonus, and of what size, based on employee performance — regardless of whether they call this a “rating” or not.

Why all organizations collect performance data

The fact is that in organizations, evaluations about performance are made all the time — explicitly or implicitly — because, simply put, an organization cannot be successful in accomplishing its goals if the performance of its employees is not measured in some way. Performance analytics is also critical for managing individual and team performance. Absent performance analytics, how can an organization understand if its employees are making progress? How can an organization make decisions about promotions and compensations? How can an organization that wants to create a “personal growth and development culture” offer meaningful development and coaching opportunities absent knowledge about who is doing what — and how? And even if they don’t say it openly, managers and peers form impressions and evaluate the performance of people around them on a daily basis — even if these evaluations are not written down or said out loud. The fact is that judgments and evaluations of performance are part of organizational life.
PERFORMANCE MANAGEMENT “WITHOUT RATINGS” AT THE GAP? NOT REALLY . . .

The Gap, Inc., is one of the companies frequently talked about as being the leader in implementing a performance management system “without ratings.” Gap, Inc. is an American worldwide clothing store that includes renowned brands such as Gap, Banana Republic, Old Navy, Athleta, Intermix, and Weddington Way. In 2014, the company decided to revamp its performance management system to “eliminate performance ratings.” Its new system is called GPS, which stands for grow, perform, and succeed (not coincidentally, Gap’s New York Stock Exchange stock symbol is also GPS).

GPS includes many of the features of best-in-kind performance management systems described throughout this book. For example, performance management doesn’t take place once a year; instead it is a yearlong process that involves monthly “touch base” sessions between supervisors and direct reports. Also, each employee has a limited yet meaningful number of eight goals and this includes not only what has been achieved but also how — which are measured as behaviors and competencies. Goals are updated throughout the year and are closely linked to company goals. For example, the touch base sessions involve answering the question of whether an employee’s performance is “demonstrating the values of the company.”

How about performance ratings? Rob Ollander-Krane, Senior Director, Organization Performance Effectiveness, said that “With the removal of ratings, employees are no longer awarded a grade at the end of the year.” So how do managers make decisions about compensation and development needs? Can these decisions be made fairly and accurately without performance ratings? Is it really true that the system is ratingless? Well, not really.

As noted by Ollander-Krane, managers “are not giving an A, B, or C, but they still need to rank their employees. They still need to say here’s my number one employee, here’s my number two, here’s my number three — and to allocate their merit and bonus pot accordingly.” How about documentation? Ollander-Krane said that “We’ve had a new CEO and CHRO since we introduced GPS, and they have questioned whether we need to have a bit more of a written record of employee performance.”

The lesson? It is simply not possible to implement a performance management system that doesn’t include measures of performance — regardless of whether those measures are called ratings, rankings, grades, scores, achievement metrics, or anything else. As the saying goes, if it looks like a duck, swims like a duck, and quacks like a duck, then it probably is a duck. This applies quite well to metrics used by many companies that have seemingly abandoned “performance ratings.” Ratings are still very much part of their process in one way or another.
So this chapter includes useful information and guidelines so your performance analytics practices become systematic, transparent, and effective.

**Setting the evaluation period**

In collecting performance data, the first question you should answer is: How long should the appraisal period be? In other words, what period of time should be included in the evaluation?

Most organizations typically conduct a formal annual review. However, others choose to conduct semiannual or even quarterly formal reviews. Conducting only an annual review is usually not sufficient for most employees to discuss performance issues in a formal setting. In particular, Millennials value more frequent feedback about how they are doing.

My recommendation is that you conduct formal sit-down semiannual or quarterly reviews.

Colorado–based Hamilton Standard Commercial Aircraft uses a semiannual review system. Twice per year, the company performs a modified 360-degree appraisal, meaning that performance information is collected from performance touchpoints from all around (hence, the “360-degree” label). This type of system allows individuals to receive feedback and adjust goals or objectives, if necessary, in preparation for the more in-depth annual review.

Synygy, Inc., a Philadelphia–based compensation software and services company, has formal quarterly reviews. Each quarter, employees receive a summary of comments and specific examples from coworkers about how they are performing.

When is the best time to complete formal sit-down reviews? You have two choices:

- **The appraisal form could be completed on or around the annual anniversary date.** In the case of semiannual reviews, the first review would be six months before the annual anniversary date, and the second review would be on or around the annual anniversary date. The biggest advantage of this choice is that the supervisor does not have to fill out all employees’ forms at the same time. The disadvantage of this choice is that because results are not tied to a common cycle for all employees, resulting rewards cannot be tied to the fiscal year.

- **The second choice is to complete the appraisal forms toward the end of the fiscal year.** In the case of a system including semiannual reviews, one review would be completed halfway through the fiscal year and the other one toward the end of the fiscal year. Adopting this approach leads to the completion of the appraisal form for all employees at about the same time,
which facilitates cross-employee comparisons as well as the distribution of rewards. Another advantage is that individual goal setting can be more easily tied to corporate goal setting because most companies align their goal cycle with their fiscal year. This helps employees synchronize their work and objectives with those of their unit and organization. But what about the additional work imposed on the supervisors who need to evaluate all employees at once during a short period of time? If there is ongoing communication between the supervisor and the employee about performance issues throughout the year, completing appraisal forms should not uncover any major surprises and filling out the appraisal form does not create a major time burden for the supervisors.

Including Critical Components in Effective Performance Appraisal Forms

Information on performance is collected formally by using forms, which are most often administered online.

Saying goodbye to paper performance evaluation forms

The availability of apps and off-the-shelf software to collect performance data has produced a veritable revolution. So performance data are collected real-time using web and mobile apps, and the information can easily be shared, also real-time. In this way, other team members, supervisors, direct reports, and also the HR function have access to the same data.

Using online forms is very useful because as changes take place in the organization (such as a new strategic direction) or job in question (for example, new tasks), forms need to be revised and updated, and this can be done fast and efficiently by keeping them online.

Nine critical components of effective evaluation forms

These are the critical components of useful performance evaluation forms:

**Basic employee information:** This section of the form includes basic employee information such as job title, division, department and other work
group information, employee ID number, and pay grade or salary classification. In addition, forms usually include the dates of the evaluation period, the number of months and years the rater has supervised or worked with the employee, an employee's starting date with the company and starting date in the current job, the reason for appraisal, current salary and position in range, and the date of the next scheduled formal evaluation.

» **Accountabilities and objectives:** If the organization adopts a results approach to defining and measuring performance, this section of the form includes the name and description of each accountability (that is, broad areas of a job for which the employee is responsible for producing results), objectives agreed upon by manager and employee, and the extent to which the objectives have been achieved. In many instances, the objectives are weighted in terms of importance, which facilitates the calculation of an overall performance score. Finally, this section also includes a subsection describing conditions under which performance was achieved, which helps explain why performance achieved the high or low level described. For example, a supervisor has the opportunity to describe specific circumstances surrounding performance during the review period, including a tough economy, the introduction of a new line of products, and so forth.

» **Competencies and behavioral indicators:** If the organization adopts a behavior approach (that is, what employees do), this section of the form includes a definition of the competencies to be assessed (clusters of knowledge, skills, and abilities that are critical in determining how results will be achieved) together with their behavioral indicators.

» **Major achievements and contributions:** Some forms include a section in which a rater is asked to list the two or three major accomplishments of the individual being rated during the review period. These could refer to results, behaviors, or both.

» **Developmental achievements:** This section of the form includes information about the extent to which the developmental goals set for the review period have been achieved. For example, this information can include a summary of activities, such as workshops attended and online courses taken, as well as results, such as a description of new skills learned. You can document evidence of having learned new skills by, for example, obtaining a professional certification or designations (for example, human resource management certifications, information systems certifications). Although some organizations include developmental achievements in the appraisal form, others choose to include them in a separate form. For example, Sun Microsystems (now part of Oracle) separates these forms. Some organizations don’t include development content as part of the appraisal form because it is
often difficult for employees to focus constructively on development if they have received a less-than-ideal performance review.

- **Developmental needs, plans, and goals:** This section of the form is future-oriented and includes information about specific goals and timetables in terms of employee development. As I note earlier, some organizations choose to create a separate development form and don’t include this information as part of the performance appraisal form.

- **Multiple performance touchpoints:** Some forms include sections to be completed by different raters involved in different types of performance touchpoints, such as customers with whom the employee interacts. Those involved in performance touchpoints are people who have firsthand knowledge of and are affected by the employee’s performance. In most cases, input is collected by using forms separate from the main appraisal because not all sources of performance information are in the position to rate the same performance dimensions. For example, an employee is rated on the competency “teamwork” by peers and on the competency “reliability” by customers. I include a more detailed discussion of the use of information derived from different performance touchpoints later in this chapter.

- **Employee comments:** This section includes reactions and comments provided by the employee being rated. In addition to allowing formal employee input, which improves the perceived fairness of the system, the inclusion of this section helps with legal issues because it documents that the employee has had an opportunity to participate in the evaluation process.

- **Signatures:** The final section includes a section in which the employee being rated, the rater, and the rater’s supervisor provide their signatures to show they have seen and discussed the content of the form. The HR function also provides approval of the content of the form.

**Evaluating the components of a sample evaluation form**

Let’s go over an example and you can see the extent to which it includes all the critical components I list above — and how they can be improved. That is, to what extent these forms lack some of the critical components that should be included?

Please see the form in Figure 10-1. This is a fairly generic form that can be used for almost any position in pretty much any company. Let’s evaluate this form in relation to the critical components.
PERFORMANCE REVIEW FORM

Employee Name: 

Title: 

Manager: 

Date of Appraisal Meeting: 

Employee Performance Reviews improve employee performance and development by encouraging communication, establishing performance expectations, identifying developmental needs, and setting goals to improve performance. Performance reviews also provide an ongoing record of employee performance, which is helpful for both the supervisor and employee.

Use the form below to list examples of outstanding performance or achievements as well as areas of performance that need improvement. Please provide open comments on your employee’s performance. Complete each section and list examples of performance where applicable.

☐ Job description/key responsibilities/required tasks:

☐ Note expected accomplishments vs. actual accomplishments:

☐ List the areas where the employee developed in ways enabling him or her to take on additional responsibilities or be eligible for high-profile assignments:
Areas of development for upcoming quarter (i.e., communication skills, teamwork, project management skills, budgeting experience, etc.):

Goals for upcoming quarter (Please list S.M.A.R.T. goals):

Please circle the number below that best describes the employee's performance in the following areas:

<table>
<thead>
<tr>
<th>Areas of concentration</th>
<th>Did not meet expectations</th>
<th>Achieved most expectations</th>
<th>Achieved expectations</th>
<th>Achieved expectations and exceeded on a few</th>
<th>Significantly exceeded expectations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teamwork</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Leadership</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Business acumen</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Customer service</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Project management</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

Average Performance Score

Employee Use Only:

Please provide comments and examples of behaviors to describe your performance in the past quarter.

Manager Signature: ___________________________  Date: ______/____/____
Employee Signature: ___________________________  Date: ______/____/____

FIGURE 10-1: Example of generic performance review form.
First, the form asks for the employee’s basic information. Second, while the form asks the manager to list the expected versus the actual accountabilities, it doesn’t include objectives. Third, the form includes five competencies including teamwork and leadership, but it doesn’t include a definition of those competencies nor does it list the indicators to look for to determine whether the employee has mastered the relevant competencies. The form does include space to list major developmental achievements, developmental needs, and employee comments. The form doesn’t include information regarding different performance touchpoints and it seems that the supervisor is the only source of performance data. So to summarize, Table 10-1 shows which of the components are present:

**TABLE 10-1**

<table>
<thead>
<tr>
<th>Critical Component</th>
<th>Present?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic employee information</td>
<td>✓</td>
</tr>
<tr>
<td>Accountabilities and objectives</td>
<td></td>
</tr>
<tr>
<td>Competencies and indicators</td>
<td></td>
</tr>
<tr>
<td>Major achievements and contributions</td>
<td>✓</td>
</tr>
<tr>
<td>Development achievements</td>
<td>✓</td>
</tr>
<tr>
<td>Development needs, plans, and goals</td>
<td>✓</td>
</tr>
<tr>
<td>Multiple performance touchpoints</td>
<td></td>
</tr>
<tr>
<td>Employee comments</td>
<td>✓</td>
</tr>
<tr>
<td>Signatures</td>
<td>✓</td>
</tr>
</tbody>
</table>

Many forms seem to be complete and thorough, but they are not. So before using an appraisal forms, make sure that all their necessary components are present.

## Including Critical Characteristics to Make Evaluation Forms Effective

There is no such thing as a universally correct appraisal form that can be used for all purposes and in all organizations. In some cases, a form emphasizes competencies (i.e., necessary knowledge and skills needed to do the job). This would be the case if the system adopted a behavior approach (i.e., what an employee does) as
opposed to a results approach to measure performance. In others, the form emphasizes developmental issues. In such cases, the form would be used for developmental purposes only and not for administrative purposes. In yet other cases, there is a very short form used for weekly check-ins and a separate and more comprehensive form used for a quarterly, semiannual, or even annual review.

**Eight critical characteristics of effective evaluation forms**

In spite of the large variability in terms of format, components, and length, there are eight desirable features that make appraisal forms particularly effective for all types of jobs and hierarchical positions in the organization:

- **Simplicity:** Forms must be easy to understand, easy to administer, quick to complete, clear, and concise. If forms are too long, convoluted, and complicated, the performance assessment process will not be effective or may not even happen at all.

- **Relevancy:** Good forms include information related directly to the tasks and responsibilities of the job; otherwise, they will be regarded as an administrative burden and not as a tool for performance improvement.

- **Descriptiveness:** Good forms require that the raters provide evidence of performance regardless of the performance level. The form should be sufficiently descriptive that an outside party (for example, supervisor's supervisor or HR department) has a clear understanding of the performance information conveyed.

- **Adaptability:** Good forms allow managers in different functions and departments to adapt them to their particular needs and situations. Also, this feature allows for changes over time to reflect changes in the nature of work and an organization's strategic direction. This feature also encourages widespread use of the form.

- **Comprehensiveness:** Good forms include all the major areas of performance for a particular position for the entire review period.

- **Definitional clarity:** Desirable competencies (and behavioral indicators) and results are clearly defined for all raters so that everyone evaluates the same attributes. This feature enhances the consistency of ratings across raters and levels of the organization.

- **Communication:** The meaning of each of the components of the form must be clearly and successfully communicated to all people participating in the evaluation process. This enhances acceptance of the system and motivation to participate in it, both as rater and ratee.
**Time orientation:** Good forms help clarify expectations about performance. They address not only the past but also the future.

---

**Evaluating the characteristics of a sample evaluation form**

Let’s go back to the generic form in Figure 10-1. How good is this form if you compare it against the eight characteristics I just listed?

First, it is simple because it is easy to understand and clear. The fact that it includes an essay format implies that it would take a little more time to complete, but the number of essays is kept to a minimum. The form is also relevant, but only if the supervisor enters the correct job description and actual accountabilities. This form can be extremely descriptive owing to its narrative nature. The form encourages the manager to give examples of relevant behavior. Next, the first portion of the form is also adaptable, perhaps too adaptable; it would be hard to compare performance across employees because the manager can adapt and change the content of the form to each employee. This form is comprehensive, but again, only if the manager lists all the expected accountabilities. This form doesn’t have definitional clarity. Because the competencies listed are not clearly defined, ratings will be inconsistent across raters. Next, this form can be communicated across the organization. Manager acceptance will be hard to gain, however, because of the amount of detail required by the essay answers. Finally, the form is time-oriented. It asks for past and future performance expectations and goals. In short, Table 10-2 summarizes which of the desirable features are present in this form:

---

**TABLE 10-2**

<table>
<thead>
<tr>
<th>Critical Component</th>
<th>Present?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simplicity</td>
<td>✓</td>
</tr>
<tr>
<td>Relevancy</td>
<td>✓</td>
</tr>
<tr>
<td>Descriptiveness</td>
<td></td>
</tr>
<tr>
<td>Adaptability</td>
<td>✓</td>
</tr>
<tr>
<td>Comprehensiveness</td>
<td>✓</td>
</tr>
<tr>
<td>Definitional clarity</td>
<td></td>
</tr>
<tr>
<td>Communication</td>
<td>✓</td>
</tr>
<tr>
<td>Time orientation</td>
<td>✓</td>
</tr>
</tbody>
</table>
Computing Overall Performance Score

After performance data have been gathered for each employee, there is usually a need to compute an overall performance score, which is particularly necessary for making administrative decisions such as the allocation of rewards. Computing overall performance scores is also useful in determining whether employees, and groups of employees, are improving their performance over time. This is a critical aspect and advantage of approaching performance management with a performance analytics mindset: You use performance data collected on an ongoing basis to create useful and meaningful insights that help individuals grow and develop, and data serve the purpose of improving individual and team performance in terms of both behaviors and results.

Using judgmental and mechanical procedures to compute overall score

You can use two main strategies to obtain an overall performance score for each employee: judgmental and mechanical. The judgmental procedure consists of considering every aspect of performance, and then arriving at a defensible summary. This holistic procedure relies on the ability of the rater to arrive at a fair and accurate overall score. The mechanical procedure consists of first considering the scores assigned to each section of the appraisal form, and then combining them up to obtain an overall score. When adding scores from each section, weights are typically used based on the relative importance of each performance dimension measured.

Let’s go over the performance evaluation form shown in Figure 10-2, which is used to evaluate the performance of sales associates at a supermarket chain. (It’s adapted from www.workforce.com/2003/03/27/buschs-performance-evaluations.) This form includes the hypothetical ratings obtained by a sales associate on just two competencies and just two key results (the complete form probably includes more than four performance dimensions). You can see that in the Competencies section, each competency is weighted according to its value to the organization. Specifically, Follow-Through/Dependability is given a weight of 0.7, whereas Decision Making/Creative Problem-Solving is given a weight of 0.3. For the competency Follow-Through/Dependability, Patricia Carmello obtained a score of 4 for the first half of the review period and a score of 3 for the second half of the review period; consequently, the scores for this competency are $4 \times 0.7 = 2.8$ for the first half and $3 \times 0.7 = 2.1$ for the second half of the review period. Adding up the scores obtained for the first and second halves in each competency leads to a total of 3.7 points for the first half and 2.7 for the second half of the review period.
# Performance Evaluation Form

For use by Store Director; Co-Director; Meat, Seafood, Produce, Deli/Bakery, Floral and Grocery Managers

<table>
<thead>
<tr>
<th>Name</th>
<th>Patricia Carmello</th>
<th>Review Period</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Position</td>
<td>Sales Associate</td>
<td>Store</td>
<td>#25</td>
</tr>
<tr>
<td>Evaluator</td>
<td>James Garcia</td>
<td>Date</td>
<td>12/15/18</td>
</tr>
</tbody>
</table>

**Competencies:** Please rate the Associate on the following competencies. Determine the point total and multiply by the weight factor to achieve the point total for the competencies.

### Follow-Through/Dependability

<table>
<thead>
<tr>
<th>Points:</th>
<th>1st</th>
<th>2nd</th>
<th>Wgt</th>
<th>Pts</th>
<th>Pts</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>4</td>
<td>3</td>
<td>0.7</td>
<td>2.8</td>
<td>2.1</td>
</tr>
<tr>
<td>Work is completed correctly and on time without supervision. Anticipates needs. Extremely organized.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Points:</th>
<th>3</th>
<th>2</th>
<th>0.3</th>
<th>0.9</th>
<th>0.6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work is usually completed correctly and on a timely basis with some supervision. Very organized.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Points:</th>
<th>2</th>
<th>1</th>
<th>0.7</th>
<th>0.9</th>
<th>0.6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work is completed as assigned and results can usually be relied upon with normal supervision. Organized.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Points:</th>
<th>1</th>
<th>0.5</th>
<th>0.7</th>
<th>0.9</th>
<th>0.6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work can seldom be relied upon. Often fails to complete tasks correctly. Unorganized.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Comments:**

### Decision Making/Creative Problem Solving

<table>
<thead>
<tr>
<th>Points:</th>
<th>3</th>
<th>2</th>
<th>0.3</th>
<th>0.9</th>
<th>0.6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anticipates, recognizes, and confronts problems with extraordinary skill. Perseveres until solution is reached. Extremely innovative and takes risks.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Points:</th>
<th>2</th>
<th>1</th>
<th>0.7</th>
<th>0.9</th>
<th>0.6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defines and addresses problems well. Typically reaches useful solutions and decisions are sound. Innovative, with above-average risk-taking.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Points:</th>
<th>1</th>
<th>0.5</th>
<th>0.7</th>
<th>0.9</th>
<th>0.6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acknowledges and attempts to solve most problems when presented. Usually comes to conclusions on solving basic issues. Little innovation and sometimes takes risks.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Points:</th>
<th>0.5</th>
<th>1</th>
<th>0.7</th>
<th>0.9</th>
<th>0.6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Has difficulty recognizing problems and making decisions. Always needs guidance. No innovation and never takes risks.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Comments:**

**Total Score for Competencies Section** 3.7 2.7
The form also indicates that the key results have different weights. Specifically, KR #1 has a weight of 0.6, whereas KR #2 has a weight of 0.4. Consider KR #1. The objective for the first half was to achieve a sales figure of $78,000. The actual sales figure achieved by Patricia was $77,000, representing a 98.71-percent achievement, which is a score of 2. Multiplying this score times the weight of 0.6 yields 1.2 points for the first half of the review period. Similarly, for the second half, the goal was $80,000 and Patricia surpassed it by achieving a figure of $83,000, which represents a score of 3 (103.75-percent achievement); therefore, the score for the second half is 3 × 0.6 = 1.8. Finally, the form shows that the total score for the first half for all key results combined is 1.6, whereas the score for the second half is 3.4. These scores were computed by simply adding the scores obtained in each half.
Finally, the form shows the scores obtained for the competencies and the key results in each of the two halves of the review period. To obtain the overall performance score, you simply take an average of these four numbers: \((3.7 + 2.7 + 1.6 + 3.4)/4 = 2.85\). This puts Patricia in the 2.6–3.5 range, which represents a qualification of “above average.”

Now, suppose that you don’t follow a mechanical procedure to compute overall performance score, and instead, use a judgmental method. That is, suppose raters have no information on weights. How would James Garcia, Patricia’s supervisor, compute the overall performance score? One possibility is that he might give equal weights to all competencies and would therefore consider that Follow-Through/Dependability is as important as Decision Making/Creative Problem-Solving. This would lead to different scores compared to using weights of 0.7 and 0.3. Or as an alternative, the supervisor has his own ideas about what performance dimensions should be given more weight, and he decides to ignore how the work is done (that is, behaviors), and instead, he assigns an overall score based primarily on the key results (such as sales and margin balance).

The use of weights allows the supervisor to come to an objective and clear overall performance score for each employee. As this example illustrates, the use of clearly specified weights allows the supervisor to obtain a verifiable score for each employee. Thus, the supervisor and the employees can be sure that the overall performance rating is reflective of the employee’s performance in each category.

Which strategy is best, judgmental or mechanical? In most cases, the mechanical method is superior to the judgmental method. A supervisor is more likely to introduce her own biases in computing the overall performance score when no clear rules exist regarding the relative importance of the various performance dimensions and there is no direction on how to combine the various performance dimensions in calculating the overall score. As far as the computation of overall scores goes, the mechanical method is superior to the judgmental method.

You will notice that the form included in Figure 10–2 has sections labeled “comments.” These open-ended sections are common in most appraisal forms. However, this information is typically not used effectively. If raters are not given any training or general instructions on what to write, comments can range from none at all to very detailed descriptions of what employees have done (past orientation) and very detailed descriptions of what employees should do (future orientation). So make sure you first establish the goals of the information that raters are asked to include in these open-ended sections and then offer raters training on how to do that in a systematic and standardized fashion across ratees.
Using Multiple Performance Touchpoints

Usually the supervisor is the main source of performance information. This is the case in many organizations because the supervisor usually observes employees directly and has good knowledge about performance standards.

But there are multiple performance touchpoints, which are all the relevant sources that have firsthand knowledge of the employee’s performance: direct supervisors, peers, direct reports, self, and customers. And of course, there is also Big Data collected using electronic performance monitoring systems.

Using supervisors

An advantage of using supervisors to collect performance information is that they are usually in the best position to evaluate performance in relation to strategic organizational goals. Also, supervisors are often those making decisions about rewards associated with performance evaluation.

So supervisors are often the most important source of performance information because they are knowledgeable about strategic issues, understand performance, and are usually in charge of managing employee performance.

In some cultural contexts, supervisors are seen as the exclusive source due to the pervasiveness of hierarchical organizational structures. For example, a survey of 74 HR directors in Jordan revealed that in every one of these organizations, the supervisor had almost an exclusive input in terms of providing performance information; 95 percent of respondents reported that peers had no input; 82 percent reported that employees had no input; and 90 percent reported that customers had no input either.

Although supervisors are usually the most important — and sometimes, only — source of performance information, other sources should be considered as well. For some jobs, such as teaching, law enforcement, or sales, supervisors are not performance touchpoints because they don’t observe direct reports’ performance on a regular basis. Also, performance evaluations given by the supervisor can be biased because the supervisor evaluates performance based on whether the ratee is contributing to goals valued by the supervisor as opposed to goals valued by the organization as a whole. For example, a supervisor provides high performance ratings to employees who help the supervisor advance his career aspirations within the company as opposed to those who engage in behaviors conducive to helping achieve organizational strategic goals.
Using peers

Many organizations use performance evaluations provided by peers. Take, for example, the system implemented at a large international financial services bank with which I am familiar but whose name needs to remain anonymous. Through acquisitions, the bank has been growing rapidly and has as its strategic goal the consolidation of its offices. Change management is extremely important to the successful implementation of this consolidation. The company is therefore revising how it assesses the competency “teamwork” at the senior and middle management levels, with the belief that successful teamwork is crucial to change management initiatives. Specifically, one-third of the score for this competency is determined by ratings provided by peers.

The Australian National University Medical School recently introduced a system in which students rate their peers in terms of personal and professional performance. Students begin to provide anonymous ratings online at the end of their first year in medical school. The system allows students to share their assessment of their peers and provides faculty with early-warning signs to assist students who are not performing up to personal or professional standards.

Although the use of peers as a source of performance data is often described as a “breakthrough” or “new” feature in many performance management systems, they have been around for quite some time. For example, in the 1940s and 1950s, they were called “buddy ratings” and were used to select military leaders in the United States.

Peer evaluations suffer from three problems, however.

» First, such evaluations are not be readily accepted when employees believe there is friendship bias at work. In other words, if an employee believes that ratings provided by his peers will be lower than those provided for another employee because the other employee has more friends than he does, then performance evaluations will not be taken seriously. In this situation, it is not likely that the employee will use the feedback received to improve his performance.

» A second problem with peer evaluations is that peers are less discriminating among performance dimensions compared to supervisors. In other words, if one is rated high on one dimension, one is also likely to be rated high on all the other dimensions, even though the performance dimensions rated are not be related to one another and require very different knowledge, skills, and abilities. This is what is called the halo effect.
Finally, peer evaluations are affected by what is called context effects. For example, consider the situation in which peers evaluate communication behaviors. The salience of such behaviors will be affected by context: These behaviors are much more salient when there is a conflict as compared to routine daily work. The resulting peer evaluations can thus be quite different based on whether the peer providing the rating is thinking about one specific situation versus another one, or communication behaviors across situations in general.

Given the known weaknesses of peer evaluations, it would not be wise to use them as the sole source of performance information. Peer evaluations can be part of the system, but information should also be obtained from additional sources involved in performance touchpoints.

Using direct reports

Direct reports are a good source of information about the performance of their managers. For example, direct reports are in a good position to evaluate leadership competencies, including delegation, organization, and communication. In addition, direct reports are asked to rate their manager’s ability to:

- Remove barriers that employees face
- Shield employees from politics, and
- Raise employees’ competence

Direct reports hesitate to provide upward feedback if put on the spot; however, if managers take the time to involve employees in the process by soliciting their input, employees will give honest feedback.

Many organizations take upward feedback very seriously because it provides tangible benefits — especially long-term benefits — as demonstrated by the results of a study in a Korean public institution with about 2,500 employees that engages in research, development, tests, and evaluation. Managers received upward feedback once per year during a period of seven years. Then the data were analyzed based on whether managers were classified as low, medium, or high-performers. Results showed that those in the low-performing group benefited the most. Also, there were additional benefits of using upward feedback for administrative, rather than developmental, purposes because performance improvements were even more noticeable.
Here’s an example of a company that you probably know well because its products are seen everywhere: computer giant Dell. Dell employs over 100,000 individuals worldwide. At Dell, all employees rate their supervisors, including Michael Dell himself, who is currently chairman and CEO, every six months, using “Tell Dell” surveys. Michael Dell said, “If you are a manager and you’re not addressing [employee] issues, you’re not going to get compensation. And if you consistently score in the bottom rungs of the surveys, we’re going to look at you and say ‘Maybe this isn’t the right job for you.’”

Performance information provided by direct reports is more accurate when the resulting ratings are to be used for developmental purposes, rather than administrative purposes. When evaluation data are intended for administrative purposes (that is, whether the manager should be promoted), direct reports are likely to inflate their ratings. Most likely, this is because direct reports fear retaliation if they provide low performance scores. Confidentiality is key if direct reports are to be used as a useful and valid source of performance information.

## Using employees themselves

Self-appraisals are an important component of any performance management system. They have become particularly prominent, given the increasingly popular view regarding the need to shift from performance appraisal to performance management.

If the only focus is appraisal, collecting data from supervisors might do the job. However, if you want to implement a state-of-the-science performance management system that serves as a tool for continuously identifying, measuring, and developing the performance of individuals and teams, it is crucial to include self-evaluations as well.

When employees are given the opportunity to participate in the performance management process, their acceptance of the resulting decision will increase and their defensiveness during the appraisal interview will decrease. Another advantage of self-appraisals is that the employee is in a good position to keep track of activities during the review period, whereas a supervisor may have to keep track of the performance of several employees.

On the contrary, self-appraisals should not be used as the sole source of information in making administrative decisions because they are more lenient and biased than are ratings provided by other sources, such as a direct supervisor. This may explain why only 16 percent of HR managers report that their organizations include self-appraisals as part of their performance management systems.
Fortunately, self-ratings tend to be less lenient when they are used for developmental as opposed to administrative purposes.

The following suggestions will improve the quality of self-appraisals:

- **Use comparative as opposed to absolute measurement systems.** For example, instead of asking individuals to rate themselves using a scale ranging from “poor” to “excellent,” provide a relative scale that allows them to compare their performance with that of others (for example, “below average,” “average,” “above average”).

- **Allow employees to practice their self-rating skills.** Provide multiple opportunities for self-appraisal because the skill of self-evaluation improves with practice.

- **Assure confidentiality.** Provide reassurance that performance information collected from oneself will not be disseminated and shared with anyone other than the direct supervisor and other relevant parties (for example, members of the same work group).

- **Emphasize the future.** The development plan section of the form should receive substantial attention. The employee should indicate his plans for future development and accomplishments.

### Using customers

Customers provide yet another source of performance information because they participate in performance touchpoints in many types of industries, occupations, and jobs. Although collecting information from customers can be costly and time-consuming, performance information provided by customers is particularly useful for jobs that require a high degree of interaction with the public. Also, performance information can also be collected from internal customers. For example, line managers could provide performance data regarding their HR representative.

Although the clients served may not have full knowledge of the organization’s strategic direction, they can nevertheless provide useful performance data.

### Using electronic performance monitoring

Many companies are now using electronic performance monitoring (EPM) to collect performance data. In the past, EPM included surveillance camera systems and computer and phone monitoring systems. Now, EPM includes wearable technologies and smartphones, including Fitbits and mobile GPS tracking applications.
In the contemporary workplace, every email, instant message, phone call, and mouse click leaves a digital footprint, all of which can be used as data to be included in the performance management system.

EPM sparked a lot of enthusiasm about the availability of Big Data, a generic label used to describe large repositories of data. So Big Data is just a fancy label for “a lot of data.” The availability of Big Data related to the behavior of people in organizations has led to the emergence of “people analytics,” “HR analytics,” “talent analytics,” and “workforce analytics.” Essentially, these are different labels used to describe how to collect and analyze Big Data.

The key issue in terms of collecting, compiling, and analyzing performance data is not Big Data but Smart Data, and that’s because “a lot of data” is not necessarily the same as “accurate and useful data.”

In the case of Federal Express, which has revised its performance management system to include measures of customer service. FedEx, which employs 400,000 people, has a total income of about $1.82 billion and ships more than 13 million packages every business day. Also, it has been ranked as one of Fortune’s “100 Best Places to Work For.”

The company uses a six-item customer-satisfaction survey, which is evaluated by a representative sample of the employee’s customers at the end of the year. As a result of adding customer input and customer-developed goals to the performance review process, employees are more focused on meeting customer expectations.

FedEx already uses external customer input in evaluating performance, but organizations in other industries have some catching up to do. For example, a study examining appraisal forms used to evaluate account executives in the largest advertising agencies in the United States found that much more emphasis is placed on internal than on external customers. Specifically, external client feedback was measured in only 12 percent of the agencies studied. About 27 percent of agencies don’t evaluate the contributions that account executives make to client relationships and to growing the client’s business. In a yet more recent study involving those in charge of the HR function, only 8 percent reported that clients and customers provide performance evaluations of employees. In short, many companies might benefit from assessing the performance of employees — including managers — from the perspective not only of internal but also external customers.
An analytics mindset means that you collect, compile, and analyze data with the goal of gaining insights that can be used to enhance individual, team, and organizational performance, as well as individual well-being. Having a lot of data doesn’t mean you have good data. You should not be enamored by the presence of Big Data, and instead, should think about the criteria that make data useful and accurate. For example, is the information related to the position in question; are the issues measured specific, concrete, meaningful, and under the control of the employee? From the perspective of employees, is EPM considered useful, or a nuisance and an invasion of privacy?

The motto “garbage in—garbage out” is particularly relevant in the domain of Big Data and performance analytics.

When implemented well, EPM can lead to very useful data. For example, it can be used to collect information on the various dimensions of performance I discuss in previous chapters, including task performance (productivity) and counterproductive performance such as cyberloafing (which is spending time on the Internet engaging in non-work behaviors such as online shopping or gaming).

Take tracking software such as WorkIQ and Desk Time, which allows companies to condense real-time employee behavior data into weekly or quarterly reports that are emailed directly to the employees, outlining how they used their computer time throughout the week. Also, mobile tracking systems collect useful time-oriented data to help employees engage in safer behaviors. This is precisely what semi-truck company Ryder implemented recently: A driver-facing camera docks a satellite-based monitoring system to record both positive and negative personal driver behaviors, such as speeding, safe turning, abrupt braking, and authorized and unauthorized stops.

But EPM certainly has challenges, as was learned the hard way by Intermex, a money transferring company based in the United States. For example, EPM can result in feelings of invasion of privacy, perceptions of unfairness, decreased job satisfaction and organizational commitment, and even increased counterproductive performance — just the opposite of what EPM is trying to achieve.

Clearly, EPM and Big Data are becoming more and more prominent in organizational life as we continue to see technological advancements. So given that EPM is part of most firms, make sure you follow these recommendations to ensure EPM will lead to positive results:

- **Be transparent.** Employees need to know that they are being monitored. In fact, employee reactions will be affected by their perceptions of justice and the most negative reactions to EPM come from employees who don't
know whether they are being monitored, why they are being monitored, or how they are being monitored.

➤ **Be aware of all potential employee reactions.** Even when perceived as fair, EPM can be perceived as invasive. Also, employees respond differently to two types of EPM because they target different aspects of the employee. First, *passive monitoring* typically concerns artifacts of employee behavior, such as emails and number of phone calls. Second, *active monitoring* involves evaluating real-time location (GPS, surveillance cameras), computer (time spent on computer), or Internet use (website tracking). Consider making sure you do the following to minimize negative reactions:

- If there is a choice, use the least invasive technique possible.
- Make sure employees understand the reasoning behind the decision and have an opportunity to voice their opinions and concerns.
- Make sure employees understand the details of the monitoring system (for example, what information is collected and stored and how is it used).

➤ **Use EPM for learning and development.** Employees are more likely to accept EPM when it is used for learning and development purposes. For example, in the case of Ryder I mention earlier, it would be important to use the resulting data in subsequent training programs teaching drivers how to improve their safe-turning skills.

➤ **Restrict EPM to job-related behaviors and behaviors.** As in the case of Intermex, EPM can blur the boundaries between work and personal life. Make sure that data collected are job-related.
If you collect data from multiple touchpoints such as supervisors, peers, and customers, it is possible that the ratings won’t be consistent: Some sources may tell you the employee is doing better than others in certain performance dimensions.

Is this a problem? Could it be that all performance touchpoints are somewhat accurate? When and why could it be that some of the sources of data are biased? And what can you do about it?

Clearly, these are critical issues because performance ratings need to be accurate for the performance management system to be fair and effective.

Dealing with Disagreements across Performance Touchpoints

When you collect performance information from more than one source, there will be some overlap in the dimensions you are measuring. For example, a manager’s peers and direct supervisor may rate him on the same competency “communication.”
In addition to the overlapping dimensions across sources, each source is likely to evaluate performance dimensions that are unique to each source. For example, direct reports may evaluate “delegation,” but this competency may not be included on the evaluation form used by the supervisor.

Once you know which competencies and objectives will be measured for a particular position, you need to decide which source of information will be used to measure them.

It is important that employees take an active role in deciding which sources will rate which dimensions. Active participation in the process will enhance acceptance of results and perceptions that the system is fair.

**Why disagreements across performance touchpoints is not always a problem**

When the same performance dimension is evaluated across sources, you should not necessarily expect ratings to be similar. In other words, different sources disagreeing about an employee’s performance is not necessarily a problem.

The rating an employee receives may come from different organizational levels. These are raters in different hierarchical positions and observe different facets of the employee’s performance, and this can happen even if they are evaluating the same general competency such as “communication.”

For example, an employee may be able to communicate very well with his superior but not very well with his direct reports.

**Dealing with disagreements when giving feedback**

In terms of feedback, there is no need to come up with one overall and consistent conclusion regarding the employee’s performance. But it is important for the employee to learn how her performance was rated by each of the sources that were used. This is the crux of what are called 360-degree feedback systems: Performance data are collected from “all around” the employee. When feedback is broken down by source, the employee can place particular attention and effort on the different performance touchpoints.

If disagreements are found, you need to make decisions about the relative importance of the rating provided by each touchpoint. For example, is it equally important to please external and internal customers? Is communication an equally
important competency regarding direct reports and peers? Answering these ques-
tions can lead to assigning differential weights to the scores provided by the dif-
ferent sources in computing the overall performance score used for administrative
purposes.

Minimizing Intentional Rating Distortion

Regardless of who rates performance, it is often the case that performance ratings
are intentionally distorted or inaccurate.

When ratings are distorted, employees feel they are treated unfairly, and the
organization is more prone to litigation.

When performance ratings are distorted, the performance management system
not only fails to result in desired outcomes but also leads to very negative conse-
quences for employees and the organization. To prevent these negative outcomes,
you need to understand why raters are likely to provide distorted ratings and what
to do about it.

Understanding rater motivation

Raters have two main motivations: (1) the motivation to provide accurate ratings
and (2) the motivation to distort ratings. When you combine these two reasons,
you have what is called a model of rater motivation:

- The motivation to provide accurate ratings is caused by whether the
  rater expects positive and negative consequences of accurate ratings and
  by whether the probability of receiving these rewards and punishments
  will be high if accurate ratings are provided.

- The motivation to distort ratings is caused by whether the rater expects
  any positive and negative consequences of rating distortion and by the
  probability of experiencing such consequences if ratings are indeed distorted.

Think about a supervisor and her motivation to provide accurate ratings. What
will the supervisor gain if ratings are accurate? What will she lose? Will her own
performance be rated higher and will she receive any rewards if this happens?
Will the relationship with her direct reports suffer? The answers to these ques-
tions tell you whether this supervisor is likely to be motivated to provide accurate
ratings.
Similarly, are there any positive and negative consequences associated with rating distortion? What is the probability that this will indeed happen? The answers to these questions will determine the supervisor’s motivation to distort ratings.

There are motivational barriers that prevent raters from providing accurate performance information. Raters are motivated to distort performance information and provide inflated or deflated ratings. Rating inflation is called leniency error (when raters assign high lenient ratings to most or all employees) and deflation is called severity error (when raters assign low ratings to most or all employees).

Some supervisors may not even be trying to measure performance accurately. Instead, they use performance ratings for other goals that are unrelated, and often run completely counter, to what a good performance management system is trying to accomplish.

**Why raters inflate ratings**

Some supervisors are motivated to provide inflated ratings in order to . . .

- **Maximize merit raise and rewards.** A supervisor wants to get the highest possible reward for her employees and she knows this will happen if she provides the highest possible performance ratings.

- **Encourage employees.** A supervisor believes that employees’ motivation will be increased if they receive high performance ratings.

- **Avoid creating a written record.** A supervisor doesn’t want to leave a “paper trail” regarding an employee’s poor performance because such documentation may eventually lead to negative consequences for the employee. This situation can happen if the supervisor and employee have developed a friendship.

- **Avoid confrontation with employees.** A supervisor feels uncomfortable providing negative feedback. So to avoid a possible confrontation with the employee, he decides to take what may seem like a less painful path and gives inflated performance ratings.

- **Promote undesired employees out of unit.** A supervisor believes that if an employee receives very high ratings, he may be promoted out of the unit. The supervisor sees this as an effective way to get rid of disliked employees.

- **Make the manager look good in the eyes of his own supervisor.** A supervisor believes that if everyone receives very high performance ratings, she will be considered an effective unit leader. Also, when the performance ratings for the manager himself depend on the performance of his direct reports, managers are likely to inflate their direct reports’ ratings.
Again, you can understand each of the reasons for a supervisor’s choosing to inflate ratings using the model of rater motivation (that is, motivation to provide accurate ratings versus motivation to provide distorted ratings).

For example, looking good in the eyes of one’s own supervisor is a positive consequence of providing inflated ratings. Avoiding a possible confrontation with an employee is also a positive consequence of providing inflated ratings. So given these anticipated positive consequences of rating inflation, the supervisor will choose to provide distorted instead of accurate ratings.

**Why raters deflate ratings**

Supervisors are also motivated to provide ratings that are artificially deflated in order to . . .

- **Shock an employee.** A supervisor believes that giving an employee a “shock treatment” and providing deflated performance ratings will jolt the employee, demonstrating that there is a problem.

- **Teach a rebellious employee a lesson.** A supervisor wishes to punish an employee or force an employee to cooperate with the supervisor and believes that the best way to do this is to give deflated performance ratings.

- **Send a message to the employee that he should consider leaving.** A supervisor lacking communication skills may wish to convey the idea that an employee should leave the unit or organization. Providing deflated performance ratings is a way to send this message.

- **Build a strongly documented, written record of poor performance.** A supervisor wishes to get rid of a particular employee and decides that the best way to do this is to create a paper trail of substandard performance.

You can also understand the psychological mechanisms underlying the decision to provide deflated ratings using the model of rater motivation.

For example, if shocking employees and building strongly documented records about employees are considered to be positive consequences of rating deflation, it is likely that the supervisor will choose to provide distorted ratings.

Performance ratings can be filled with emotional overtones and hidden political and personal agendas that are driven by the goals and motivation of the person providing the rating and do not reflect an employee’s performance.
If raters are not motivated to provide accurate ratings, they will use the performance management system to achieve political and other goals, such as rewarding allies and punishing enemies or competitors, instead of using it as a tool to improve employee, and ultimately, organizational performance.

Performance measurement doesn’t take place in a vacuum but in an organizational context with written and unwritten norms. One such norm could be that performance ratings are not expected to be accurate.

**Increasing accountability in performance ratings**

What can you do to motivate raters to provide accurate ratings? If a supervisor is able to see the advantages of a well-implemented performance management system, as opposed to one dominated by office politics, he will be motivated to help the system succeed. Also, if a supervisor believes there is accountability in the system, and ratings that are overly lenient are likely to be easily discovered, resulting in an embarrassing situation for the supervisor, leniency is also likely to be minimized.

Because of the many reasons that exist to provide inaccurate ratings, the key is to provide incentives so that raters will be convinced that they have more to gain by providing accurate ratings than they do by providing inaccurate ratings.

You can minimize rating distortion by increasing accountability. It works like this:

- **Have raters justify their ratings.** Ratings are more accurate when raters justify their ratings to someone with authority, such as their own supervisors.
- **Have the raters justify their ratings in a face-to-face meeting.** Ratings are also more accurate when the rating justifications are offered in a face-to-face meeting, compared to justifications offered in writing only.

A supervisor asks himself, “What’s in it for me if I provide accurate ratings versus inflated or deflated ratings?” Make sure you design the performance management system in such a way that the benefits of providing accurate ratings outweigh the benefits of providing inaccurate ratings. This includes measuring the performance of the supervisor in how he is implementing performance management within his unit and communicating that performance management is a key part of a supervisor’s job.
Minimizing Unintentional Rating Distortion

Although there are many reasons why raters distort ratings intentionally, there are reasons why they do so unintentionally. The previous sections in this chapter described how to minimize intentional rating distortion.

Now let’s discuss how to minimize unintentional distortion. In a nutshell, you do this by implementing training programs, and their goal is to help raters observe, record, and measure performance more accurately.

Designing rater error training

The goal of rater error training (RET) is to make raters aware of typical rating errors and help them develop strategies to minimize or even eliminate those errors. Implementing RET should increase rating accuracy by making raters aware of the unintentional errors they are likely to make.

RET programs include definitions of the most typical errors and a description of causes for those errors. These programs also show raters examples of common errors and review suggestions on how to avoid making errors. This is done by showing video vignettes designed to elicit rating errors and asking trainees to fill out appraisal forms regarding the situations they observed on the video clips. Then a comparison is made between the ratings provided by the trainees and the correct ratings. The trainer then explains why the errors took place, which specific errors were made, and ways to minimize these errors in the future.

RET does not guarantee increased accuracy, but raters do become aware of the possible errors they can make. Because, however, many of the errors are unintentional, simple awareness of the errors does not mean that errors will not be made. Nevertheless, it may be useful to expose raters to the range of possible errors, which are covered in the following sections.

Similar to me error

Similarity leads to liking, so we like and favor those who are similar to us. So raters are more likely to give higher performance ratings to those employees who are perceived to be more similar to them in terms of attitudes, preferences, personality, and demographic variables, including race and gender.
Contrast error
Contrast error occurs when raters compare individuals with one another, instead of against predetermined standards. For example, when a rater evaluates an individual of only average performance, the rating may actually be higher than deserved if the other individuals rated by the same rater had substandard performance levels. So the average performer is seen much better in comparison to the others. This error occurs when raters complete multiple appraisal forms at the same time because in these situations, it is difficult to ignore the ratings given to other employees.

Halo error
Raters do not distinguish between the different aspects of performance. If an employee gets a high score on one dimension, she also receives a high score on all other dimensions, even though performance may not be even across all dimensions. This error is typically caused by the rater’s assigning performance ratings based on an overall impression about the employee instead of evaluating each performance dimension independently.

If an employee has a perfect attendance record, then the rater may give her a high mark on dedication and productivity. The perfect attendance record, however, may be caused by the fact that the employee has large loan payments to make and cannot afford to miss work, not because the employee is actually an excellent overall performer. In other words, being present at work is not the same as being a productive employee.

Primacy error
Performance evaluation is affected by information collected during the initial phases of the review period. For example, in rating communication skills, the rater gives more weight to incidents involving communication that took place toward the beginning of the review period, as opposed to incidents taking place at all other times.

Recency error
Performance evaluation is influenced by information gathered during the last portion of the review period. This is the opposite of the primacy error: Raters are more heavily influenced by behaviors taking place toward the end of the review period instead of giving equal importance and paying attention to incidents occurring throughout the entire review period.
Negativity error

Raters place more weight on negative information than on positive or neutral information. The negativity error explains why most people have a tendency to remember negative rather than positive news that they read online or watch on television.

A rater observes one negative interaction between the employee and a customer and several positive interactions in which customers’ expectations were surpassed. The rater then focuses on the one negative incident in rating the “customer service” dimension.

First impression error

Raters make an initial favorable or unfavorable judgment about an employee and then ignore subsequent information that does not support the initial impression. This type of error can be confounded with the “similar to me error” because first impressions are likely to be based on the degree of similarity: The more similar the person is to the rater, the more positive the first impression will be.

Spillover error

Scores from previous review periods unjustly influence current ratings. For example, a rater makes the assumption that an employee who was an excellent performer in the previous period ought to be an excellent performer during the current period also, and provides performance ratings consistent with this belief.

Stereotype error

A rater has an oversimplified view of individuals, based on group membership. That is, a rater may have a belief that certain groups of employees (for example, women) are unassertive in their communication style. In rating women, therefore, he may automatically describe communication as being “unassertive” without actually having any behavioral evidence to support the rating. This type of error can also result in consistently lower performance ratings for members of certain groups. For example, a study including an identical sample of black and white workers found that white raters gave higher ratings to white workers relative to black workers than did black raters. In other words, if a white worker is rated, then it does not really matter whether the rater is black or white; however, if a black worker is rated, the rater’s ethnicity matters because this worker is likely to receive a higher rating from a black rater than from a white rater.

This type of error can also lead to biased evaluations of performance when an individual violates stereotypical norms by working in an occupation that does not fit the stereotype (for example, a woman who works assembling airplane parts).
Attribution error

A rater attributes poor performance to an employee’s dispositional tendencies (for example, personality, abilities) instead of features of the situation (for example, malfunctioning equipment). In other words, different raters may place different relative importance on the environment in which the employee works in making performance evaluations. If raters make incorrect inferences about the employees’ dispositions and ignore situational characteristics, actions taken to improve performance may fail because the same situational constraints may still be present (for example, obsolete equipment).

Designing frame of reference training

RET exposes raters to the different errors and their causes; however, being aware of unintentional errors does not mean that raters will no longer make these errors. Awareness is certainly a good first step, but you need to go further if you want to minimize unintentional errors. One fruitful possibility is the implementation of a frame of reference training.

Frame of reference (FOR) training helps improve rater accuracy by familiarizing raters with the various performance dimensions that are measured. The goal of FOR is to give raters skills so that they can minimize unintentional errors and provide accurate ratings on each performance dimension by developing a common mental picture.

FOR training programs include a discussion of the job description for the individuals being rated and the duties involved. Raters are then familiarized with the performance dimensions to be rated by reviewing the definition for each dimension and discussing examples of good, average, and poor performance. Raters are then asked to use the appraisal forms to rate fictitious employees, usually shown in video practice vignettes. The trainees are also asked to write a justification for the ratings. Finally, the trainer informs trainees of the correct ratings for each dimension and the reasons for such ratings and discusses differences between the correct ratings and those provided by the trainees.

Effective FOR training programs include the following formal steps:

1. Raters are told that they will evaluate the performance of three employees on three separate performance dimensions.
2. Raters are given an appraisal form and instructed to read it as the trainer reads aloud the definition for each of the dimensions and the scale anchors.
3. The trainer discusses different employee behaviors that illustrate different performance levels for each rating scale included in the form. The goal is to create a common mental picture among raters so that they will agree on the appropriate performance dimension and effectiveness level for different behaviors.

4. Participants are shown a video clip of a practice vignette, including behaviors related to the performance dimensions being rated, and are asked to evaluate the employee's performance using the scales provided.

5. Ratings provided by each participant are shared with the rest of the group and discussed. The trainer seeks to identify which behaviors participants used to decide on their assigned ratings and to clarify any discrepancies among the ratings.

6. The trainer provides feedback to participants, explaining why the employee should receive a certain rating (target score) on each dimension, and shows discrepancies between the target score and the score given by each trainee.

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**FRAME OF REFERENCE TRAINING AT THE CANADIAN MILITARY**

This is how the Canadian military uses FOR training. First, the training program includes a session regarding the importance of performance management systems in the military. In the next session, raters are told that they will be evaluating the performance of four direct reports. They are given the appraisal form to be used and information on each of the scales included in the form. As the trainer reads through each of the scales, trainees are encouraged to ask questions. At the same time, the trainer gives examples of behaviors associated with each level of performance. The trainer thus makes sure that the trainees come to a common FOR concerning what behaviors constitute the different levels of performance.

Participants are shown a video clip of a soldier and are asked to evaluate the performance using the appraisal form explained earlier. Next, the ratings are discussed as a group, focusing on the behaviors exhibited in the video clip and the ratings that would be most appropriate in each case. This process is repeated several times. Finally, the participants are given three more samples of behavior to rate, as displayed by three hypothetical soldiers, and they receive feedback on how well they evaluated each soldier.
FOR training can take quite a bit of time and effort to develop and administer, but it is well worth it. As a consequence of implementing this type of training, raters not only are more likely to provide consistent and more accurate ratings, but they are also more likely to help employees design effective development plans. This result occurs because sharing a common view of what constitutes good performance allows supervisors to provide employees with better guidelines that will allow them to reach such performance levels.

Designing behavioral observation training

*Behavioral observation* (BO) training is the third type of program implemented to minimize unintentional rating errors. BO training focuses on how raters observe, store, recall, and use information about performance. Fundamentally, this type of training improves raters’ skills at observing performance.

For example, one type of BO training involves showing raters how to use notes or diaries. These observational aids help raters record a preestablished number of behaviors on each performance dimension. These aids also help raters increase the sample of incidents observed and recorded during a specific time period. Also, an aid such as a diary is an effective way to standardize the observation of behavior and record of critical incidents throughout the review period. And it serves as a memory aid when filling out evaluation forms.

Memory aids are helpful because ratings based on memory alone, without notes or diaries, are likely to be distorted due to factors of social context (for example, friendship bias) and time (such as duration of supervisor–direct report relationship).

### BEHAVIORAL OBSERVATION TRAINING AT THE CANADIAN MILITARY

The Canadian military has found that a combination of FOR and BO training works best. Earlier, I described how the Canadian military uses FOR training. In addition to FOR training, there are sessions on the importance of BO and common errors, including first impression, stereotypes, and halo effects. Finally, the participants are trained on the importance of keeping diaries and taking notes on their direct reports throughout the year. Furthermore, the trainer explains the criteria for each performance dimension and provides written descriptions of the different levels of performance. Trainees are given a chance to practice keeping a diary while watching the video clips used in the FOR training section of the training program. After watching each video clip, participants are given tips on note-taking and recording behaviors as well as the resulting outcomes.
Implementing Performance Management Effectively
IN THIS PART . . .

Facilitate employee development as part of performance management.

Conduct effective performance-related meetings.

Make sure that teams are part of performance management.

Evaluate your system to prevent problems before they happen.
Employee development is a key result of state-of-the-science performance management systems. For employee development to be successful, it has to be a joint activity entered into by both the employee and the manager.

This chapter addresses how to use a performance management system to help you develop and improve your own performance and that of others. To do so, the first step is to create a personal development plan.

Creating Personal Development Plans

Personal development plans specify courses of action you can take to improve your performance. Also, achieving the goals stated in the development plan allows you to keep abreast of changes in your profession. Such plans highlight your strengths and the areas in need of development, and they include actions to improve in areas of weaknesses and further develop areas in which you are already strong.
Using development plans to answer four key career questions

To be most useful, personal development needs to answer the following questions:

» How can I continually learn and grow in the next year?
» How can I do better in the future?
» How can I avoid performance problems faced in the past?
» Where am I now and where would I like to be in terms of my career path?

You can create a development plan for every job, ranging from entry level to the executive suite. No matter how high up the position within the organization and how complex the nature of the job in question, there is always room for improvement.

Information to be used in designing development plans comes from the performance evaluation form. Specifically, a development plan can be designed based on each of the performance dimensions evaluated. For example, if the performance dimension “communication” is rated as substandard, this area would be included in the development plan.

Using development plans to improve your short- and long-term career goals

Development plans focus on the short term and on specific roles and positions. But they can also focus on the knowledge and skills needed for more long-term career aspirations and career development.

Good development plans also focus on developing career competencies, including the following three sets of competencies:

» Reflective career competencies: Being aware of your career and combining personal reflections with your professional career. The two competencies that comprise this dimension are reflection on motivation, which refers to reflecting on values, passions, and motivations with regard to your career; and reflection on qualities, which refers to reflection on strengths, shortcomings, and skills with regard to your career.

» Communicative career competencies: Being able to effectively communicate with others to improve your chances of career success. The two competencies are networking, which refers to the awareness of the presence and
professional value of your network and the ability to expand this network for career-related purposes; and self-profiling, which refers to presenting and communicating your personal knowledge, abilities, and skills to individuals inside and outside the organization.

**Behavioral career competencies:** Being able to shape your career by taking action and being proactive. The two specific competencies are work exploration, which refers to actively exploring and searching for work-related and career-related opportunities inside and outside the organization; and career control, which refers to actively influencing learning processes and work processes related to your career by setting goals and planning how to reach these goals.

Now pause for a few minutes and give yourself some time to think about these three sets of career competencies. Where do you stand regarding reflective (reflection on motivation and reflection on qualities), communicative (network and self-profiling), and behavioral (work exploration and career control) competencies? What are your strongest and your weakest competencies? Which ones should you be working on to improve your future career prospects?

In addition to improved short-term performance and career path clarity, the inclusion of development plans, and in more general terms, identifying employee strengths and weaknesses as part of the performance management system have another important benefit: Employees will be more satisfied with the performance management system. For example, a study including 137 employees at a production equipment facility in the southern United States showed that the greater the extent to which employees believed that the system was being used for development purposes, the more satisfied they were with the system.

On the other hand, perceptions of the extent to which the system was used for evaluative purposes did not relate to employee satisfaction with the system. In other words, using the system for evaluative purposes did not relate to employee satisfaction, but using the system for development purposes had a positive relationship with satisfaction.

This is precisely the reason why so many companies, such as The Gap, Ely Lilly, Microsoft, and Accenture, emphasize that their performance management systems have a strong focus on employee development. For an example, see the sidebar “Development Plans at General Mills.”
Using development plans for succession planning

Here’s another important benefit of personal development plans: They allow organizations to gather information that can be used for succession planning purposes.

For example, based on individual career aspirations, an organization is able to identify employees who may be interested and able to serve in leadership positions in the future.

Many “high-potential” programs are essentially based on combining employees’ current performance and future aspirations with the organization’s future talent needs. Thus, development plans serve an important strategic role in helping an organization address future possible talent gaps.

Setting your development plan objectives

The overall objective of a development plan is to encourage continuous learning, performance improvement, and personal growth. Also, development plans have other, more specific objectives:

DEVELOPMENT PLANS AT GENERAL MILLS

At General Mills (an international foods company), individual development plans (IDPs) are promoted strongly throughout the company. The formally written IDPs are completed annually, but the expectation is for ongoing conversations with managers and employees, focusing not only on competencies that are well developed and those that are in need of improvement, but also on the employee’s career aspirations.

General Mills hosts speakers, offers web-based learning tools, and holds workshops for employees and managers to get the most out of IDPs. Some of these sessions are specifically tailored to different kinds of positions within the company with different needs in the development process. Also, the IDP is kept separate from the annual performance evaluation. In short, General Mills is an example of a company that has made a strong commitment to the growth and learning of all employees as part of its performance management system.
» **Improve performance in current position.** A good development plan helps you meet performance standards. So a development plan includes suggested courses of action to address each of the performance dimensions that are deficient. This is an important point, given that, for example, surveys have shown that about 25 percent of federal employees and between 11 percent and 16 percent of private sector employees in the United States are not performing up to standards.

» **Sustain performance in current position.** A good development plan provides tools so that you can continue to meet and exceed expectations regarding your current position. Thus, the plan includes suggestions about how to continue to meet and exceed expectations for each of the performance dimensions included in the performance evaluation form.

» **Prepare employees for advancement.** A good development plan includes advice and courses of action that should be taken so that you will be able to take advantage of future opportunities and career advancement. For example, a good plan specifies which new competencies should be learned to help with career advancement.

» **Enrich the employee’s work experience.** Even if career opportunities within the organization are not readily available, a good plan provides employees with growth opportunities and opportunities to learn new skills. These opportunities provide employees with a more challenging work experience, even if the new skills learned are not a formal part of their jobs. Such opportunities can make jobs more attractive and serve as a powerful employee retention tool. In addition, the new skills can be useful in case of lateral transfers within the organization.

As an example, take the employee development plan used for staff at Texas A&M University in College Station, Texas. Because the development plan is a formal component of the university’s performance management system, the development plan is included within the performance evaluation form. The evaluation form used by Texas A&M first lists the six objectives of the performance management system:

1. Provide employees with feedback to improve or maintain job performance.
2. Outline areas for employee development.
3. Set standards for the next review period.
4. Recognize job-related accomplishments.
5. Enhance communication and working relationships.

6. Identify job performance deficiencies (any factor that “doesn’t meet expectations”) and report to the next level of supervisory responsibility.

Based on objective 2, the employee development plan is an important component of the performance management system. The inclusion of this objective upfront sets the tone for the development process by helping managers understand that this is an important issue.

After the sections in the form in which the manager rates employee performance, the form includes this:

**SECTION B: PROFESSIONAL DEVELOPMENT PLAN**

Please list professional development activities to be completed and resources needed to support these activities, if applicable

<table>
<thead>
<tr>
<th>Professional Development Needs</th>
<th>Resources/Support Needed</th>
<th>Time Frame</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Including this information after performance ratings allows the manager and employee to focus on development areas identified as weaknesses in the performance review process. In this way, the development plans created for employees at Texas A&M are directly related to performance dimensions important for the unit and the overall organization. Also, including the development plan at the end of the review and after setting annual performance goals allows employees to determine whether there are areas they need to develop in order to attain the specified goals.

**Setting the content of your development plan**

What does a development plan look like? Good plans include a description of specific steps to be taken and specific objectives to reach. In other words, what is the new skill or knowledge that will be acquired and how will this occur? This
includes information on the resources and strategies that will be used to achieve the objectives.

For example, will the employee learn the skill from a coworker through on-the-job training? Will the company reimburse the employee for expenses associated with taking an online course?

The plan’s objectives should include not only the end product, such as the new skill to be learned, but also the completion date and what evidence will be gathered to know whether the new skill has indeed been acquired.

For example, in the case of an online course, the objective could state that it will be completed by July 23, 2019, and the employee is expected to receive a grade of B+ or better.

Objectives included in the development plans should be practical, specific, time-oriented, linked to a standard, and developed jointly by the supervisor and the employee.

An additional important feature of development plans is that it should keep the needs of both the organization and the employee in mind. As I mention earlier, state-of-the-science development plans are used strategically to connect the organization’s future talent needs with an employee’s performance and aspirations. So the choice of what specific skills or performance areas will be improved is influenced by the needs of the organization, especially when the organization is investing substantial resources in the plan. And the plan created is influenced by the needs of the employee.

The supervisor and the employee need to agree on what development or new skills will help enrich the employee’s work experience, as well as help accomplish organizational goals now or in the near future.

As an example, take again the content of the development plan at Texas A&M. First, employees are directed to a website that includes examples of possible development activities. This list includes workshops; certifications; local, state, and national conferences; on-the-job training; and other activities. This information presents employees and managers with various options they can use to achieve the development objectives. Second, the form includes space so that each development need is paired with a description of resources or support needed and a time frame for completion.
For example, the development plan for an administrative assistant in the business school may look like this:

## SECTION B: PROFESSIONAL DEVELOPMENT PLAN

Please list professional development activities to be completed and resources needed to support these activities, if applicable

<table>
<thead>
<tr>
<th>Professional Development Needs</th>
<th>Resources/Support Needed</th>
<th>Time Frame</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Knowledge of Excel (spreadsheet program)</td>
<td>Reimbursement for online course</td>
<td>Course to be completed by August 1, 2019</td>
</tr>
<tr>
<td>2. Customer service skills in dealing with students and faculty</td>
<td>Reimbursement for one-day workshop. Time to receive on-the-job training from administrative assistant in communications department</td>
<td>Workshop to be completed by October 15, 2019</td>
</tr>
<tr>
<td></td>
<td>On-the-job training from administrative assistant in communications department</td>
<td>On-the-job training to be completed by November 8, 2019</td>
</tr>
</tbody>
</table>

Overall, the Texas A&M plan includes all the required components. There is a description of development objectives, activities that will be conducted to reach these objectives, and dates of completion.

One important piece seems to be missing, however. The plan doesn’t include specifics of how the accomplishment of each objective will be measured. How will the supervisor know if the administrative assistant has a good working knowledge of Excel after he has completed the online course? How will the supervisor know if the administrative assistant’s customer service skills have improved after he has attended the workshop and has undergone on-the-job training?

The Excel training could be measured by the administrative assistant’s performance in the course or by examining answers to questions about knowledge of Excel that faculty and others giving Excel assignments to the administrative assistant answer in filling out appraisal forms. Regarding customer service skills, the accomplishment of the objective might be measured by gathering data from those customers served by the administrative assistant (that is, faculty and students).

### Setting the activities of a development plan

Clearly, development activities are dependent on an organization’s strategic goals and objectives and also on resources that may or may not be available. For example, a large organization may have a training and development unit, have sufficient resources to offer in-house courses, or pay for an employee to take a course
somewhere else, such as a local university. Many small business don’t have such resources.

These are the ways through which employees can reach the objectives stated in their development plans:

» **On-the-job training:** Employees are paired with a peer or supervisor who designs a formal on-the-job training course. The design of these “minitraining programs” includes how many hours a day or week training will take place and specific learning objectives.

» **Courses:** Some large organizations like McDonald’s, Motorola, Capgemini, and Ernst & Young offer in-house courses given at their own corporate universities. Other organizations provide tuition reimbursement. Given the proliferation of online courses, there is a wide variety of options from which to choose.

» **Self-guided studying:** Employees can read books, watch video presentations, and study other materials on their own.

   It is important that an objective be set regarding what will be read and within what time frame, as well as what measures will be used to assess whether learning has taken place.

» **Mentoring:** Many organizations have mentoring programs. Mentoring is a developmental process that consists of a one-on-one relationship between a senior (mentor) and junior (protégé) employee. Mentors serve as role models and teach protégés what it takes to succeed in the organization. In more specific terms, mentors can help protégés gain targeted skills.

   For mentoring programs to be successful, it is best to allow the mentor and protégé to choose each other, rather than arbitrarily assigning who will be mentoring whom.

» **Attending a conference or trade show:** Another way to acquire required knowledge and skills is to sponsor an employee’s attendance at a conference or trade show. It is useful to require that the employee provide a written report and deliver a brief presentation upon returning from the conference. In this way, it is easier to assess what has been learned. Also, the knowledge gained can be shared with other employees.

   As is true for most development activities, attending a conference or trade show has to be directly linked to an employee’s development plan and also an organization’s needs. This principle clearly applies to attending off-site conferences and trade shows, given that this development activity is particularly prone to abuse.
Mixing with the best: A development activity particularly targeting entrepreneurs and high-level executives involves the “Genius Network,” a by-application-only network whose participants pay $100,000 to attend three meetings per year. This network connects high-achieving entrepreneurs, industry innovators, and best-selling authors, and their goal is to help them grow their business tenfold.

Getting a degree: Some organizations provide tuition reimbursement benefits for their employees to obtain additional degrees or certifications. For example, the organization can sponsor an employee’s MBA program or an employee’s taking specialized courses with the goal of earning a certification designation (for example, Certified Novell Administrator, Professional in Human Resources). In most cases, employees commit to continuing the relationship with their employer for a prespecified amount of time after completing the degree. If the employee leaves the organization before this time frame, she may have to reimburse the organization for the cost of her education.

The firm Boston Consulting Group (BCG) sponsors “BCG MBA Fellows,” which is a scholarship program that includes not only a tuition reimbursement, but also individual mentorship by senior BCG consultants. To be eligible for this program, a BCG employee must work for the company for at least two years and then be enrolled in a full-time MBA program approved by BCG. This is a development activity that serves an important strategic purpose for BCG because it helps build the talent pool for its succession-planning needs, given that it has more than 80 offices in 48 countries and more than 14,000 employees.

Job rotation: Another way to gain necessary skills is to be assigned to a different job on a temporary basis. This is the model followed in the medical profession in which residents have to rotate across specialty areas for several months. For example, residents may be required to rotate across the various emergency medicine services for a 19-month period.

Temporary assignments: A less systematic rotation system includes the opportunity to work on a challenging temporary assignment. This assignment allows employees to gain specific skills within a limited time frame.

Membership or leadership role in professional, trade, or nonprofit organizations: Some employers sponsor membership in professional, trade, or nonprofit organizations. These organizations distribute publications to its members and hold informal and formal meetings in which employees have an opportunity to learn about best practices and other useful information for their jobs. Also, presentation, communication, planning, and other skills can
be learned while serving in a leadership role in a volunteer organization outside of work (such as a local charity, church, or synagogue).

Please go over this list of activities I just described one more time. Based on your own preferences and learning style, which of these activities do you believe would be most beneficial to you? Please rank these activities in terms of your preference. Does the organization you work for now offer any of these opportunities? If not, to what extent is this a factor that would motivate you to look for a job elsewhere, where more of these development activities would be made available to you?

See an example of a development plan in Figure 12–1. The development plan can be part of the evaluation form, or it can be included in a separate form.

The form included in Figure 12–1 shows that you have several choices in terms of development activities. The form includes space so that information can be inserted regarding what activities take place when, what the objectives are, and whether the objective has been met or not.

Many of the activities I listed above are relevant for employees at all levels. However, some such as the “mixing with the best” activity pertain specifically to high-level managers. In fact, the issue of managerial development is very important on its own because it is directly related to succession planning, as discussed earlier. For example, employees who aspire to secure managerial positions should evaluate all development activities to understand which ones would be most beneficial to achieve this particular career goal.

Consider your future career expectations and development needs. Then, fill out the form included in Figure 12–1, assuming your current or future employer will be willing to provide any development opportunities of your choosing. What does your plan look like? What did you discover about what you would like to learn in the future? What does this information tell you about your level of aspirations and future prospects for your career advancement?

Facilitating Employee Development

The direct supervisor has an important role in the creation and completion of the employee’s development plan. Because of the critical role of the direct supervisor in the employee development process, it is a good idea for the supervisor to have her own development plan as well. This will help the supervisor understand the process from the employee’s perspective, anticipate potential roadblocks and defensive attitudes, and create a plan in a collaborative fashion.
## FIGURE 12-1: Example of a Development Plan

<table>
<thead>
<tr>
<th>Developmental Options OJT (on-the-job) Training</th>
<th>Description</th>
<th>Type of Development</th>
<th>When</th>
<th>How Long</th>
<th>Completed Hours (This Quarter)</th>
<th>Comments—Approximate Cost—Other</th>
<th>Objectives/Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Classes</td>
<td>Current Quarter</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Conferences</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>On-line</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Self-study</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Job rotation</td>
<td>Next Quarter</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Videos</td>
<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Books</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Temporary assignment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mentorship</td>
<td>Current +2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (specify)</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Current +3</td>
<td></td>
<td></td>
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</tbody>
</table>

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Performing five functions in the development process

In terms of the specific role of the supervisor, consider the following five functions if you want to facilitate the development of your employees:

» **Explain** what is required of the employee to reach a required performance level. A useful tool for this function is the feedforward interview.

» **Refer** to appropriate development activities. The supervisor has a primary role in referring to appropriate development activities that can assist the employee in achieving her goals. For example, this includes helping the employee select a mentor, appropriate study resources, courses, and so forth.

» **Review** and make suggestions about development objectives. Specifically, the supervisor helps assure the goals are achievable, specific, and doable.

» **Check** on the employee's progress toward development objective achievement. For example, the supervisor can remind the employee of due dates and revise goals, if needed.

» **Offer** the opportunity for regular check-ins and reinforcing positive behaviors. The supervisor needs to provide reinforcements so the employee is motivated to achieve the development goals. Reinforcements can be extrinsic and include rewards such as bonuses and additional benefits, but reinforcements can also include the assignment of more challenging and interesting work that takes advantage of the new skills learned.

Using the feedforward interview

You need to explain what is required for the employee to achieve the desired performance level, including the steps that an employee must take to improve performance. You need to provide this information together with the probability of success if the employee completes the suggested steps. A good tool that supervisors can use to accomplish this goal is to use the feedforward interview (FFI).

The goal of the FFI is to understand the types of behaviors and skills that individuals have that allow them to perform well and to think about ways to use these same behaviors and skills in other contexts to make further improvements in the future.

The FFI includes a meeting between the supervisor and employee and involves the following three steps:
Step 1: Eliciting a success story

The supervisor sets the stage as follows:

All of us have both negative and positive experiences at work. I would like to meet with you to discuss some positives aspects only and see how we can learn from those experiences about things that work well.

Then the supervisor can ask this question:

Could you please tell me about a story about an event or experience at work during which you felt at your best, full of life and in flow, and you were content even before the results of your actions were known?

It is important that the story be very specific about an actual incident and not a general statement about

In general, these are the things I do at work . . .

So the story must be situated within a specific context. After the supervisor hears the story, she can summarize it for the employee to hear it, and then the supervisor can ask whether any information is missing or anything else should be added to the story. A follow-up question is

Would you be happy to experience a similar process again?

If the answer is yes, then the subsequent questions attempt to go deeper into the details of the story. If the story is associated with mixed feelings and is not completely positive, then you need to elicit a different story.

Step 2: Uncover the underlying success factors

The second step involves understanding the factors that led to the successful story. For example, the supervisor can ask

What were some of the things you did or did not do, such as your specific personal strengths and capabilities that made this success story possible?

and

What were the conditions that made this success story possible?

In a way, you are playing the role of a detective trying to discover what are the personal and contextual factors that led to success, including the role that the work environment (for example, technology) and others (for example, customers, peers) played in the story.
Step 3: Extrapolating the past into the future

The third step involves asking questions that will lead to an employee's ability to replicate the conditions that led to success in the past into the future. So the supervisor can first note that

The conditions you have just described seem to be your personal code for reaching [insert the key achievement in the story such as happiness at work, optimal performance, outstanding leadership, etc.].

Then, follow up with questions such as the following:

Think about your current actions, priorities, and plans for the near future (for example, next week, month, or quarter) and tell me how you think you may be able to replicate these conditions to be able to achieve the same level of [insert satisfaction, achievement, performance, etc.] as you did before.

An experiment involving all 25 managers in the sales and customer service units of a business equipment firm in Canada showed that the FFI works. The managers and their direct reports were randomly assigned to one of two experimental conditions, the feedforward interview or traditional feedback. Results showed that compared to traditional feedback, the FFI increased performance four months later. So the effects of the FFI are relatively enduring. Also, the training required to teach managers how to use the FFI is fairly short. In this particular experiment, it took just 2.5 hours to train 13 managers, which helped shift the role of the manager from a critic of an employee’s past performance to someone who supports what an employee will do in the future.

Motivating supervisors to facilitate employee development

To be successful in performing the five functions I describe earlier in this chapter, supervisors themselves need to be motivated to support the employees’ completion of their development objectives. For this to happen, supervisors must be held accountable and rewarded for doing a good job of helping their employees develop.

Direct supervisors play a crucial role in the success of the development plan because they are directly involved in the assessment of accomplishments and monitor progress toward reaching development objectives. Also, they must be highly committed to the development of their employees and motivated to help their employees fulfill their career aspirations. To do so, supervisors must be evaluated based on how well they manage the development process for their employees.
KLA-Tencor Corporation is one of the world’s top-ten developers and manufacturers of inspection and measurement equipment for the semiconductor and nanoeletronics industries. At KLA-Tencor, between 10 percent and 30 percent of supervisors’ bonus pay is directly tied to employee development, which is measured in terms of employee training and certification levels. Managers are given at least quarterly updates on the status of their staff development. In addition, employees themselves are rewarded for engaging in development activities. In fact, only employees with up-to-date training and certification levels are eligible for bonuses. Thus, employee development is successful at KLA-Tencor because both employees and managers are directly rewarded for employee development. After several years of implementing these practices, employee development has become the norm and is part of the KLA-Tencor’s culture.

THE ROLE OF DIRECT SUPERVISOR IN DEVELOPMENT PLANS AT DIAGEO

Diageo makes and distributes alcoholic beverages that include well-known brands such as Smirnoff, Johnnie Walker, Baileys, and Guinness. Diageo sells its products in more than 180 countries and has offices in about 80. The company has recognized the value of employee development and expects supervisors to play an important role in the development of their direct reports. Specifically, the company’s career development program includes a formal review and goal setting along with regular meetings to keep development fresh in the minds of employees.

The supervisor facilitates the process in several ways. The supervisor helps identify specific development goals that are aligned with the employee’s career aspirations. Monthly meetings, referred to as “call overs,” are held to review progress toward goals and to adjust goals as necessary. Also, the supervisor helps provide a means for development and reaching goals by ensuring employees receive training, course work, or by studying material on relevant topics.

Another strategy includes giving employees assignments outside of their current position responsibilities, such as leading a project to practice skills the employee has learned in the development process. In short, Diageo has recognized the critical role that managers should play in the employee development process. This involvement benefits the individual employee’s growth and also aids in aligning employee skills and actions with the strategic goals of the organization as a whole.
Using Multisource Feedback Systems in Implementing Development Plans

An important tool for implementing development plans is a multisource feedback system. Although these systems are called using different labels such as 360-degree systems, multirater, multisource, full circle, or 450 feedback, the basic principle is the same: You gather the most useful information about employee’s development needs when you use multiple sources of information.

The multisource feedback system has become a preferred tool for helping employees, particularly those in supervisory roles, improve performance by gathering information on their performance from different sources.

As I mentioned, multisource feedback systems are usually called “360-degree” systems because information is gathered from sources all around the employee. Specifically, information on what performance dimensions could be improved is gathered from superiors, peers, customers, and direct reports. This information is usually collected anonymously to minimize rating inflation due to conflicts of interest.

Employees also rate themselves on the various performance dimensions and compare self-perceptions with the information provided by others.

A nice product of multisource feedback systems is a gap analysis: areas for which there are large discrepancies between self-perceptions and the perceptions of others. A multisource feedback system report usually includes information on dimensions for which there is agreement that further development is needed. This information is used to create a development plan, as described earlier in the chapter.

A multisource feedback system is most helpful when it is used for development purposes only and not for administrative purposes. People will be more honest if they know the information will be used to help people improve and not to punish or to reward them. However, it is possible to implement such systems successfully for administrative purposes after they have been in place for some time — usually, two years or so.

Feedback reports usually include graphs showing the areas in which employees’ perceptions differ the most from the perceptions of other sources of performance data. They can also show average scores, across sources of information, so that the areas that need improvement are readily identified. The resulting report is usually made available to the employee and his supervisor so that both have an opportunity to review it before meeting to create a development plan.
A trend adopted by many vendors that offer online multisource feedback systems is to offer a bundle of systems, including multisource feedback together with learning management, compensation, and even recruiting and succession planning. These integrative applications, usually called “talent management” systems, allow organizations to manage data about employees in a systematic and coordinated way. These integrative software applications allow organizations to create an inventory of their human capital and better understand their strengths and weaknesses at the organizational level. For example, an organization that uses such applications is quickly able to deploy project teams with the appropriate mix of skills and experience after doing a quick search in the database.

An advantage of these integrative apps is that performance management can be more easily linked to recruiting, compensation, training, and succession planning. In other words, the system can keep track of an employee’s development needs and how these needs have been addressed (for example, via training) over time.

Maximizing benefits of multisource feedback systems

Organizations and individuals can gain several advantages as a consequence of implementing a multisource feedback system. These include the following:

- **Decreased possibility of biases**: Because these systems include information from more than one source, there is a decreased possibility of biases in the identification of employees’ weaknesses.

- **Increased awareness of expectations**: Employees become aware of others’ expectations about their performance. This includes not only the supervisor’s expectations but also the expectations of other managers, peers, direct reports, and customers.

- **Increased commitment to improve**: By using multisource feedback systems, information about performance is no longer a private matter. Thus, employees become aware of what others think about their performance, which increases their commitment to improve in the future.

- **Improved self-perceptions of performance**: Employees’ distorted views of their own performance are likely to change as a result of the feedback received from other sources. In other words, it is difficult to continue to have distorted views of your own performance in the presence of overwhelming evidence that these perceptions may not be correct.

- **Improved performance**: Although receiving information about your performance is not sufficient cause to improve, it is certainly a very important step. Thus, having information on your performance, if paired with a good development plan, will lead to performance improvement.
Reduced “undiscussables” and defensiveness: Multisource feedback systems provide an excellent opportunity to coworkers, superiors, and direct reports to give information about performance in an anonymous and nonthreatening way. Many supervisors feel uncomfortable when they have to give negative feedback and some issues become “undiscussables.” But a multisource system makes providing such feedback easier. Also, from the perspective of employees, it is harder to ignore and become defensive regarding the accuracy of feedback when it originates from multiple sources.

Employees enabled to take control of their careers: By receiving detailed and constructive feedback on weaknesses and strengths in various areas, employees can gain a realistic assessment of where they can go with their careers.

Please reread the preceding list of benefits. Now, think about an organization for which you have worked that implemented some type of multisource feedback system. If you cannot think of one, talk to friends or family members and ask them about a system they have experienced. Then consider the preceding list of potential benefits. Which of these benefits were not actually realized by the system? Why not?

Minimizing risks of multisource feedback systems

There are some risks and potential pitfalls in implementing multisource feedback systems and you need to think about how to minimize them:

Negative feedback can hurt an employee’s feelings, particularly if those giving the feedback don’t offer their comments in a constructive way.

Multisource feedback systems lead to positive results only if individuals feel comfortable with the system and believe they are rated honestly and treated fairly. User acceptance is an important determinant of the system’s success.

When very few raters are providing the information, say, two or three, it may be easy for the employee being rated to identify who the raters are. When anonymity is compromised, raters are more likely to distort the information they provide.

Raters can become overloaded with forms to fill out because they need to provide information on so many people (peers, superiors, and direct reports).

Implementing a multisource feedback system should not be a one-time-only event. The system should be in place and data collected over time on an ongoing basis. The implementation of ongoing multisource feedback systems is sometimes labeled a 720-degree feedback system, referring to the fact that
the collection of multisource data takes place at least twice. In short, administering the system only once will not be as beneficial as administering the system repeatedly.

Multisource feedback systems are not necessarily beneficial for all individuals and all organizations. For example, individuals who are high on self-efficacy (that is, they believe they can perform any task) are more likely to improve their performance based on feedback received from peers compared to individuals low on self-efficacy. Also, the effect of receiving feedback from multiple sources is most beneficial for individuals who perceive there is a need to change their behavior, react positively to feedback, believe change is feasible, set appropriate goals to improve their performance, and take concrete actions that lead to performance improvement.

**Deciding whether a multisource feedback systems will work in your organization**

Multisource systems work best in organizations that have cultures that support open and honest feedback. Also, these systems work best in organizations that have a participatory, as opposed to authoritarian, leadership style in which giving and receiving feedback is the norm and is regarded as valuable.

Take the case of the Patent Office of the United Kingdom. This organization is characterized by a hierarchical structure, typical of many civil service organizations, as opposed to a flat structure, where employees are involved and teamwork is the norm. The implementation of a multisource feedback system did not lead to the anticipated positive results, and there was a mismatch of expectations between what the board members wanted (better working relations and a culture change) and what the employees wanted (individual improvement). Also, managers did not show a good understanding of the behaviors they were expected to display, and their performance did not show improvement. Overall, the multisource feedback system was not sufficiently linked to other HR systems and policies.

Answering the following questions allows you to learn whether implementing a multisource system would be beneficial in your organization:

» Are decisions about rewards and promotion fairly free of favoritism?
» Do decisions take into account the input of those affected by such decisions?
» Do people from across departments usually cooperate with each other and help each other?
» Is there little or no fear of speaking up?
» Do people believe that their peers and direct reports can provide valuable information about their performance?
Are employees trusted to get the job done?
Do people want to improve their performance?

The successful implementation of a multisource feedback system depends on the culture of the organization and the work context. If the answer to most of these questions is “yes,” the implementation of a multisource feedback system will likely be successful and lead to performance improvement.

**Implementing a state-of-the-science multisource feedback system**

There are several things that you can do to maximize the chance that the system will work properly. Successful systems share these characteristics:

- **Anonymity:** Feedback is anonymous and confidential. When this is the case, raters provide honest information about performance, particularly when direct reports are providing information about superiors.

- **Observation of employee performance:** Only those with good knowledge and firsthand experience with the person being rated should participate in the process. There is no point in asking for performance feedback from people who are not able to observe performance directly.

- **Feedback interpretation:** Allow the person being rated to discuss the feedback received with those genuinely interested in the employee’s development. In most cases, feedback is discussed with the direct supervisor. In other cases, the discussion can involve a representative of the HR department, a superior, or peer to whom the person doesn’t report directly.

- **Follow-up:** The information gathered has little value if there is no follow-up action. Once feedback is received, it is essential that a development plan is created right away.

- **Used for developmental purposes only (at least initially):** When multisource feedback systems are used for administrative purposes such as promotions and compensation, raters may distort the information provided. Make it clear that the purpose of the system is developmental, and developmental only. Initially, the information collected should not be used for making reward allocations or any other administrative decisions. However, you can use the system for administrative purposes after it has been in place for some time — approximately two years or so.

- **Avoidance of rater fatigue:** Rater fatigue can be avoided if individuals are not asked to rate too many people at the same time. For example, you can stagger data collection so that not all surveys are distributed at the same time.
Emphasis on behaviors: Although systems can include feedback on both behaviors and results, it is better to emphasize behaviors. Focusing on behaviors can lead to the identification of concrete actions that the person being rated can take to improve performance.

Raters go beyond ratings: In addition to providing scores on the various dimensions, raters should provide written descriptive feedback that gives detailed and constructive comments on how to improve performance. It is helpful if this information also includes specific examples that help support the ratings and recommendations.

Raters are trained: As in the case of providing evaluations for administrative purposes, raters should be trained. Mainly, this includes skills to discriminate good from poor performance and how to provide feedback in a constructive manner.

Given this list, consider the case of AAH Pharmaceuticals I describe in the nearby sidebar. Based on this information, which characteristics are present? Which are absent?

MULTISOURCE FEEDBACK AT AAH PHARMACEUTICALS

AAH Pharmaceuticals (AAH) uses a multisource feedback system that includes several characteristics of a good system. The company is a wholesaler of pharmaceuticals and provides medical products and services in the UK. AAH, with the help of professional consultants, found the multisource feedback system to be very useful. To help ease potential employee concerns, AAH clearly outlined for employees that development planning and feedback were the only goals, and information would not be used for any other purpose. Employees were also given the option of sharing information with their supervisors. The system included gathering performance data from several sources through an automated online system of surveys, ensuring that information was anonymous and confidential.

After the results were obtained, participants attended a one-day meeting about the results away from the office that included one-on-one interpretation and discussion with the consultant to initiate a development plan. Six-month follow-up meetings were held to review progress toward development objectives. AAH found the process to be successful with a first group of managers who went through the process and made plans for a broad rollout of the program for more employees to take advantage of development opportunities.
If you are a manager, you have a tough job: You need to judge and coach at the same time. In other words, if you are a manager, you serve as a judge by evaluating performance and allocating rewards. But you also serve as a coach by helping employees solve performance problems, identify performance weaknesses, and design developmental plans that will be instrumental in future career development. And supervisors often feel uncomfortable because they need to convey bad news, which may cause employees to react negatively. In other words, there is a concern that managing performance unavoidably leads to negative surprises.

This chapter teaches you how to be effective in three types of performance meetings: review, disciplinary, and termination.
Conducting Effective Review Meetings

Performance review discussions serve three important purposes:

» These discussions allow employees to improve their performance by identifying performance problems and solutions for overcoming them.

» They help build a good relationship between the supervisor and the employee because the supervisor shows that she cares about the employee's ongoing growth and development and that she is willing to invest resources, including time, in helping the employee improve.

» Performance management leaders use review discussions as stay interviews. Stay interviews focus on finding out what makes employees stay in the organization and help managers create strategies to enhance employee engagements and retain star performers.

Setting up review meetings

Because performance management leaders play these paradoxical roles, it’s usually helpful to separate the various meetings related to performance. Separating the meetings also minimizes the possibility of negative surprises. Also, when meetings are separated, it’s easier to separate the discussion of rewards from the discussion about future career development, which allows employees to give their full attention to each issue, one at a time.

Performance management systems can involve as many as six formal meetings. Each of these sessions should be seen as a work meeting with specific goal, including the following:

» System inauguration: A discussion of how the system works and the identification of the requirements and responsibilities resting primarily on the employee and on the supervisor. This discussion includes the role of self-appraisal and the dates when the employee and supervisor will meet formally to discuss performance issues.

This meeting is particularly important for new employees, who should be introduced to the performance management system as soon as they become members of the organization.

» Self-appraisal: This meeting involves the employee’s assessment of herself. This meeting is informational in nature, and at this point, the supervisor doesn’t pass judgment on how the employee regards her own performance. This meeting provides an opportunity for the employee to describe how she
sees her own performance during the review period. It is helpful if the employee is given the same form to be filled out later by the supervisor so that she can provide self-ratings using the same dimensions that will be used by the supervisor.

**Classical performance review:** During this meeting, you discuss employee performance, including both the perspective of the supervisor and the employee. Most performance management systems include this type of meeting only. No other formal meetings to discuss performance are usually scheduled. This meeting is mainly past-oriented and typically doesn't focus on what performance should look like in the future.

**Merit/salary review:** During this meeting, you discuss what, if any, compensation changes will result as a consequence of the period's performance. It is useful to separate the discussion of rewards from the discussion of performance so that the employee can focus on performance first, and then, on rewards. If these meetings are not separated, employees may not be very attentive during the discussion of performance and are likely to feel it is merely the price they must pay to move on to the part of the meeting that really matters: the discussion about rewards. Although these meetings are separate, supervisors should explain clearly the link between the employee's performance, discussed in detail in a previous meeting, and the rewards given. Rewards are not likely to carry their true weight if they are not linked directly to performance.

**Developmental plan:** In this meeting, you discuss the employee's development needs and what steps will be taken so that performance will be improved during the following period. This meeting also includes information about what types of resources will be provided to the employee to facilitate the development of any required new skills.

**Objective setting:** This meeting involves includes setting goals, both behavioral and results-oriented, regarding the following review period. At this point, the employee has received very clear feedback about her performance during the past review period, knows what rewards will be allocated (if any), understands developmental needs and goals, and knows about resources available to help in the process of acquiring any required skills.

Although six types of meetings are possible, not all six take place as separate meetings. For example, the self-appraisal, classical performance review, merit/salary review, development plan, and objective setting meetings may all take place during one umbrella meeting, labeled “performance review meeting.”

As I noted above, it’s better to separate the various types of information discussed so that the employee and supervisor focus on each of the components separately.
Implementing an optimal sequence for review meetings

Regardless of the specific type of meeting, there are several steps that performance management leaders take before the meeting takes place:

1. **Give at least a two-week advance notice** to the employee to inform her of the purpose of the meeting and enable her to prepare for it.

2. **Block out sufficient time** for the meeting and arrange to meet in a private location without interruptions.

Taking these two steps sends a clear message that the meeting is important and that, consequently, performance management is important.

As I mentioned earlier, most organizations merge several meetings into one labeled “performance review meeting.” The optimal sequence of events for such a meeting is the following:

1. **Explain the purpose of the meeting.** Include a description of the purpose of the meeting and the topics to be discussed.

2. **Conduct self-appraisal.** Ask the employee to summarize her accomplishments during the review period. This is more easily accomplished when the employee is given the appraisal form to be used by the supervisor before the meeting. This portion of the meeting allows the employee to provide her perspective regarding performance. The role of the supervisor is to listen to what the employee has to say and to summarize what he hears. This isn't an appropriate time for the supervisor to disagree with what the employee says.

3. **Share performance data and explain rationale.** Explain the rating you provided for each performance dimension and the reasons that led to each score. It's more effective to start with a discussion of the performance dimensions for which there is agreement between the employee’s self-appraisal and the supervisor’s appraisal. This reduces tension and demonstrates to the employee that there is common ground and that the meeting isn't confrontational. Also, it's better to start with a discussion of the performance dimensions for which the scores are highest. Then move on to the dimensions for which the scores are lower.

For areas for which there is disagreement between self- and supervisor ratings, the supervisor must take great care in discussing the reason for his rating and provide specific examples and evidence to support the score given. At this point, make an effort to resolve discrepancies and take extra care with sensitive areas.
Provide the employee with the opportunity to explain her viewpoint thoroughly. This is a very useful discussion because it leads to clarifying performance expectations. For dimensions for which the score is low, have a discussion about possible causes. For example, are the reasons related to lack of knowledge, lack of motivation, or contextual factors beyond the control of the employee?

1. **Discuss development.** After the supervisor and employee have agreed on the scores given to each performance dimension, discuss the development plan. At this point, the supervisor and the employee should discuss and agree on the developmental steps that will be taken to improve performance in the future.

2. **Ask employee to summarize.** Next, the employee summarizes, in her own words, the main conclusions of the meeting: What performance dimensions are satisfactory, which need improvement, and how improvement will be achieved. This is an important component of the meeting because it gives the supervisor an opportunity to determine whether he and the employee are on the same page.

3. **Discuss rewards.** The next step during the meeting includes discussing the relationship between performance and any reward allocation. The supervisor should explain the rules used to allocate rewards and how the employee would be able to reach higher reward levels as a consequence of future performance improvement.

4. **Hold follow-up meeting.** Before the meeting is over, schedule the next performance-related formal meeting. The employee needs to understand that there will be a formal follow-up and that performance management isn't just about meeting with the supervisor once a year. Usually, the next meeting will take place just a few weeks later to review whether the developmental plan is being implemented effectively.

5. **Discuss approval and appeals process.** The supervisor asks the employee to sign the form to attest that the evaluation has been discussed with him. This is also an opportunity for the employee to add any comments or additional information she would like to see included on the form. In addition, if disagreements about ratings have not been resolved, the supervisor should remind the employee of the appeals process.

6. **Conduct final recap.** Finally, use the “past-present-future model.” In other words, the supervisor summarizes what happened during the review period in terms of performance levels in the various dimensions, reviews how rewards will change based on this level of performance, and sums up what the employee will need to do in the next year to maintain and enhance performance.
If you are dealing with a top performer, use the final recap meeting as a *stay interview* by asking these type of questions:

- Have you ever thought about leaving our team?
- How can I best support you?
- What do you want to learn here?
- What can you learn here that will make you feel good when you go home every day?

Although stay interviews will not ensure that a star employee will never move, they can be very useful in identifying the factors that matter most to a firm’s or team’s most impactful contributors.

**Dealing with employee defensiveness**

Performance review discussions often don’t serve their intended purposes because employees are defensive and many supervisors don’t know how to deal with this attitude because they lack the necessary skills to conduct an effective performance review.

How can you tell when an employee is being defensive? Typically, there are two patterns of behavior that will show you this.

- **Fight response:** Blaming others for performance deficiencies, staring mutely at the supervisor, and other, more aggressive responses, such as raising her voice or even pounding the desk.
- **Flight response:** Looking away, turning away, speaking softly, continually changing the subject, or quickly agreeing with what the supervisor is saying without basing the agreement on a thoughtful and thorough discussion about the issues being discussed.

When employees have a fight-or-flight response during the performance review discussion, it’s unlikely that the meeting will lead to improved performance in the future.

But there are several things you can do:

- **Establish and maintain rapport.** You can establish rapport by choosing a meeting place that is private and by preventing interruptions from taking place. Also, the supervisor should emphasize two-way communication and put the employee at ease as quickly as possible.
» **Be empathetic.** Try to put yourself in the shoes of the employee. Make an effort to understand why the employee has performed at a certain level during the review period. This includes not making attributions that any employee success was caused by outside forces (for example, a good economy) or that employee failures were caused by inside forces (for example, employee incompetence).

» **Be open-minded.** If the employee presents a different point of view, be open-minded and discuss it directly and openly. There is a possibility that the employee provides information that is relevant and of which you are not aware. If this is the case, ask for specific evidence.

» **Watch for verbal and nonverbal cues.** Try to read verbal and nonverbal signals from the employee to determine whether further clarification is necessary. Be attentive to the employee’s emotions and react accordingly.

If the employee becomes defensive, the supervisor should stop talking and allow the employee to express her point of view regarding the issue being discussed.

» **Encourage participation.** The employee needs to have her own conversational space to speak and express her views. Try not to dominate the meeting. Instead, listen without interrupting and avoid confrontation and argument.

Despite these suggestions, defensiveness is unavoidable in some situations. If you are facing one of those, you need to recognize it.

Rather than ignoring the defensive attitude, deal with the situation head on:

1. **Let the employee vent and acknowledge the employee’s feelings.** You want to pause to accept the employee’s feelings.

2. **Ask the employee for additional information and clarification.** If the situation is reaching a point where communication becomes impossible, the supervisor may want to suggest suspending the meeting until a later time. For example, you can say the following:

   I understand that you are angry, and that you believe you have been treated unfairly. It’s important that I understand your perspective, but it’s difficult for me to absorb the information when you are so upset. This is an important matter. Let’s take a break and get back together at 3:00 p.m. to continue our discussion.

If the relationship between the supervisor and the employee isn’t good, the performance review meeting will expose these issues in a blatant and often painful way.
In this vignette, Hannah is the manager at a large accounting firm, and Sofia is one of the employees on her team. She chooses a conference room with privacy that is away from the other offices.

HANNAH: Hi, Sofia. I wanted to meet with you today to discuss your performance appraisal for this quarter. At any time, please offer your input and ask questions if you have any.

SOFIA: OK.

HANNAH: You did meet two important objectives that we set this quarter: sales and customer service. Thanks for your hard work.

SOFIA: No problem.

HANNAH: You did miss three of the other objectives.

SOFIA: What? I worked as hard as I could! It wasn’t my fault that the other people on the team did not carry their weight.

HANNAH: Sofia, I am not here to blame anyone or to attack you. I want to generate some ideas on what we can do to ensure that you meet your objectives and receive your bonus next quarter.

SOFIA (sitting back with crossed arms): I told you I worked as hard as I could.

HANNAH: I know that you worked hard, Sofia, and I know how hard it is to balance all of the objectives that we have in our department. When I first started, I had a hard time meeting all of the objectives as well.

SOFIA: It is hard and I try my best.

HANNAH: Sofia, can you think of anything that we can work on together that would help you meet the last three objectives? Is there any additional training or resources that you need?

SOFIA: I am having a hard time prioritizing all of my daily tasks. There is a class offered online on prioritizing, but I feel I am too busy to take it.
This section is about making some tough calls. In some cases, an employee may not respond to the feedback provided and may not make any improvements in terms of performance.

Offering decision-making leave

Giving bad news is never an easy process. But in such cases, there is one intermediate step that can be taken before the employee enters a formal disciplinary process, which involves a verbal warning, a written warning, and may lead to termination. The employee can be given a once-in-a-career decision-making leave.

This is a “day of contemplation” that is paid and allows the employee to stay home and decide whether working in this organization is what he or she really wants to do. This practice is based on adult learning theory, which holds individuals responsible for their actions.

Unlike a formal disciplinary action, the decision-making leave doesn’t affect employee pay. As noted by Tim Field, principal of a consulting firm in Los Angeles, California, “This element of holding people accountable without negatively impacting their personnel file or payroll tends to catch people off guard, because problem employees, like problem children, are often expecting negative attention for their bad behavior.”
How can the decision to grant an employee a decision-making leave be communicated? Assuming this is a company policy and there is senior management support, you can communicate the leave as follows in this example scenario:

Hailey, as you know, you and I have met on several occasions to talk about your performance. In spite of these feedback sessions, I see that you are still having some difficulties with important tasks and projects. Consistent with my observations, I have received comments from some of your peers related to some performance deficiencies they have also noticed. I think that issuing a written warning would be counterproductive, as I am concerned that it may decrease your motivation and do more harm than good. Instead, what I am going to do is to put you on what we call a “decision-making leave” for a day. This is a type of intervention that has worked very well with other individuals in your same position in the past.

I want you to know that this is a once-in-a-career benefit that you should use to your advantage, and I decided to do this because I truly believe that you are capable of improving your performance.

It works like this: I am going to ask you to not come to the office tomorrow, but you will be paid for that day, so you don’t have to worry about your paycheck being affected. While you are away from the office tomorrow, I want you to give serious thought to whether you really want to work in this company. You and I will meet when you return to the office the day after tomorrow, and I will ask you to tell me whether you’d rather resign and look for work elsewhere. I will understand and will be fully supportive if that is your decision. On the other hand, if when we meet, you tell me you want to keep your job here, then I will give you an additional assignment on which I want you to work while you are away from the office tomorrow. Recall that you are being paid for the day, so here is what I want you to do. Please prepare a one-page letter addressed to me, convincing me that you assume full and total responsibility for the performance issues we discussed during our feedback sessions. You will have to provide clear and specific arguments as well as describe a specific set of actions you will take to convince me that you will address the problems. I will keep the letter in a safe place, but I am not planning on including it in your personnel file for now. To be clear, however, this letter is a personal commitment from you to me and our agreement is that if you don’t stick to the terms of your letter, you will essentially fire yourself.

This is a very important moment for you and also for me, and it could be a turning point in your career development. Now that I have explained the process, I would like to hear any questions or comments you may have about this decision-making leave day that you will be taking tomorrow.

Using a decision-making leave as part of the performance management system can be a powerful tool to give problem employees an opportunity to improve their performance. However, if this tool doesn’t lead to the desired outcomes, then the employee doesn’t have to enter into a disciplinary process. A demotion or transfer
may be a more appropriate action when there is evidence that the employee is actually trying to overcome the performance deficiencies but isn’t able to do so.

However, termination is the appropriate action when performance doesn’t improve and the employee continues to make the same mistakes or fails to meet standards. Also, termination is the appropriate course of action when an employee engages in serious violations of policies, laws, or regulations such as theft, fraud, falsifying documents, and related serious offences.

Avoiding five common pitfalls in the disciplinary process

The disciplinary process should not come as a surprise to the employee or supervisor if there is a good performance management system in place. After all, there should be ongoing check-ins and plenty of opportunities for the employee to overcome performance problems. And there should be opportunities for the supervisor to offer support and feedback.

However, when a disciplinary process seems to be the only recourse, it’s important to follow a set of steps so as not to fall into legal problems. Also, all employees, even those who are terminated, deserve to be treated with respect and dignity. Nevertheless, even if there is a top-notch performance management system in place, there are several pitfalls that you need to try to avoid and specific actions you can take to do so, which are the following:

Pitfall 1: Acceptance of poor performance

Many supervisors may just want to ignore poor performance, hoping that the problem will go away. Unfortunately, in most cases, the performance problems escalate and become worse over time.

Solution: Don’t ignore the problem. Addressing it as soon as possible can not only avoid negative consequences for the employee in question, peers, and customers, but it also help put the employee back in track in terms of his career objectives.

Pitfall 2: Failure to get the message through

The poor performing employee argues that she did not know the problem was serious or that it existed at all.

Solution: In the decision-making leave described earlier, make sure to be very specific about the performance problem and the consequences of not addressing it effectively. Make sure you document the action plan and that you have secured the employee’s agreement regarding the plan.
Pitfall 3: Performance standards are “unrealistic” or “unfair”

The employee may argue that performance standards and expectations are unrealistic or unfair.

Solution: Remind the employee that his performance standards are similar to others holding the same position. Also, remind the employee that performance standards have been developed over time with the participation of the employee in question and share with him documentation regarding past review meetings, including past appraisal forms with the employee signature on them.

Pitfall 4: Negative affective reactions

The employee responds emotionally, ranging from tears to shouts and even threats of violence. This, in turn, creates an emotional response on the part of the supervisor.

Solution: Don’t let emotional reactions derail you from your mission and role as a performance management leader, which is to describe the nature of the problem, what needs to be done, and consequences of not doing so. If the employee is crying, do offer compassion and give him some space to compose himself. You can give the employee some time and resume the meeting a few minutes later, or a rescheduling of the meeting at a later time may be a good alternative. If the employee reaction involves a threat or suggests possible violence, call security immediately. If such threats do take place, report them to the human resources (HR) department.

Pitfall 5: Failure to consult HR

There are hundreds of wrongful termination cases that have cost millions of dollars to organizations that have not followed the appropriate termination procedures.

Solution: If you are planning on implementing a disciplinary or termination process, consult with your HR department regarding legal requirements. For the most part, if you have a good performance management system in place, you have all necessary steps in place. However, consulting with HR is a good idea to ensure you are following all appropriate steps.

Dealing with terminations

Avoiding the five pitfalls I just described minimizes the possibility of problems during the formal disciplinary process. If the performance goals are not reached,
there will be a need for a termination meeting. This meeting is, of course, extremely unpleasant for all involved, to say the least. However, it’s the right and fair thing to do at this stage.

Do the following to make sure the termination meeting is respectful, fair, and effective — as less unpleasant as possible for you and the employee:

1. **Be respectful.** Treat the terminated employee with respect and dignity. Keep the information about the termination confidential, although it’s likely others will learn about it in subsequent days.

2. **Get right to the point.** The less said, the better. You can start by saying, “There is no easy way to say this,” and then summarize the performance problems, actions taken to try to overcome these problems, outcomes of these actions, and the decision about termination that you have reached.

3. **Let the employee grieve.** It’s important to let the employee grieve because it’s likely that there will be a sense of loss. Show empathy with phrases such as “I know this is sad for you” and “Go ahead and take a moment. When you’re ready, we’ll continue.”

4. **Wish the employee well.** The purpose of the meeting isn’t to rehash every single reason why you are letting the employee go and every single instance of poor performance. Instead, use the meeting to wish the person well in her next job and endeavors and tell her that she will be missed.

5. **Send the employee to HR.** Let the employee know that she needs to go to HR to receive information on benefits, including vacation pay, and also to receive information on legal rights. If you are working in a small business, seek outside legal counsel regarding the information to give to the terminated employee.

6. **Have the employee leave immediately.** Keeping the terminated employee on-site can lead to gossip and conflict, and disgruntled employees may engage in sabotage.

7. **Have the termination meeting at the end of the day.** It’s better to conduct the termination meeting at the end of the day so that the employee can leave the office along with everyone else and there are fewer people around.
Surveys by Deloitte and other consulting firms show that more than 90 percent of companies believe that organizations should be redesigned by including a team component. So it is impossible to think of an organization that doesn’t organize its functions at least, in part, based on teams. Why is this happening? Teams are critical for decentralizing authority, improving communication, and creating more customer-centric organizations. The use of teams is not an industry-based phenomenon. It is happening everywhere: IT, consulting, health care, and the military.

The U.S. military’s hierarchical command and control structure hindered operational success during the early stages of the Iraq war. Consequently, retired U.S. Army General Stanley McChrystal, who served as Commander of U.S. Forces in Afghanistan, decentralized authority to empowered teams. In his view, a team-based approach led to greater dynamism and flexibility and enabled officers to quickly move from their administrative positions to mission-oriented projects for a set purpose, knowing that they would once again have a home to return to within the larger organizational structure after the mission was completed. This type of organization structure, which consisted of a “network of teams,” is now becoming popular in nonmilitary organizations in all industries.
Clearly, then, you need to learn how to make sure teams, and not just individuals, are part of performance management.

### Not All Teams Are Created Equal

Examples of teams range from a group of top managers working together face-to-face on an ongoing basis with the goal of achieving corporate goals to a group of programmers in India and the United States writing programming codes that eventually will be put together as one software program.

Teams don’t have to be permanent, and team members don’t have to be in the same location. In fact, members don’t need to have ever met in person to be on the same team. As long as they work together, need each other, and share common goals, they are considered to be members of the same team.

Many organizations are structured around teams, including teams called autonomous work groups. When autonomous work groups are in place, members have the authority to manage their own tasks and interpersonal processes as they carry out their work.

### Reasons why teams exist in all organizations

Why are teams so popular? Here are a few reasons:

- **Businesses are facing increased pressures and global competition.** Using teams is one way to address these challenges because teams can include members from different parts of the world.

- **Due to rapid changes in the environment, organizations need to be prepared to adapt and change quickly.** Using teams provides greater flexibility because individuals can be rotated in and out of teams, based on particular needs.

- **Products and services are becoming very complex, requiring many people contributing their diverse talents to the same project.** Teams are able to respond more quickly and more effectively to changes than can individuals working alone.

- **Many organizations have gone through downsizing and restructuring, which has led them to become flatter and has reduced the number of hierarchical levels.** A team-based structure is more congruent to these changes compared to traditional hierarchical structures.
Team-based organizations are not necessarily better. Although many organizations choose to structure themselves around autonomous work teams and teams in general, team-based organizations don’t necessarily outperform organizations that are not structured around teams.

Team performance doesn’t always fulfill its promise. So it is important for performance management systems to go beyond focusing on individual performance and, following the definition of performance management, to also aim at identifying, measuring, and developing the performance of teams and aligning their performance with the strategic goals of the organization.

A good performance management system should target not only individual performance but also an individual’s contribution to the performance of his or her teams and the performance of teams as a whole.

An organization that includes any type of teams will benefit from managing the performance of both individuals and teams.

**Designing a State-of-the Science System**

Including team performance as part of a performance management system is an extension of a system that focuses on individual performance. You are still trying to design and implement the best possible system. Specifically, the system should be . . .

- **Congruent with strategy:** There is a clear link between team and organizational goals.
- **Congruent with context:** The system is consistent with norms based on the culture of the organization and the region and country in which the organization is located.
- **Thorough:** All teams are evaluated, and you include all relevant performance dimensions.
- **Practical:** The system doesn't require excessive time and resources.
- **Meaningful:** There are important consequences.
- **Specific:** There is a concrete team improvement agenda.
- **Able to identify effective and ineffective performance:** You are able to distinguish teams at different performance levels.
- **Reliable:** The measurement of performance is consistent.
Valid: The measures of performance measure important and relevant aspects of performance and not things unrelated to performance.

Acceptable and fair: People participating in the system believe the processes and outcomes are just.

Inclusive: There is input from multiple sources on an ongoing basis.

Open: There is transparency and there are no secrets.

Correctable: There are mechanisms so that errors can be corrected.

Standardized: Performance is evaluated consistently across teams and time.

Ethical: The system complies with ethical standards.

Anticipating dangers of poorly designed systems

You should also anticipate what can go wrong if there is a poorly implemented system. These are some of the bad things that happen in those situations:

Lowered self-esteem: Self-esteem is lowered if feedback is provided in an inappropriate and inaccurate way.

Increased turnover: If the process is not seen as fair, employees may become upset and leave the organization.

Damaged relationships: The relationship among the individuals involved may be damaged, often permanently.

Decreased motivation to perform: Motivation is lowered for many reasons, including the feeling that superior performance is not translated into meaningful tangible or intangible rewards.

Employee burnout and job dissatisfaction: When the performance assessment instrument is not seen as valid and the system is not perceived as fair, employees feel increased levels of job burnout and job dissatisfaction.

Use of misleading information: If a standardized system is not in place, there are multiple opportunities for fabricating information about a team’s performance.

Wasted time and money: Performance management systems cost money and quite a bit of time, and these resources are wasted when systems are poorly designed and implemented.

Emerging biases: Personal values, biases, and relationships are likely to replace organizational standards.
Unclear ratings system: Because of poor communication, teams don't know how their ratings are generated and how the ratings are translated into rewards.

Varying and unfair standards and ratings: Both standards and individual ratings vary across teams, which can be unfair.

Unjustified demands on team leaders and team members' resources: Poorly implemented systems don't provide the benefits provided by well implemented systems, yet they take up people's time.

Increased risk of litigation: Expensive lawsuits may be filed by people who feel they have been appraised unfairly.

Setting necessary conditions for an effective system

These are the conditions that are necessary for team performance management to lead to improved team performance:

The processes involved in the performance of the team are relatively unconstrained by other requirements of the task or the organization. The organization should not constrain the amount of effort and skill that the team members can invest in a particular team-based project. An example of a constraint may be individual and team goals that compete against each other.

The team is designed well and the organizational context supports team performance. In other words, there are elements in the organization that support team performance. (For example, reward systems, training systems, resources are made available to the team; the team has an opportunity to perform.)

Performance feedback focuses on team processes that are under the control of team members. There is no point in providing feedback on aspects of performance that are beyond the control of the team.

Implementing a system for virtual teams

In a 1974 television interview, science fiction author Arthur C. Clarke predicted what the world would look like at the beginning of the 21st century. One of his many extraordinarily accurate predictions was about a “a console . . . in a compact form . . . with a screen . . . through which he can talk” that people would have in their homes or offices. “Any businessman [sic], any executive, could live almost anywhere on Earth and still do his business through a device like this and this is a wonderful thing.” Wow.
Regardless of the particular type of team, the reality of today’s organizations, which are immersed in a global and highly competitive environment, dictates that many teams are virtual in nature. In other words, armed with laptops and smartphones, team members work from anywhere and at any time.

Virtual teams have become very popular. For example, in a CareerBuilder survey involving 1,700 knowledge workers, 79 percent reported working always or frequently as part of virtual teams. And results of a 2014 survey of business leaders at the Global Leadership Summit showed that about 60 percent of them predict that more than half of their entire workforce will work remotely by 2020.

From an organization’s practical and resource-based standpoint, it seems that the use of virtual teams has many benefits:

- Virtual teams allow organizations to save money on travel expenses.
- From the employee point of view, personal and professional disruptions due to travel are minimized.
- Virtual teams also include individuals who live locally but telecommute — an important benefit for employees with various personal and family needs who may want to minimize commuting time.

This type of work arrangement is very attractive to Millennials. And it also allows organizations to reduce the size of their brick-and-mortar offices, which can lead to substantial savings, particularly in highly populated urban areas with high leasing costs.

However, managing the performance of virtual teams also has its own unique challenges. For example, many virtual teams, precisely because of a lack of face-to-face interactions, sometimes become “invisible” in organizations, and therefore, lack clear performance standards and even an identity as a team. Feeling that one is a member of the team and trusting other team members are important determinants of team performance, but these factors may not be present in virtual teams.

Only about 20 percent of organizations offer training on how employees can improve their performance within the context of virtual teams. In addition, although team members may communicate using Skype and other videoconferencing technology, they usually communicate less frequently compared to members of nonvirtual teams. And this lower degree of communication often makes it difficult for team members to understand what is going on in the group. This is a particularly challenging issue when a team conflict needs to be addressed or when a controversial decision, such as charting a particular course of action, needs to be made.
A state-of-the-science performance management system can address the aforementioned challenges posed by virtual teams. How?

1. Create team charters, which are similar to job descriptions but for teams rather than individuals.

2. Have regular check-ins that help members stay connected and also lead to improved cooperation and conflict management tactics.

3. Implement team performance review meetings, which provide structure and increase team effectiveness. In addition, team developmental activities including intercultural skills, teamwork, and technology usage also lead to improved team performance.

**TEAM PERFORMANCE MANAGEMENT AT MySQL**

MySQL, (pronounced “My S-Q-L”), based in Cupertino, California, produces and develops database servers, software, and related tools. MySQL is the world’s most popular open source database. The company employs more than 300 people spread across 25 countries, and 70 percent of the employees work from home. Employees in some cases have never met anyone they work with in person. This work arrangement requires a different approach to managing team performance as compared to the traditional office where face-to-face meetings and contact are the norm.

Technology enables a different approach to performance management. The company uses an Internet Relay Chat, which employees sign onto regularly to hold real-time meetings. Also, a software system called Worklog was developed by the company specifically to allow employees to mark off tasks when they have been accomplished. The company’s method for evaluation and feedback are also adapted for virtual teams. Output and results produced are the focus of measuring productivity. There is not a strict chain of command in the MySQL work environment. Colleagues often seek out advice or ask questions to coworkers electronically, and all employees help manage individual and team performance by evaluating one another. Performance is also evaluated based on required weekly reports of accomplishments and by keeping track of employee involvement through conference calls and frequency of electronic communications, such as chat sessions and emails.

In short, MySQL has adapted to a virtual work environment by using technology that enables some unique strategies to be used for managing the performance of both individuals and teams.
The reality of work today is that virtual teams are here to stay. This highlights the importance of implementing performance management systems that include a team component. Not doing so is likely to result in more negative than positive outcomes resulting from the work of virtual teams. For an example, see the nearby sidebar on MySQL’s attempts to reap the benefits and minimize potential pitfalls associated with virtual teams.

**Accountability as a key purpose of team performance management**

In the specific case of a system concerned with team performance, a key purpose is to make all team members accountable and to motivate them to have a stake in team performance.

Many organizations have become more team-based, but they have not changed their performance management systems to accommodate this new organizational reality, which presents a unique challenge. If the organization is based on teams, but performance is still measured and rewarded at the individual level, team performance will suffer. In fact, some of the existing individual rewards may motivate people not to contribute to team performance, and instead, to focus on individual performance only.

Organizations that choose to include a team component in their performance management system must answer the following questions:

» **How do we assess relative individual contribution?** How do we know the extent to which particular individuals have contributed to team results? How much has one member contributed in relation to the other members? Are there any slackers or free riders on the team? Is everyone contributing to the same extent, or are some members covering up for the lack of contribution of others?

» **How do we balance individual and team performance?** How can we motivate team members so that they support a collective mission and collective goals? In addition, how do we motivate team members to be accountable and responsible individually? In other words, how do we achieve a good balance between measuring and rewarding individual performance in relation to team performance?

» **How do we identify individual and team measures of performance?** How can we identify measures of performance that indicate individual performance versus measures of performance that indicate team performance? Where does individual performance end and team performance begin? Finally, based on these measures, how do we allocate rewards to individuals versus teams?
A study including interviews with 102 working adults in Hong Kong and another 96 in the Pearl River Delta (cities of Chung-shan, Quang-zhou, and Zhu-hai) showed organizations are faced with these challenging questions. For example, results revealed that about 38 percent of individuals participated in systems based on individual performance only, whereas about 34 percent participated in systems that included both individual and team components, and about 25 percent of respondents participated in systems that included a team component only.

Implementing a State-of-the-Science System

Although the questions I asked in the previous section may seem difficult to address, designing a performance management system that includes team performance is not difficult if you follow the following six team performance management principles:

» **Make sure your team is really a team.** As I described earlier, there are different types of teams. Before a team component is introduced in the performance management system, you need to make sure the organization does have actual teams.

» **Invest in performance management analytics.** Measuring team performance, as is the case with measuring individual performance, takes time and effort. You must be ready to make this investment for the measures to yield useful data.

» **Define measurement goals clearly.** Defining how the data will be used (for example, administrative versus developmental purposes, or both) is a decision that you need to make before you design measures of team performance. As is the case with individual-level analytics, there are different variables that must be taken into account in relationship to the measures’ purpose (for example, what will be the sources of data, how data will be collected, and so forth).

» **Use a multimethod and multisource approach to measurement.** The measurement of team performance is complex. So you need multiple methods and sources of data.

» **Focus on process as well as results.** Behavioral and process-oriented measures as well as results and outcomes are as useful for team performance management systems as for individuals. Thus, you need to give serious consideration to how both types of measures will be used within the context
of managing team performance. In other words, you should measure the results that teams produce and also how they achieve those results.

» **Measure long-term changes.** Although short-term processes and results are easier to measure, you need to also consider long-term measures of performance. You need to sample team performance over a variety of contexts and also over time.

Figure 14–1 shows the basic components of the team performance management process.

In the rest of this chapter, I will cover how to include a team component in a performance management system. In doing so, I discuss how organizations can address each of the questions I asked earlier.
Step 1: Establishing prerequisites

The first component of the team performance management process involves two prerequisites:

- **You need to have good knowledge of the organization’s mission.** This prerequisite is present regardless of whether there is an emphasis on team performance. This knowledge, combined with knowledge regarding the mission of the team’s unit, allows employees and teams to make contributions that will have a positive impact on the unit and organization as a whole.

- **You need to have good knowledge of the job in question.** In the case of individual jobs, a job analysis is conducted to determine the key components of a particular job: what tasks need to be done, how they are to be done, and what knowledge, skills, and abilities (KSAs) are needed to do them. Similarly, if you have good information about what a team is supposed to do and how, then it is easier to establish criteria and measures for team success.

Job descriptions summarize the job duties, needed KSAs, and working conditions for a particular position. In the case of teams, job descriptions take the form of what are called team charters. Much like job descriptions, team charters can be very detailed and refer to the team activities.

Team charters differ from job descriptions in that they also include information on within-team processes such as communication. Overall, good team charters include the following components:

- **Strategic alignment:** How does the team’s work support and relate to unit and organizational goals?

- **Team purpose:** What is the team’s reason for being?

- **Team objectives, goals, and priorities:** What are the team’s primary objectives and how are they prioritized?

- **Key stakeholders:** Who are the key stakeholders who have an interest in the team’s work?

- **Team customers:** Who are the team’s internal and external customers?

- **Team leader and sponsor:** Who is the team leader and who is its champion (that is, a team supporter who is not a member of the team and has decision-making power in the organization)?

- **Team member roles and responsibilities:** Who are the team members and what are their respective roles and responsibilities?
Team member time commitments: What time commitments are expected of all team members?

Team communication plan: What are the communication rules for the team? How often will you communicate, and what forms will communication take?

Team ground rules: What rules will the team adopt about interactions among team members, such as how to conduct meetings?

In/out of scope elements: What tasks and functions are in scope for the team, and which ones are out of scope?

Key deliverables: What are the team’s key deliverables or tangible work products?

Performance analytics: How will we measure team success?

In addition to considering the team’s charter, you still need to identify KSAs that will allow individuals to make a positive contribution to the team. These include not only KSAs related directly to the task at hand, such as a programmer who needs to have knowledge of a particular programming language. These are usually in each employee’s job description. Rather, I’m talking about KSAs that are especially conducive to team performance. Examples include the following:

Communication: Giving and receiving constructive feedback, listening, and sharing information and ideas

Decision making: Helping the team make decisions

Collaboration: Dealing with conflict effectively, committing to the team and its goals, valuing the diversity and experience of other team members, and sharing accountability

Team leadership: Taking on the role of team leader, including knowing how to extract the best out of the team

Self-control: Keeping emotions under control and not displaying negative actions even when faced with opposition or even hostility from others

The University of California at San Diego (UCSD), like many other universities around the world, is structured around academic and administrative units called departments. Each of these departments can be considered a team. In terms of the prerequisites component, individual departments at UCSD develop a mission statement that is clearly related to the overall university’s mission. This process allows each member of the team to become knowledgeable regarding the university’s overall mission. After the department’s mission is established, individual job descriptions are discussed and directly linked to both the mission of the university and the mission of the department. Job descriptions include KSAs needed for both individual and department performance.
Step 2: Performance planning

The second component of the performance management process shown in Figure 14-1 involves performance planning. Performance planning includes the consideration of results and behavior. In addition, performance planning involves the creation of a developmental plan. Each of these issues needs to be considered at the team level: results expected of the team, behaviors and process expected, and developmental objectives to be achieved by the team and its members.

A discussion of results must include key team accountabilities, specific objectives for each key accountability (goals to be reached), and performance standards (what constitutes acceptable and unacceptable levels of performance). A discussion of behaviors needs to include competencies (clusters of KSAs).

Finally, the developmental plan includes a description of areas that need improving and goals to be achieved in each area. The plan includes not only goals for the team as a whole but also developmental objectives for individual performance that will benefit team performance. For example, the team may have as its goal improvement of its internal decision-making processes, and some team members may have the individual goal to improve listening skills, which would help to improve the team’s decision-making processes.

Try to follow the following recommendations to facilitate and accelerate team learning and development:

- **Facilitate adaptive learning.** As part of the team developmental plan, encourage team members to try new behaviors. Also, as the team completes work or a specific project, you can review changes made in processes to understand what worked and what did not.

- **Facilitate generative learning.** Give teams information about best practices implemented by other teams in the same organization or even in other organizations. Give teams time to practice new skills until they become habitual.

- **Facilitate transformative learning.** Encourage teams to experiment with new ways of working together, including a discussion of feelings of uncertainty when facing change. Invite members from other teams to participate in discussions about performance or even to work as team members temporarily as a way of importing innovation and change into the team.

Duke University in Durham, North Carolina, considers performance planning to be the foundation of its performance management system, which creates the groundwork for what the supervisor and the team expect of the individual throughout the performance year. The process at Duke consists of two parts: understanding the behaviors that are expected, and defining the job results that are expected.
Step 3: Performance execution

The third component of the performance management process involves performance execution. Autonomous teams are solely responsible for performance execution; however, when a team has a supervisor or team leader, then both the team and the supervisor share responsibilities for performance execution. For example, team members need to be committed to goal achievement and should take a proactive role in seeking feedback from one another as well as from the team leader (if there is one).

The burden is on the team to communicate openly and regularly with its supervisor.

Also, team members are responsible for being prepared for the performance review by conducting regular and realistic peer assessments and check-ins. In this way, team members have solid information regarding their performance as perceived by other team members before they meet the team leader.

The team leader also has important responsibilities, including observing and documenting team performance and the relative contribution of the team members, updating the team on any changes in the goals of the organization, and providing resources and reinforcement so that team members will be motivated to succeed.

TEAM PERFORMANCE MANAGEMENT AT WHATABURGER

Related to team performance execution, team performance management can be fun. For example, let me tell you about Whataburger, a Texas-based fast-food chain of about 800 restaurants in the southern United States and in Mexico. The company holds an event called the “Whataburger Games” twice per year, during which managers, cooks, dishwashers, servers, and busboys compete in events testing their team skills against others in the company. The top prize winners receive $5,000 in cash.

The company believes that many benefits result from holding the games twice per year. According to management, the goals of the games are to emphasize operating procedures, to improve skills, to enhance teamwork, to reduce turnover, and to enhance the overall performance of the restaurants. The finals of the competition are held in conjunction with the managers’ convention, where winners are formally recognized before corporate owners and executives, along with peers and management, in a ceremony awarding medals and cash prizes. In summary, the leadership at Whataburger has identified a friendly and fun competition as part of the overall performance management system that aims to contribute to improved team performance and the success of the company.
Building and leading high-performing teams requires specific KSAs:

- Trust is a critical issue in most organizational contexts, but trust is especially important in virtual teams. Specifically, team members have to trust their leaders, but also their peers, and the entire organization to be most effective.
- Team leaders also need to help establish a motivating vision and goals for the team.
- Team leaders need to be able to provide helpful feedback to the entire team, as well as individual team members.

**Step 4: Performance assessment**

The fourth component of the performance management process is performance assessment.

All team members must evaluate one another’s performance as well as the overall performance of the team. Peer evaluations are a key component of the assessment stage because they lead to higher levels of workload sharing, cooperation, and performance. Also, team coordination and feedback improve when peers monitor the performance of all other members in the team. This in turn leads to the recognition of errors and to taking subsequent actions to correct these errors quickly. Also, the team leader evaluates the performance of each team member as well as the team as a whole. Finally, members from other teams may also evaluate the performance of the team, which would apply only if members of other teams have firsthand experience with the performance of the team in question.

Peer evaluations can also include team members nominating someone else as the review period’s most valuable performer (MVP).

Involvement of each team member in the performance assessment process increases the members’ ownership and commitment to the system. Self-appraisals also provide important information to be discussed during the performance review. In the absence of self-appraisals, it is often not clear to team leaders whether the team and its members have a real understanding of what is expected of them.

In short, you need to assess three types of performance:

- Individual performance based on task performance, which refers to the specific activities required by one’s individual job, such as a programmer’s ability to write quality code.
Individual performance based on contextual performance, which refers to specific activities that contribute to team performance, such as team members cooperating with each other. Team performance as a whole.

Although the saying goes, “There is no ‘I’ in team,” it just isn’t true because teams consist of individuals with their individual motivation, needs, and talents. The system should include a good combination of both “me” and “we” considerations.

How can you assess the “we” side of performance? As in the case of measures of individual performance, measures of team performance should include both results and behaviors.

Make sure you measure team performance as a whole using these performance dimensions:

- **Effectiveness**: The degree to which results satisfy team customers and stakeholders, including both internal and external customers. Results could be the same as those that are measured to evaluate individual performance, which includes measures of quality, quantity, cost, and time.

- **Efficiency**: The degree to which internal team processes support the achievement of results, team growth, and team member satisfaction, which includes measures of communication, coordination, collaboration, and decision making.

- **Learning and growth**: The degree to which the team is able to learn new skills and improve performance over time. Specific measures are innovation, documented learning, best practices, and process improvements.

- **Team member satisfaction**: The degree to which team members are satisfied with their team membership. Measures include team members’ perceptions regarding the extent to which teamwork contributes to their growth and personal well-being.

In total, don’t include more than about 15 measures of overall team performance; otherwise, team members may spend too much time collecting information and monitoring their activities and insufficient time actually working on their assigned tasks.

One more tip: When the team has a meeting to assess its own overall performance, include a person from outside the team as part of the performance discussion. This addition helps team members be more objective in their evaluation.
Step 5: Performance review

The fifth component of the performance management process is the performance review, which takes place when the team members meet with the team leader or manager.

In organizations that are structured around autonomous teams, there may not be a supervisor or manager. In that case, a team leader or representative would meet with a performance review board, which includes representatives from all teams.

At least two meetings are needed:

- **The team leader meets with all members of the team together.** The focus of this meeting is to discuss the overall team performance, including results achieved by the team as a whole. Information for this meeting comes from
team members evaluating their collective performance, other teams evaluating the team in question, and the supervisor’s evaluation.

» **The team leader meets each team member individually.** The focus of this meeting is to discuss how the individual’s behaviors contributed to team performance. Information for this meeting comes from individuals evaluating their own performance, peer ratings of the individual’s performance, and the supervisor’s evaluation. Recall the discussion in Chapter 6 regarding giving praise and constructive feedback (including the use of a strengths-based approach to giving feedback).

Both meetings emphasize the past, the present, and the future. The past involves a discussion of performance during the review period. The present involves any changes in compensation, depending on results obtained. The future involves a discussion about goals and developmental plans the team and its members will be expected to achieve during the next review period. Discuss specific KSAs that would be important for a particular team member to develop further in the future.

In the particular case of virtual teams, a study involving more than 400 professionals showed that these two KSAs are related to virtual team member performance:

» **Leading and deciding:** Making clear decisions, taking responsibility, motivating other team members, acting on own initiative, working autonomously, and setting clear goals for other team members.

» **Analyzing and interpreting:** Using communication media effectively, communicating in writing understandably and in a structured way, working in a solution-oriented way, analyzing data effectively, effectively learning to use new technologies, gaining an understanding of others’ tasks, working effectively with computers and digital media, and showing analytical skills.

Now pause for a moment to reflect on these two team competencies, which are particularly relevant for virtual teams. Which of the behaviors involved in each of the competencies are your strengths? Which your weaknesses? Given the inevitability of virtual teams in your career progression, what steps could you take to improve your proficiency regarding each of your weaknesses?

An important issue in team performance management is that in addition to individual performance, the system includes individual performance as it affects the functioning of the team, as well as the performance of the team as a whole.
USING PERFORMANCE MANAGEMENT TO TURN “B PLAYERS” INTO A WINNING TEAM

What can team leaders do to turn “B players” into a winning team? In 2004, Greece, which was an underdog by a long shot, won the European Championship, one of the most competitive soccer tournaments in the world. Greece was considered a peripheral team with mostly unknown players. But they defeated favorites France and Portugal and lifted the trophy. This victory made Greece the first team to defeat both the holders (France) and the hosts (Portugal) in the same tournament. The odds that Greece would win had been estimated at 1 out of 150! But they won. Why? The following four performance management factors were key:

- **Vision** is the performance planning component of the performance management system. There needs to be a good idea of future goals. In addition, there should be a clear strategy on how to achieve them. In other words, what are the specific results and behaviors expected of team members and the team as a whole?

- **Performance analytics** is the performance assessment component of the performance management system. Team leaders can make better decisions if they have accurate and fair performance data — from multiple sources.

- **Feedback** is an essential ingredient of the performance review component of the performance management system. In the context of team performance management, this involves information on individuals and also information on the team as a whole.

- **Morale** requires the collective engagement of the entire team. When all the components of a state-of-the-science performance management system are in place, the natural result is that team members share common goals, are motivated to achieve those common goals, and have the necessary resources to do so. When team members feel that they are part of something bigger than each individual, they work together and are able to achieve great things. This means that cooperation is valued more than competition, and the team — as a whole — is on a journey of continuous improvement. To be able to enhance a team’s morale, it is important for team members to also see that the leader is committed to the team, and not just using the team as a springboard of his next career move.

Connecting team performance management with team rewards

Organizations that implement performance management systems that include team performance must redesign their rewards system to reward team performance.
Teams of workers in the production line at Motorola’s plant in Tianjin, China, receive additional compensation if they keep the percentage of errors under a prespecified threshold.

A recent study investigated the effects of implementing a pay-for-performance system at the team level with top management teams at a global information technology company. The teams included seven or eight members. Each of the teams had team-level performance goals, which were specific but differed from team to team. Rewards were allocated based on organizational performance goals (25 percent), team-level goals (50 percent), and individual-level goals (25 percent). Similarly, at Apple and Google, team performance assessment and rewards are part of the formal review process.

Organizations can reward team performance in ways similar to those in which they reward individual performance. For example, take the case of Phelps Dodge Mining Company. The company implemented a team-based reward system involving more than 4,200 employees in six locations throughout North America. The company moved from being unionized to being nonunionized, and a key strategic objective was to help employees move away from working for an hourly wage to understanding how to work as a salaried workforce. To accomplish this goal, team performance was measured and rewarded accordingly. For example, a team goal in a truck maintenance shop was to shorten the time that trucks were off-line for maintenance. Goals were set through the active participation of all team members, and employees are given additional compensation, depending on whether they accomplish team-based goals.

An organization can have a variable pay system in which an individual is eligible for a bonus if his or her team achieves specific results. This reward would be in addition to any performance-based rewards allocated according to individual performance (either task performance or contextual performance). The amount of the bonus could also be controlled by the team: Teams that are able to generate savings that result from controlling cost and improving efficiency may see some of this money come back in the form of bonuses. In this case, the rewards are called self-funded. In other cases, the bonus can come from a company-wide pool that varies each year, based on overall organizational performance.

Team-based rewards are effective if they are implemented following similar principles as those used for individual rewards. For example, all teams should be eligible, and rewards should be visible, contingent, and reversible. Do these team-based reward systems work? In one study, team performance-based pay motivated teams to spend 22 percent more time on the task at hand, which led to improved performance.
A study consisting of a review of 30 separate investigations concluded that team rewards are more potent in smaller compared to larger teams. The reason? In smaller teams, it is easier for everyone to see everyone else’s effort, motivation, and performance. Also, studies have provided evidence in support of team-based contingent pay plans.

But similar to the case of individual rewards, in implementing team rewards, you need to be aware of the factors that make rewards fail. For example, rewards given to team members based on the extent to which they cooperate with each other are likely to enhance accuracy, but not necessarily speed. If the goal of the reward is to motivate employees to work faster, giving rewards for cooperation may be yet another example of what former chief learning officer for Goldman Sachs, Steve Kerr, called the “folly of rewarding A while hoping for B.”
Before the performance management system is rolled out, it is a good idea to test a version of the entire system so that adjustments and revisions can be made as needed. You don’t want to roll out a performance management system that has a major flaw, right?

Also, after the system is in place, you will find it useful to collect data to see what is working and what is not. You can use this information to make fixes where needed.

**Pilot Testing the Performance Management System**

In the pilot test of the system, you implement the system in its entirety from beginning to end, including all the steps that would be included if the system is fully implemented. In other words, meetings take place between supervisor and employee, performance data are gathered, developmental plans are designed, and feedback is provided.

The most important aspect of the pilot test is that all participants maintain records, noting any difficulties they encounter, ranging from problems with the appraisal form to how performance is measured to the quality and usefulness of feedback received.
The pilot test allows for the identification and early correction of any flaws before the system is implemented throughout the organization.

**Reasons for doing a pilot test**

The pilot test allows you to gain information from the perspective of the system’s users on how well the system works, to learn about any difficulties and unforeseen obstacles, to collect recommendations on how to improve all aspects of the system, and to understand personal reactions to it.

Also, conducting a pilot test is yet another way to achieve early acceptance from a group of people, those involved in the pilot test, who can then act as champions for the performance management system.

Participants in the pilot test can help you “sell” the performance management system to the rest of the organization. In this way, the system is not seen as owned by the HR function, but by the entire organization.

A final reason for conducting a pilot test is that end users are likely to have a higher system acceptance rate, knowing that stakeholders in the company had a say in its design, rather than feeling that the system was created by the HR department alone.

Don’t assume that the performance management system will necessarily be executed as planned or that it will produce the anticipated results.

**Selecting the pilot test group**

In larger organizations, it’s important to select the right group of employees for the pilot test. In choosing this group, you need to understand that the managers who will be participating should be willing to invest the resources, including time, needed to do the pilot test.

The pilot test group should be made up of managers who are flexible and willing to try new things. Also, make sure managers receive a realistic preview about what the system looks like before they decide whether to participate in the pilot test.

In selecting the group, make sure the group is sufficiently large and representative of the entire organization so that reactions from the group will be generalizable to the rest of the organization. So in selecting the group, select jobs that are similar to those throughout the company, and the group selected is not an exception in either a positive or a negative way. In other words, the group should not be regarded as particularly unique in terms of its productivity or anything else.
PILOT TESTING THE PERFORMANCE MANAGEMENT SYSTEM AT THE WASHINGTON STATE PATROL

The Washington State Patrol (WPS) realized that several changes were occurring, just as similar changes were occurring in patrol departments in other states. This prompted the revision of its performance management system. WSP established a committee to develop the new appraisals. Before implementing the system, the state patrol pilot tested it in two districts. First, the committee prepared a training module that included a pre-appraisal work group meeting. In this meeting, employees discussed their roles and expectations surrounding the performance management system and applied those discussions to a common goal. The training also focused on how new developments in the patrol led to new elements in the performance management system. The trainers encouraged the participants to ask questions regarding the shift to the new approach. The trainers then used the feedback received in these sessions to fix specific operational issues before introducing the training to the entire agency.

After the appraisal process was fine-tuned, it was submitted for the approval of the troopers’ and sergeants’ associations. A select number of individuals across the districts received “train the trainer” training. Finally, the system was instituted agency-wide. Each of these steps allowed the Washington State Patrol to identify potential barriers that could have prevented the system from being successful.

The Gap, Inc., chose to pilot test its revamped performance management system in a representative store because it is a self-contained business unit.

Pilot tests provide crucial information to be used in improving the system before it is actually put in place. Pilot testing the system provides huge savings and identifies potential problems before they become irreversible and the credibility of the system is ruined permanently.

Ongoing Monitoring and Evaluation of the Performance Management System

When the testing period is over and the performance management system has been implemented organization-wide, it is important to use clear measurements to monitor and evaluate that things are working as expected.
How do you evaluate the system’s effectiveness? How do you evaluate the extent to which the system is being implemented as planned, and how do you evaluate the extent to which it is producing the intended results?

**What to measure**

Evaluation data should include reactions to the system and assessments of the system’s operational and technical requirements.

For example, you can administer a confidential survey to all employees, asking about perceptions and attitudes regarding the system. This survey can be administered during the initial stages of implementation and then at the end of the first review cycle to find out if there have been any changes.

Also, regarding the system’s results, you can measure performance ratings over time to see what positive effects the implementation of the system is having.

Finally, you can also interview key stakeholders, including managers and employees who have been involved in developing and implementing the performance management system.

**EVALUATING THE PERFORMANCE MANAGEMENT SYSTEM IN THE U.S. FEDERAL GOVERNMENT**

The U.S. federal government takes the evaluation of performance management systems very seriously. For example, several laws have been passed and bills are being prepared that mandate federal agencies to develop a strategic plan, a performance plan, and a performance report.

Although these initiatives concern agencies and not individuals, ultimately, the performance of any agency depends on the performance of the individuals working in that agency. The net result of such laws as the Government Performance and Results Act is an increase in accountability and funding allocation based on performance. Thus, federal agencies are required to evaluate the relative efficiency of their various management techniques, including performance management systems.
How to measure

These are good measures you can use on a regular basis to monitor and evaluate the system:

» Number of people evaluated: One of the most basic measures is the number of employees who are actually participating in the system. If performance evaluations have not been completed for some employees, you need to find out who they are and why a performance review has not been completed.

» Quality of qualitative performance data: An indicator of quality of the performance data refers to the information provided in the open-ended sections of the appraisal forms. For example, how much did the rater write? What is the relevance of the examples provided?

» Quality of follow-up actions: A good indicator of the quality of the system is whether it leads to important follow-up actions about development activities and improved processes. For example, to what extent follow-up actions involve exclusively the supervisor as opposed to the employee? If this is the case, then the system is not working as intended because employees are not sufficiently involved. Also, to what extent have employees learned from their successes and failures and applied those lessons to the future?

» Quality of performance discussion meeting: You can distribute a confidential survey to all employees on a regular basis to gather information about how the supervisor is managing the performance discussion meetings. For example, is the feedback useful? Has the supervisor made resources available so the employee can accomplish the developmental plan objectives? How relevant was the performance review discussion to one’s job? To what degree have developmental objectives and plans been discussed? To what extent does the supervisor’s way of providing feedback encourage direct reports to receive more feedback in the future?

» System satisfaction: You can also distribute a confidential survey to measure the perceptions of the system’s users, both raters and ratees. This survey can include questions about satisfaction with equity, usefulness, and accuracy.

» Overall cost/benefit ratio: A fairly simple way to address the overall impact of the system is to ask participants to rate the overall cost/benefit ratio for the performance management system. This is a type of bottom-line question that can provide convincing evidence for the overall worth of the system. The cost/benefit ratio question can be asked in reference to an individual (employee or manager), the job, and the organizational unit.

» Unit-level and organization-level performance: Another indicator that the system is working well is provided by the measurement of unit- and organization-level performance. Such performance indicators might be customer satisfaction with specific units and indicators of the financial
performance of the various units or the organization as a whole. It may take some time for changes in individual and group performance level to be translated into unit- and organization-level results.

Don’t expect results as soon as the system is implemented; however, you will start to see some tangible results at the unit level a few months after the system is in place.

EVALUATING THE PERFORMANCE MANAGEMENT SYSTEM AT THE WASHINGTON STATE PATROL

In a sidebar earlier in this chapter, I discuss pilot testing the performance management system at the Washington State Patrol. Let’s take a look at how this organization evaluated effectiveness after the system was implemented.

The patrol has several measures in place for continual monitoring and evaluation. Before all employees were reviewed using the system, they were surveyed regarding their satisfaction with the new system. This input was then used to further improve the appraisal process. In addition, the patrol uses the results of a biyearly citizen's survey conducted by Washington State University. The results of this survey are used to determine whether the state patrol’s customers are satisfied with its performance, and the data are also used to adjust and reprioritize performance objectives. In addition, the data are used to measure division-level performance, one indicator of the success of the performance management process.

The Washington State Patrol collects other types of data as well. For example, every six months, division managers give presentations regarding performance management to their peers and to several executives. Initially, the meetings focused on efforts to implement the new performance management system and increase quality, but this will change as new issues arise. The presentation is 30–40 minutes long, followed by 20–30 minutes of questions from peers and executives.

The feedback from these presentations is used to measure how well the system is being implemented, and feedback on the success of the meetings will be used to make any necessary changes to the system. The Washington State Patrol may also want to consider measuring how many people are participating in the system. The patrol would also benefit from assessing whether the new system is distinguishing high- from low-level performers and from ascertaining the overall cost/benefit ratio of implementing the system.
Connecting Performance Management with Rewards and the Law
IN THIS PART . . .

Connect performance management to financial and nonfinancial rewards.

Set up an effective pay system.

Implement performance management systems that are legal and fair.
One of the purposes of performance management is to make administrative decisions about employees. And of those, decisions about rewards, which used to be labeled “compensation and benefits,” are the most meaningful consequences of a performance management system for many employees.

Clearly, most people are interested in their personal growth and development. But pay is often at the top of the list in terms of people’s needs — although they may rarely admit it openly. Also, from the perspective of organizations, compensation shapes the culture because it sends a very clear message about what behaviors and results are more or less valued.

In this chapter, I cover the two main types of rewards: financial (also called “tangible”) and nonfinancial (also called “intangible”). These are the basic ingredients of a reward systems. Also, you learn about how to connect performance management to different types of rewards.
Not All Rewards Are Created Equal

Until a few years ago, the terms “compensation” and “compensation and benefits” were used commonly. But more recently, these labels have been replaced with “rewards” and “total rewards.” A reward system is the set of processes for distributing both financial and nonfinancial rewards as part of an employment relationship.

Financial rewards

An employee’s financial rewards include cash compensation (base pay, cost-of-living and merit pay, short-term incentives, and long-term incentives) and benefits (income protection, work–life focus, tuition reimbursement, and allowances).

Nonfinancial rewards

Employees also receive nonfinancial rewards, which include recognition and status, employment security, challenging work, learning opportunities, and work–life focus, among others.

Not all types of rewards are directly related to performance management because not all types of rewards are allocated based on performance. For example, some allocations are based exclusively on seniority.

Different Types of Financial Rewards

There are six different types of financial rewards: base pay, cost-of-living adjustments and contingent pay, short-term incentives, long-term incentives, income protection, and allowances.

Base pay

The base pay, which usually includes a range of values, focuses on the position and duties performed, rather than an individual’s contribution. Thus, the base pay is usually the same for all employees performing similar duties and ignores differences across employees. However, differences within the base pay range may exist based on such variables as experience and differential performance.
Employees in most professional and managerial jobs (also called “salaried employees”) are exempt employees. On the other hand, nonexempt employees receive their pay calculated on an hourly wage.

In the United States, there is a difference between wage and salary. Salary is base cash compensation received by employees who are exempt from regulations of the Fair Labor Standards Act, and in most cases, cannot receive overtime pay.

**Cost-of-living adjustments and contingent pay**

*Cost-of-living adjustments* (COLA) imply the same percentage increase for all employees, regardless of their individual performance. COLA are given to combat the effects of inflation to preserve the employees’ buying power.

In 2017, in the United States, organizations that implemented COLA used a 3-percent pay increase. In 1980, it was 14.3 percent, whereas in 2013 it was only 1.5 percent. You can get year-by-year COLA percentages from the Social Security Administration ([www.ssa.gov/OACT/COLA/colaseries.html](http://www.ssa.gov/OACT/COLA/colaseries.html)).

*Contingent pay*, sometimes referred to as *merit pay*, is given as an addition to the base pay based on past performance. As I will describe later in more detail, contingent pay means that the amount of additional compensation depends on an employee’s level of performance.

For example, the top 20 percent of employees in the performance score distribution may receive a 10 percent annual increase, whereas employees in the middle 70 percent of the distribution may receive a 4% increase, and employees in the bottom 10 percent may receive no increase at all.

**Short-term incentives**

Similar to contingent pay, *short-term incentives* are based on past performance. But incentives are not added to the base pay and are only temporary pay adjustments based on the review period (for example, quarterly or annual). Incentives are one-time payments and are sometimes called *variable pay*. A second difference between incentives and contingent pay is that incentives are known in advance.

A salesperson in a pharmaceutical company knows that if she meets her sales quota, she will receive a $6,000 bonus at the end of the quarter. She also knows that if she exceeds her sales quota by 10 percent, her bonus will be $12,000. By contrast, in the case of contingent pay, in most cases, the specific value of the reward is not known in advance.
Long-term incentives

Whereas short-term incentives usually involve an attempt to motivate performance in the short term (such as the quarter or year) and involve cash bonuses or specific prizes (for example, two extra days off), long-term incentives attempt to influence future performance over a longer period of time. Typically, they involve stock ownership or options to buy stocks at a preestablished and profitable price.

The rationale for long-term incentives is that employees will be personally invested in the organization’s success, and this investment is expected to translate into a sustained high level of performance.

Both short-term and long-term incentives are quite popular. For example, surveys involving several hundred reward and HR practitioners across the public, private, and voluntary sectors by the Chartered Institute of Personnel and Development conducted over the past few years showed that between 50 percent and 65 percent of their organizations offer performance-based rewards. As we will discuss later in this chapter, some organizations such as Google are taking this idea to the limit and offer “big pay for big performance.”
Income protection

Income protection programs serve as a backup to employees’ salaries in the event that an employee is sick, disabled, or no longer able to work.

Other types of benefits under the income protection rubric include medical insurance, pension plans, and savings plans. These are optional benefits provided by organizations, but they are becoming increasingly important and often guide an applicant’s decision to accept a job offer.

Allowances

Benefits in some countries and organizations include allowances covering housing and transportation. These kinds of allowances are typical for expatriate personnel and are also popular for high-level managers throughout the world. In South Africa, for example, it is common for a transportation allowance to include one of the following choices:

» The employer provides a car and the employee has the right to use it both privately and for business.

» The employer provides a car allowance, more correctly referred to as a travel allowance, which means reimbursing the employee for the business use of the employee’s personal car.

INCOME PROTECTION IN THE U.S. AND CANADA

In the United States, employers pay 50 percent of an employee’s total contribution to Social Security so that income is protected for family members in case of an employee’s death or a disability that prevents the employee from doing substantial work for one year and for an employee when he or she reaches retirement age. For example, a 40-year-old employee earning an annual salary of $90,000, and expected to continue to earn that salary until retirement age, would receive about $1,739 a month if he retired at age 62 (in 2039), about $2,509 a month if he retired at age 67 (in 2044), and about $3,133 if he retired at age 70 (in 2047). (All of these figures are in 2017 dollars without calculating inflation.)

Canadian organizations pay into a fund that provides income protection in the case of a disability. For example, the University of Alberta offers a monthly income of 70 percent of salary to employees who become severely disabled.
Other allowances can include smartphones and their monthly charges, club and gym fees, discount loans, and mortgage subsidies.

These allowances are clearly a benefit for employees, and some of them directly or indirectly also produce a benefit for the employer. For example, providing smartphones means that employees are reachable via phone, text, and email pretty much at all times. Similarly, if employees take advantage of a gym fee allowance, they are likely to stay healthier, which in turn may lead to less health-related expenses for the organization.

**Different Types of Nonfinancial Rewards**

There are two types of nonfinancial rewards: relational and work-life focus.

### Relational

*Relational* rewards are about the relationship between the employee and the organization. Some examples of nonfinancial rewards are

- Recognition and status
- Employment security
- Challenging work
- Opportunities to learn
- Opportunities to form personal relationships at work (including friendships and romances)

Sun Microsystems, which has been purchased by Oracle, allows employees to enroll in SunU, which is Sun’s own online education tool. SunU encapsulates a mix of traditional classroom courses with online classes that can be accessed anywhere in the world at any time. Sun offers its employees enormous scope for development and career progression, and there is a commitment to ensuring that all employees are given the opportunity to develop professionally. The new knowledge and skills acquired by employees can help them not only to further their careers within Sun, but also, to take this knowledge with them if they seek employment elsewhere. Thus, some types of relational rewards can be long lasting.
Work-life focus

Work–life focus rewards include programs that help employees achieve a better balance between work and nonwork activities. These include time away from work such as vacation time, services to meet specific needs such as counseling and financial planning, time off for volunteering, and flexible work schedules such as telecommuting and nonpaid time off.

Sun Microsystems actively promotes an equal balance between work and home life and closes its Broomfield, Colorado, campus from late December through early January every year. This benefit (vacation time for all employees in addition to individual yearly vacation time) is part of Sun’s culture. Sun believes in a work hard–play hard attitude, as is evidenced by CEO Scott McNealy’s motto: “Kick butt and have fun.”

Many Silicon Valley companies, including Google, Apple, Asana, and Facebook, have become famous for offering work–life focus benefits, which also include free on-site gourmet cafeterias, auto insurance, free dry cleaning, concerts, on-site yoga classes, and concierge services that help employees plan vacations and even buy tickets for sporting events.

Does this mean that Google and other Silicon Valley companies are overly generous with their employees? Maybe not. This is a strategic and well thought-out reward policy because, as noted by Gerry Ledford, Senior Research Scientist at the Center for Effective Organizations in Los Angeles, “An employee who never has to leave the workplace to eat, shower, exercise, run errands, or sleep is an employee who can work extraordinarily hours — and is expected to do so.”

A benefit of work–life focus policies is that some programs are designed specifically to attract and retain Millennials, who typically place greater importance on work–life balance, compared to Baby Boomers.

PricewaterhouseCoopers makes annual contributions toward employees’ student loan repayment, and IBM, GE, and Accenture help nursing mothers by providing materials and funds to ship breast milk home when they are traveling on a work-related assignment.

Linking Performance Management with Different Types of Rewards

Table 16–1 includes a list of rewards, together with their degree of dependency on the performance management system.
Rewards with low dependency on performance management

As an example of the low end of the dependency continuum, cost-of-living adjustment has a low degree of dependency on the performance management system, meaning that the system has no impact on this type of reward. In other words, all employees receive this type of reward, regardless of their performance.

Rewards with high dependency on performance management

On the other end, short-term incentives have a high degree of dependency, meaning that the performance management system dictates who receives these incentives and who doesn’t.

Long-term incentives (for example, profit sharing and stock options) also have a high degree of dependency. Although this type of incentive is not specifically tied to individual performance, it does depend on performance measured at the team, unit, or even organizational levels.

### TABLE 16-1

<table>
<thead>
<tr>
<th>Reward</th>
<th>Degree of Dependency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost-of-living adjustment</td>
<td>Low</td>
</tr>
<tr>
<td>Income protection</td>
<td>Low</td>
</tr>
<tr>
<td>Work-life focus</td>
<td>Moderate</td>
</tr>
<tr>
<td>Allowances</td>
<td>Moderate</td>
</tr>
<tr>
<td>Relational rewards</td>
<td>Moderate</td>
</tr>
<tr>
<td>Base pay</td>
<td>Moderate</td>
</tr>
<tr>
<td>Contingent pay</td>
<td>High</td>
</tr>
<tr>
<td>Short-term incentives</td>
<td>High</td>
</tr>
<tr>
<td>Long-term incentives</td>
<td>High</td>
</tr>
</tbody>
</table>
Rewards with moderate dependency on performance management

Between the high and low end, we find some rewards with a moderate degree of dependency on the performance management system, such as base pay, a type of reward that may or may not be influenced by the system.

Think about the performance management system of your current employer. Based on Table 16-1, try to think about the various types of financial and nonfinancial rewards allocated in your organization. To what extent is each of these rewards dependent on the organization’s performance management system? Does the organization emphasize rewards that are related to performance or not? What does this tell you about the culture of your organization?
Pay is very important to most people, but this chapter teaches you that “throwing more money” at people not always improves performance. And this strategy may actually motivate employees to behave badly.

Also, you learn when and why you should implement a traditional versus a contingent (known as pay-for-performance) pay plan. Importantly, you will also discover pitfalls you should avoid when you implement contingent pay plans.

Setting Up Traditional and Contingent Pay Plans

A traditional approach in implementing reward systems is to reward employees for the positions they fill as indicated by their job descriptions and not necessarily by how they do their work. In other words, employees are rewarded for filling a specific slot in the organizational hierarchy.
Traditional pay plans

In traditional pay systems, your job directly determines pay and indirectly determines benefits and incentives received. Typically, there is a pay range that determines minimum, midpoint, and maximum rates for each job.

For example, a university may have five ranks for professors who have just been hired, with the following base pay:

1. Instructor (pay range: $50,000–$65,000)
2. Senior instructor (pay range: $60,000–$75,000)
3. Assistant professor (pay range: $80,000–$110,000)
4. Associate professor (pay range: $105,000–$125,000)
5. Professor (pay range: $120,000–$160,000)

In a traditional reward system, each of these positions would have a minimum, midpoint, and maximum base salary. For assistant professors, the minimum is $80,000 per year, the midpoint is $95,000, and the maximum is $110,000. Salary increases at the end of the year would be determined by seniority or by a percentage of a professor’s base salary (and the same percentage would be used for all people holding the same position). Rewards would not be based on teaching quality, as indicated by student teaching ratings, or research productivity, as indicated by the number and quality of publications.

If an assistant professor’s base salary is $110,000, she cannot realize an increase in her salary unless she is promoted to associate professor because $110,000 is the maximum possible salary for this job title.

In traditional reward systems, the type of position and seniority are the determinants of salary and salary increases, not performance. In such reward systems, there is a very weak or no relationship between performance management and rewards.

The traditional system is quite common. In South Korea, as is the case in other collectivistic cultures (including, for example, China), employees tend to avoid confrontation for fear of losing face. Thus, supervisors may be reluctant to give employees unsatisfactory performance ratings or ratings based on individual performance because this would single out individuals. Instead, systems that measure and reward team performance are more effective in collectivistic cultures. It is possible, however, to move away from more traditional systems based mainly on seniority by establishing clear links between performance management and other functions such as training. If you clearly establish such links, employees are more likely to see the benefits of the performance management system and believe that the system is fair.
Contingent pay plans

Contingent pay (CP), also called pay-for-performance, means that individuals are rewarded based on how well they perform on the job. Thus, employees receive increases in pay based wholly or partly on job performance. These increases can either be added to an employee’s base salary or can be a one-time bonus.

Originally, CP plans were used only for top management. Gradually, the use of CP plans extended to sales jobs. Now, CP plans are pretty much everywhere.

For example, as of 2001, about 70 percent of workers in the United States have been employed by organizations implementing some type of variable pay plan, and many of these organizations tie variable pay (for example, bonus, commission, cash award, lump sum) directly to performance. A remarkable change in the past two decades has been a steady decrease in base pay and an increase in different types of variable pay.

Rewards are increasingly influenced by performance, which highlights the increased importance and having a good performance management system that yields useful and fair information for making decisions about the allocation of rewards.

Let’s go back to the example of salaries for university professors. When a CP plan is implemented, pay raises are determined in part or wholly based on performance. For example, two assistant professors may be hired at the same time at the same base salary level (for example, $75,000). If one of them outperforms the other, year after year for several years, then eventually, the better performing assistant professor could make $110,000, which is a higher level of pay than most associate professors make. This is because every year, this assistant professor receives a substantial salary increase, part of which may be added to the base salary, based on her outstanding teaching and research performance. On the other hand, the other assistant professor may still be making the same amount, or close to the same amount, that he was making when he was first hired.

Under a traditional pay plan, an assistant professor would not receive a higher salary than most associate professors. Under such a plan, the assistant professor would have to be promoted to associate professor before she could receive a salary of $110,000, which is outside the traditional range for assistant professors.

Implementing Contingent Pay Plans

Why are organizations using CP plans? One reason is given by results of a survey of Fortune 500 companies, which showed that performance management systems are more effective when results are directly tied to the reward system.
When the performance management system has a direct relationship with the reward system, performance measurement and performance improvement are taken more seriously.

When a CP plan is implemented, organizations need to make clear what is expected of employees, what specific behaviors or results will be rewarded, and how employees can achieve these behaviors or results. This, in and of itself, serves as an important communication tool because supervisors and employees are better able to understand what really matters.

**The benefits of CP plans**

CP plans force organizations to define effective performance more clearly and to determine what factors are likely to lead to effective performance. Also, high-achieving performers are attracted to organizations that reward high-level performance, and high-level performers are typically in favor of CP plans. This tendency is called the sorting effect: Star performers are likely to be attracted to and remain within organizations that have implemented CP plans.

An organization’s ability to retain its star performers is obviously crucial if an organization wants to win the talent war and have a people-based competitive advantage.

An article published in the *Journal of Business* described a study at a glass installation company that found that productivity improved by 44 percent when the compensation system was changed from salaries to individual incentives. A closer look at the data showed that about 50 percent of the productivity improvement was due to the current employees being more productive, whereas the other 50-percent improvement was due to less productive employees quitting and the organization’s ability to attract and recruit more productive workers.

Contingent pay plans serve as a good tool to recruit and retain star performers as a result of the sorting effect, which in turn, leads to greater overall productivity.

Hicks Waldron, former CEO of cosmetics giant Avon, in an eloquent statement, explained why CP plans are so popular: “It took me 30 years to figure out that people don’t do what you ask them to do; they do what you pay them to do.”

How about organizations that are struggling financially? Can they still implement CP plans? Can they afford to give performance-based rewards to their employees? The answer is “yes” to both questions.
Making sure that top performers are rewarded appropriately keeps them motivated and prevent them from leaving the organization in difficult times. It is these top performers who are the organization’s hope for recovery in the future. In fact, giving rewards to poor performers means that these rewards are taken away from high-level performers.

CP plans improve employee motivation to accomplish goals that match organizational needs. CP plans have the potential to help people change behavior and improve performance.

For example, assume an organization is trying hard to improve customer satisfaction. Some units in this organization decide to implement a CP plan that awards cash to employees who improve their customer satisfaction ratings. By contrast, other units continue with a traditional pay plan in which there is no clear tie between performance levels and rewards. Who do you think will perform better — employees under the CP plan or those under the traditional plan? Well, if all other things are equal, it is likely that employees under the CP plan will improve the service they offer to customers. In fact, a review of several studies by Professor Edwin Locke from the University of Maryland concluded that using individual pay incentives increased productivity by an average of 30 percent.

Contingent pay plans and pay in general should not be regarded as the Holy Grail of employee performance. Pay only affects the motivation aspect of performance. If an employee is not performing well, pay may not solve the problem if poor performance results from a lack of knowledge as opposed to lack of motivation.

**Reasons why contingent pay plans fail**

In spite of the overall positive impact of CP plans, we should be aware that not all CP plans work as intended. In fact, several recent corporate scandals, including the one at Wells Fargo, are directly related to the implementation of CP plans.

Why is it that some CP plans don’t succeed and produce results that are so opposite to what they intend to do? The following sections offer some answers.

**A poor performance management system is in place**

What happens when a CP plan is paired with a poorly designed, poorly implemented performance management system, one that includes biased ratings and the measurement of unrelated performance dimensions? This situation leads some employees to challenge the CP plan legally.
PROBLEMS CAUSED BY CONTINGENT PAY AT WELLS FARGO

At Wells Fargo, retail bank employees had specific rewards associated with specific performance targets, such as selling eight banking products per household. Wells Fargo’s retail banking unit is critical because it has about 40 million customers.

What did this type of CP plan unwittingly motivate Wells Fargo employees to do? Many employees secretly opened phony bank and credit accounts without customers’ knowledge! Bank employees opened over 2.1 million deposit accounts that may not have been authorized.

From the employees’ perspective, the CP plan was quite straightforward. To receive rewards associated with the CP plan, employees knew what to do exactly: They moved funds from customers’ existing accounts into newly created ones, such as credit card accounts (often without clients’ authorization or even knowledge). Then customers were charged for insufficient funds or overdraft fees due to lack of funds in their original accounts, which resulted in monetary rewards for employees.

About 14,000 of those accounts incurred over $400,000 in fees, including annual fees, interest charges, and overdraft protection fees. What was the result for Wells Fargo? It faced the largest penalty since the Consumer Financial Protection Bureau was founded in 2011. The bank agreed to pay $185 million in fines along with $5 million to refund customers. The company’s latest estimate of the total cost of litigation losses is about $2 billion. Also, Wells Fargo had perennially been ranked as one of Fortune’s most admired companies, and it had been ranked number 25 in 2016. But it did not even make the list in 2017. Also, Harris Poll’s 2017 survey of corporate reputations showed that it plunged to the 99th place among the “most visible companies,” above only Takata, the company whose defective airbags have been linked to 11 deaths.

The scope of the Wells Fargo scandal is truly shocking, but it demonstrates the motivational power of CP plans — even to motivate people to do things clearly not in the interest of customers, the organization, or themselves. In fact, 5,300 Wells Fargo employees have been fired due to this scandal. But the blame should not be put entirely on employees because the performance management system played a critical role. At Wells Fargo, branch managers were told that they “would end up working for McDonald’s” if they missed sales quotas.

Rewarding behaviors and results that are not job-related will cause good performers to leave the organization. If that’s not bad enough, those who stay are not likely to be motivated to perform well.
There is the folly of rewarding A while hoping for B

What happens when the system rewards results and behaviors that are not those that will help the organization succeed, such as what happened in Wells Fargo? Employees engage in these often counterproductive behaviors when that is what will earn them the desired rewards. One example is the hope that executives will focus on long-term growth and environmental responsibility when, in fact, they are rewarded based on quarterly earnings. Given this situation, what are these executives likely to do? Will they think in the long term, or quarter by quarter?

A second example is an organization that would like its employees to be more entrepreneurial and innovative, but it doesn’t reward employees who think creatively. What are employees likely to do? Will they be innovative and risk not getting rewards, or will they continue to do things the old way?

A third example is an organization that would like employees to focus on teamwork and a one-for-all spirit, but it rewards employees based on individual results. This happens in many professional sports teams. What are professional athletes likely to do? Will they pass the ball, or will they try to score themselves as often as possible to improve their own individual statistics?

Rewards are not considered significant

What happens when a CP plan includes pay increases and other rewards that are so small that they don’t differentiate between outstanding and poor performers? For example, what happens when the top performers receive a 5-percent pay increase and an average performer receives a 3-percent or 4-percent pay increase? In this context, rewards are not really performance-based rewards, and they don’t make an impact. The message sent to employees is that performance is not something worth being rewarded.

WHY CONTINGENT PAY FAILED AT GREEN GIANT

Green Giant, which is part of the General Mills global food conglomerate, implemented a bonus plan that rewarded employees for removing insects from vegetables.

What was the result regarding performance? Initially, managers were pleased because employees were finding and removing a substantially higher number of insects. The initial enthusiasm disappeared, however, when managers found out that employees were bringing insects from home, putting them into vegetables, and removing them to get the bonus!
For rewards to be meaningful, they need to be significant in the eyes of the employees. Usually, an increase of approximately 12 to 15 percent of one’s salary is regarded as a meaningful reward and would motivate people to do things they would not do otherwise.

**Managers are not accountable**

What happens when managers are not accountable for how they handle the performance and the performance evaluation of their employees? They are likely to inflate ratings so that employees receive what the manager thinks are appropriate rewards. Similarly, employees set goals that are easily attainable so that performance ratings lead to the highest possible level of reward.

When managers are not held accountable, rewards may become the driver for the performance evaluation, instead of the performance evaluation being the driver for the rewards.

**Selecting a Contingent Pay Plan**

If your organization wishes to implement a CP plan, what should the plan look like? Based on the discussion of different forms of compensation earlier in this chapter, what considerations should you take into account in choosing, for example, among offering employees group incentives, profit sharing, or individual sales commissions? What is the appropriate mix of incentives at the organization, team, and individual levels?
A critical issue to consider is that of organizational culture. An organization’s culture is defined by its unwritten rules and procedures. For example, is the organization fundamentally built around individual performance, or is teamwork the norm? Is the organization one in which high-level performers are regarded as role models who should be emulated, or are they viewed as a threat to upper management? Are you happy with the current culture, or do you wish to change it? CP plans are powerful tools that help solidify the current culture, and they can also be used to create a new type of culture. There should be a careful consideration of the culture of the organization before a specific type of CP plan is selected.

Traditional versus involvement cultures

Consider the types of systems that can be implemented in cultures that we can label traditional versus involvement cultures. Traditional cultures are characterized by top-down decision making, vertical communication, and clearly defined jobs. What type of plan should be implemented in organizations with this type of culture? An effective choice would be a plan that rewards specific and observable measures of performance, where that performance is clearly defined and directly linked to pay. Examples of such CP systems are the following:

- **Individual incentives**: (1) **Piece rate.** Employees are paid based on the number of units produced or repaired. This system is usually implemented in manufacturing environments. In service organizations, this could involve the number of calls made or the number of clients, or potential clients, contacted. This system is usually implemented in call centers. (2) **Sales commissions.** Employees are paid based on a percentage of sales. This system is usually implemented in car dealerships.

- **Group incentives**: Employees are paid based on extra group production based on result-oriented measures (for example, sales volume for the group). This system is implemented frequently in the retail industry.

An involvement culture is different from traditional culture. Organizations with involvement cultures are characterized by shared decision making, lateral communications, and loosely defined roles. Examples of systems that work well in organizations with involvement cultures are the following:

- **Individual incentives**: **Skill-based pay.** Employees are paid based on whether they acquire new knowledge and skills that are beneficial to the organization. This type of system is usually implemented in knowledge-based organizations such as software development companies. A Compensation Programs and Practices survey conducted by WorldatWork showed that about 70 percent of private sector firms used skill acquisition as a yardstick for employees’ base pay increase.
**Group, unit, and organizational incentives: Profit sharing.** Employees are paid based on the performance of a group (for example, team, unit, or entire organization) and on whether the group has exceeded a specific financial goal. This type of system is implemented in many large law firms.

**Strategic direction**

In addition to the organization’s culture, an important consideration in selecting a CP plan is the organization’s strategic direction. Strategy is not only a key element in designing the performance management system, but it is also a key element in designing a CP plan. Table 17-1 includes a selected list of strategic objectives and CP plans that are most conducive to achieving each objective.

<table>
<thead>
<tr>
<th>Strategic Business Objective</th>
<th>Contingent Pay Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee development</td>
<td>Skill-based pay</td>
</tr>
<tr>
<td>Customer service</td>
<td>Competency-based pay and gain sharing</td>
</tr>
<tr>
<td>Individual productivity</td>
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<tr>
<td>Team productivity</td>
<td>Gain sharing and team incentives</td>
</tr>
<tr>
<td>Teamwork</td>
<td>Team sales commissions, gain sharing, and competency-based pay</td>
</tr>
<tr>
<td>Overall profit</td>
<td>Executive pay, profit or stock sharing</td>
</tr>
</tbody>
</table>

Based on Table 17-1, if employee development is a key strategic priority, rewards should emphasize new skills acquired. If customer service is a priority, then rewards should emphasize competencies related to customer service and gain sharing. Gain sharing links individual and group pay to an organization's overall profitability: the greater the organization’s overall profit, the greater the rewards given to individuals and teams in the organization. In this case, gain sharing would be based on whether customer service ratings improve during the review period.

If the major goal of the CP plan is to increase the organization’s overall profit, choices include executive pay and profit or stock sharing. Executive pay includes cash bonuses that are given in response to successful organizational performance. Usually, however, executive pay includes company stock to ensure that executives’ activities are consistent with the shareholders’ interests and to encourage
executives to tend to the long-term performance of the organization. This is also called profit sharing, although profit sharing is usually short-term and focused on organizational goals while stock sharing and executive pay are more long-term.

Stock sharing has caught media attention in recent years. In this type of plan, stock is distributed as a reward, or executives are given the option to buy company stock at a reduced rate per share.

Stock sharing has led many executives to attempt to maximize their personal wealth by inflating the price of their personal stock, often through fraudulent means, and selling their stock before the public is aware of the situation. This happened at Enron and WorldCom, where thousands of investors lost their retirement funds.

Take the example of Google, described in a nearby sidebar. Some argue that Google can only employ the strategy of “big pay” because it has so much money. But this is not accurate. Google, like all other companies, has a limited amount of money to be allocated to employee compensation — albeit the total pool is larger than other companies. As noted by Google’s former VP for People Operations Laszlo Bock, “The only way to stay within budget is to give smaller rewards to the poorer performers, or even the average ones. That won't feel good initially, but take comfort in knowing that you’ve now giving your best people a reason to stay with you, and everyone else a reason to aim higher.”

Google’s policy of big pay for big performance works because it is based on empirical evidence. A review of 146 studies involving more than 30,000 people published in the Journal of Occupational and Organizational Psychology showed that when rewards are distributed equitably (that is, based on performance), performance improves compared to a distribution based on the principle of equality (that is, similar salaries for people in similar positions).

What pay can and cannot do about improving performance

Is pay the main motivating factor driving people? For most of the 20th century, the belief was that people go to work to collect a paycheck and money was the main, or even the sole, motivator.

In the 21st century, however, we now recognize that pay is not everything. For most people, money is an important motivator because it supplies many things from basic needs (such as food and shelter) to providing higher education for one’s children and a means for retirement.
But people seek more than just a paycheck when they go to work. People want to work in an environment of trust and respect, where they can have fun and develop relationships with others, and do meaningful and interesting work. People also want to balance their work and home lives, and this is particularly salient for Millennials.

A survey by the online job-searching site CareerBuilder.com showed that 42 percent of working fathers say they are willing to see a reduction in their pay if this means having a better balance between work and home. In addition, people look for learning and developmental opportunities that may lead to better career opportunities in the future.

Pay is just one element in a set of management practices that can either improve or reduce employee commitment and satisfaction, teamwork, and performance. It is true that people do work for money, and an organization’s pay level and pay structure affect productivity. On the other hand, people also seek meaning in their lives and need leisure time to pursue nonwork interests.

**FAIRNESS, NOT EQUALITY: BIG PAY FOR BIG PERFORMANCE AT GOOGLE**

At Google, contingent pay has been a part of the company’s approach to compensation for many years. Google has long ago realized that the best people are increasingly discoverable and mobile. Just a few years ago, performance information on individual employees was very difficult to come by. But social media websites such as LinkedIn make this information quite obvious. Many companies use systems labeled “internal equity,” which involves restricting pay so that top performers are not paid much more than average performers. In contrast, Google’s approach emphasizes “fairness” over “equality.” Specifically, Google’s definition of fairness is not to pay everyone the same, but that pay is commensurate with contribution.

As noted by Google’s former VP of People Operations Laszlo Bock, there are situations where “two people doing the same work can have a hundred times difference in their impact and in their rewards. For example, there have been situations where one person received a stock award of $10,000 and another working in the same area received $1,000,000. . . . The range for rewards at almost any level can easily vary by 300 to 500 percent. . . . We have many cases where people at more junior levels make far more than average performers at more senior levels. It’s a natural result of having greater impact, and a compensation system that recognizes that impact.”
Organizations that believe that money is all that motivates people are basically bribing their employees and will eventually pay a high price in a lack of employee loyalty and commitment.

A reward is something that increases the frequency of an employee action. In other words, when an employee is given a reward, you expect to increase the chances that specific results and behaviors will be repeated or that the employee will engage in new behaviors and produce better results.

If pay raises are not producing this result, because they are not meaningful or are given arbitrarily, then you should not view them as rewards.

What can organizations do to ensure that actions intended to be rewards are actually regarded as rewards? What can they do to make rewards work? Consider the eight recommendations detailed in the following sections.

**Define and measure performance first, then allocate rewards**

Before you allocate rewards, there must be a good performance management system in place that (1) defines performance and performance expectations, and (2) measures performance well.

In many cases, organizations believe that they have a rewards problem when in fact, the problem is with the definition and measurement of performance.

**Use only rewards that are available**

If the organization doesn’t have financial rewards available, then employee expectations should be adjusted accordingly, and the focus should be on nonfinancial rewards. It makes no sense to discuss pay raises as an important component of a CP plan if existing budget constraints mean meager raises.

**Make sure that all employees are eligible**

In many organizations, top executives receive profit sharing, stock options, executive life and liability insurance, invitations to meetings in attractive locations, and permission to fly first-class. Are these benefits truly rewards as I have defined them here? Do these incentives enhance motivation? In general, they seem to do so because they motivate lower-level employees to strive to become executives. However, what would happen if these types of incentives were extended to the lower ranks of an organization? What if nonexecutive members of organizations were also eligible for such rewards based on their performance level? By making more employees eligible for the potential reward, there is a greater chance that more employees will strive to become top performers.
Make rewards visible

Rewards should be visible to those who receive them. Rewards should also be visible to others along with information about what needs to happen for an employee to receive the reward in the future. This recommendation applies to both financial and nonfinancial rewards. Nonfinancial rewards in particular are usually more effective if they are made public.

Make rewards contingent

Rewards should be tied to performance directly and exclusively. Imagine that an outsider is asked to guess the salary levels for various employees in an organization. Assume that she can ask the following questions: What do people do (for example, administrative assistant, mailroom clerk, VP for HR)? How long have they done it? How well have they done it? If information based on the “How well?” question is not the most useful in guessing what salaries are, then the organization is not making rewards contingent on performance. This is the case in many organizations in which what people do and how long they have done it are far better predictors of their salaries than how well they perform.

In many countries around the world, including Eritrea in Africa, all employees receive one month’s extra salary as a noncontingent reward each year. In other words, employees receive pay for a “13th month.”

When rewards are not contingent on performance, organizations can alienate their best workers, precisely those who make the greatest contributions and can easily find employment elsewhere.

Make rewards timely

Rewards should be given soon after the occurrence of the result or behavior being rewarded. Experimental psychologists know that if a mouse in a cage pulls a lever and a lump of sugar appears 10 months later (on the mouse’s anniversary date), no learning will take place. This is why many organizations implement on-the-spot rewards. These spot bonuses don’t have to be cash awards. They can be theater tickets, a prime parking space, or anything else that targets an employee’s specific needs.

How do you know what type of reward to give? The answer is simple: Get to know your employees and watch what they do and how they spend their time when they have a chance to choose. If this doesn’t work, you can simply ask them.

At Lake Federal Bank in Hamburg, Indiana, the president has an annual budget that he can use to give relatively small, spur-of-the-moment gifts to employees who are performing well.
Make rewards reversible

Increasing an employee’s base pay creates an annuity for the employee’s tenure with the organization. If mistakes are made in the allocation of increases in base salary (especially upward), they are usually irreversible and can be very costly over time. This is why variable pay, which is not added to an employee’s base salary, has become an attractive option for many organizations.

Variable pay is consistent with the recommendations that rewards be contingent and reversible. If high-quality performance occurs again, then the employee receives the additional compensation again. If high-quality performance doesn’t occur, then the additional compensation is not given.

Turning recognition and other nonfinancial incentives into rewards

Similar to financial incentives, praise and recognition for a job well done, without a monetary value attached, can be a powerful reward if such praise and recognition enhance the chances that specific results and behaviors will be repeated.

Similarly, praise and recognition should not be considered rewards if they don’t motivate employees to perform well in the future. Unfortunately, many organizations underestimate the impact of nonfinancial rewards, including the following:

- Formal commendations and awards
- Favorable mention in company publications
- Private, informal recognition for jobs well done
- Public recognition, including praise, certificates of accomplishment, and letters of appreciation
- Status indicators, such as a new and enhanced job title, larger work area, improved office decoration, promotion, ability to supervise more people, and newer or more equipment
- Time, such as taking a longer break, leaving work earlier, and getting time off with or without pay
- A more challenging work environment, responsibility, and freedom
- Sabbaticals such as paid time off work to devote to job-related growth and development activities, such as learning new skills or traveling abroad
One advantage of nonfinancial rewards is that they are typically allocated following the recommendations I provide in this chapter for making rewards work in general. That is, nonfinancial rewards are usually available (there is an unlimited supply of recognition); all employees are usually eligible; and nonfinancial rewards are visible and contingent, usually timely, and certainly reversible.

But do they work? Yes! For a good example, see the sidebar about nonfinancial rewards at the SAS Institute.

The concept of a reward is broader than just pay. Of course, money allows people to do great many things, and people do incredible things to get more and more out of it. For rewards to be effective, however, they must motivate employees to become, or continue to be, excellent performers.

If an organization is trying to solve performance problems by focusing on money only, one result is expected for sure: The organization will spend a lot of money. It is not always clear that anything will change unless rewards are given taking into account the eight recommendations described earlier and listed here:

- Define and measure performance first and then allocate rewards.
- Use only rewards that are available.
- Make sure all employees are eligible.
- Make rewards visible.
- Make rewards contingent.
Make rewards timely.

Make rewards reversible.

Use recognition and other nonfinancial rewards.

Take the case of Graniterock described in a nearby sidebar. This particular company uses both financial and nonfinancial rewards. Consider this company in the context of the eight recommendations.

Think about your current job. How are rewards allocated? Which of the eight recommendations listed above were followed in the process of allocating rewards? Based on this, how effective are the rewards that are given? Do they help improve your and other employees’ motivation and performance?

**FINANCIAL AND NONFINANCIAL REWARDS AT GRANITEROCK**

Graniterock uses several strategies to recognize and reward performance. Graniterock provides materials to the construction industry, including asphalt, concrete, and building materials. The U.S.-based company employs 750 people and its core purpose is to “provide a place where inspired people can do their best work — building great projects, producing quality materials, and developing enduring customer relationships.”

The company uses both financial and nonfinancial incentives. Employees earn bonus pay of as much as $1,000 for specific performance achievements that require an effort that goes “above and beyond” normal job expectations. Several nonfinancial incentives are also used, such as sending a letter from the president along with cash rewards. The company holds regular events called “recognition days,” where employees give presentations before the CEO, executive management, and coworkers about improvements they have made on the job. This gives employees the chance to receive credit in a highly visible manner, directly from others in the company. As part of an emphasis on improvement, employees continually seek out better ways of handling processes, and about a third of all company processes are changed each year as a result. The company publishes stories about special efforts in a weekly newsletter. Supervisors also use rewards on a day-to-day and less formal basis, such as providing lunch to a group of employees who are putting forth a strong effort on a large job pouring concrete.

In short, Graniterock uses both financial and nonfinancial rewards to motivate employees and to reinforce a culture that values constant improvement and innovation in the workplace.
Performance management systems that are fair and acceptable to employees are typically also legally sound.

A basic principle that guides the design of a fair system is that procedures are standardized and that the same procedures are used with all employees. In other words, when the rules and procedures are known by everyone and they are applied in the same way to everyone, the system is likely to be regarded as a fair one. This is also the basic principle that underlies the implementation of performance management systems that are lawful.

This chapter covers how to implement a lawful performance management system.
Implementing the Golden Rule

Legislation and court cases in the United States, Canada, the United Kingdom, and many other countries around the world show that the discriminatory effects of a performance management system can be minimized by applying this golden rule:

Treat everyone in exactly the same way, regardless of sex, ethnicity, and other demographic characteristics that are unrelated to job performance.

This golden rule also applies to international employers — multinational organizations that implement their performance management systems across countries around the world.

Implementing the golden rule around the world

Given China’s increasing global importance and economic power, it is interesting to consider how recent legislation is affecting performance management and reward systems in firms in China.

The Chinese government has recognized that performance management systems contribute to firm productivity and also to the competitiveness of China in the global arena. So the Chinese government is accelerating economic reforms related to performance management, such as giving employers more rights to terminate employees. These changes have led to what can be considered very innovative performance management practices in many Chinese companies.

Chinese software developers Ufida, Shanda, and Natease adopt practices that are quite consistent with those used by U.S. firms. Ufida uses performance information to determine as much as 25 percent of annual salaries, and Shanda has a company-wide performance management system with clearly specified standards: Employees are evaluated twice a year; there is a multisource feedback system; and bonuses are awarded based on performance ratings.

When the golden rule breaks down

In spite of an increased global awareness regarding legal issues regarding performance management, the golden rule is not applied as often as it should be.
There has been a 100-percent increase in the number of employment discrimination cases filed in the United States from 1995 to 2005, and many of these cases have involved issues around the design and implementation of the performance management system.

In 2016, the United States Equal Employment Opportunity Commission received 91,503 charges claiming discrimination based on race, age, national origin, religion, color, retaliation, disability, equal pay, and GINA (Genetic Information Nondiscrimination Act), which is discrimination against employees based on genetic information.

For an organization to minimize legal exposure regarding performance management, it is important to follow the specific principles I describe next.

**Six Legal Principles Affecting Performance Management**

There are six important principles that often come into play in the case of litigation related to the implementation of a performance management system: employment at will, negligence, defamation, misrepresentation, adverse impact, and illegal discrimination.

**Employment at will**

In employment at will, the employer or employee can end the employment relationship at any time. This type of employment relationship gives employers considerable latitude in determining whether, when, and how to measure and reward performance. Thus, an employer could potentially end the employment relationship without documenting any performance problems.

There are two exceptions regarding an organization’s ability to terminate an employee under these circumstances:

- There may be an implied contract derived from conversations with others in the organization or from information found in the company’s documentation (for example, employee handbook) indicating that employees would be terminated for just cause only.
- Decisions about terminating an employee should consider a potential violation of public policy.
Negligence

Many organizations outline a performance management system in their employee manual, employment contract, or other documents. When the system is described in such documents and not implemented as described, legal problems arise.

For example, there may be a description of how frequently appraisals take place, or how frequently supervisors and employees are to meet formally to discuss performance issues. If an employee receives what she believes is an unfair performance evaluation and the system has not been implemented as was expected, she may be able to challenge the system based on negligence on the part of the organization.
Defamation

Defamation is the disclosure of untrue, unfavorable performance information that damages an employee’s reputation.

An employee can argue that the organization defamed her if the employer states false and libelous information during the course of the performance evaluation, or negligently or intentionally communicates these statements to a third party, such as a potential future employer, thus subjecting the employee to harm or loss of reputation.

The definition of defamation includes the disclosure of untrue information. Defamation can take place when an employee is evaluated based on behaviors that are irrelevant and not job-related, when an evaluator doesn’t include information that would explain or justify poor performance, or when an evaluator revises a prior evaluation in an attempt to justify subsequent adverse action taken against the employee.

Defamation doesn’t exist when information regarding poor performance is clearly documented.

NEGLIGENCE AT SCRANTON SCHOOL DISTRICT

In 2015, Gwendolyn Damiano, who was a principal in the Scranton, Pennsylvania, school district, was dismissed by the school district due to “unsatisfactory performance.” Ms. Damiano claimed that there was negligence in her dismissal because the decision did not properly take into account the performance standards outlined by the district.

In its defense, the school district claimed that Ms. Damiano’s performance was below par with regard to teacher evaluations and student discipline. For example, the district argued that she had left standardized tests in her office without locking them in a cabinet. Also, regarding teacher evaluations, the district argued that she did not observe teachers’ performance for the required number of times per year.

However, the court found that the performance management system did not clearly specify a method for conducting such teacher evaluations, nor the number of evaluations to be conducted. In addition, the court also noted that the district did not implement its own policies regarding student disciplinary procedures consistently. Accordingly, the court ruled that the district had been negligent in the manner in which it used its performance management system, and therefore, Ms. Damiano should be reinstated to her position of principal — with full back pay.
Misrepresentation

Whereas defamation is about disclosing untrue unfavorable information, misrepresentation is about disclosing untrue favorable performance, and this information causes risk or harm to others.

When a past employer provides a glowing recommendation for a former employee who was actually terminated because of poor performance, that employer is guilty of misrepresentation.

MISREPRESENTATION AT A MIDDLE SCHOOL IN CALIFORNIA

Consider this case decided by the Supreme Court of California. Randi W., a 13-year-old female student enrolled in a middle school, accused her school vice-principal, Robert Gadams, of sexual molestation. Gadams had received glowing letters of recommendation from other school districts (his former employers), who had recommended him without reservation. For example, one letter of recommendation stated, “I wouldn’t hesitate to recommend [the vice-principal] for any position!” However, the former employers knew that Gadams had performance problems that included hugging female students and making sexual overtures to them. In fact, he had been pressured to resign because of such behavior.

The Supreme Court of California ruled that employers can be held liable for negligent misrepresentation or fraud when an employer fails to use reasonable care in recommending former employees without disclosing material information that has a bearing on their performance.
Adverse impact/unintentional discrimination

Adverse impact, also called unintentional discrimination, occurs when the performance management system has an unintentional impact on a protected class, such as sex or race.

Contrary to a common misconception that “class” refers to ethnic minorities or women only, adverse impact also happens when, for example, men receive consistently lower performance ratings than women. In other words, a protected class is a group of people with a common characteristic who are legally protected from discrimination on the basis of that characteristic.

So if a group of white men consistently receives lower performance scores, then there is adverse impact because these individuals share the same characteristic (male) of a class that is protected (that is, sex).

Illegal discrimination/disparate treatment

Illegal discrimination, also called disparate treatment, means that raters assign scores differentially to various employees based on factors that are not performance related, such as race, nationality, color, or ethnic and national origin. As a consequence of such ratings, some employees receive more training, feedback, or rewards than others.

ADVERSE IMPACT AT A FIRE DEPARTMENT

As an example where adverse impact exists against women, consider the position of firefighter, and more specifically, the performance dimension of physical strength.

If members of a protected class receive consistently lower performance ratings, then the employer must be able to demonstrate that the performance dimension measured is an important part of the job. In this case, the fire department should demonstrate that physical strength is a key KSA for the job of firefighter, and based on the argument of business necessity, an appropriate measure should be included as part of the performance evaluation, and every employee should be evaluated in the same fashion. As a precautionary measure, you should gather data on an ongoing basis regarding performance scores obtained by members of various groups, broken down by the categories indicated by the law (for example, sex or ethnicity). A periodic review of these data can help detect the presence of adverse impact, and the organization can take corrective action if necessary.
Illegal discrimination is usually referred to as disparate treatment because employees claim they were intentionally treated differently because of their sex, race, ethnicity, national origin, age, disability status, or other status protected under the law.

The majority of legal cases involving performance management systems involve a claim of disparate treatment. What can an employee do if, for example, she feels she was given unfairly low performance scores and skipped over for promotion because she is a woman?

To make such a claim, an employee can present direct evidence of discrimination, such as a supervisor making sexist comments that may have influenced the performance management process. Alternatively, she needs to provide evidence regarding the following issues:

- She is a member of a protected class.
- She suffered an adverse employment decision as a result of a performance evaluation (was skipped over for promotion).
- She should not have been skipped over for promotion because her performance level deserved the promotion.
- The promotion was not given to anyone, or it was given to an employee who is not a member of the same protected class (that is, another woman).

If an employee provides this kind of evidence, the employer must articulate a legitimate and nondiscriminatory reason for not having given the promotion to this female employee. Usually, this involves a reason that is clearly performance related.

This is the point at which employers benefit from having designed and implemented a system that is used consistently with all employees — what I refer to as the golden rule. Such a system is legally defensible, and any decisions that resulted from the system, such as promotion decisions, are also defensible.

Let’s distinguish illegal discrimination from legal discrimination. A good performance management system is able to discriminate among employees based on their level of performance, and this is legal discrimination. In fact, a system that doesn’t do this is not very useful. But a good performance management system doesn’t discriminate illegally. Illegal discrimination is based on variables that should not usually be related to performance, such as sex, national origin, ethnicity, and sexual orientation.
Laws Affecting Performance Management

In the past few decades, several countries have passed laws prohibiting discrimination based on race, color, religion, sex (including pregnancy, gender identity, and sexual orientation), national origin, age (40 or older), disability, and genetic information.

These are the laws that have been passed in the United States and are enforced by the United States Equal Employment Opportunity Commission:

- **Equal Pay Act of 1963**: Prohibits sex discrimination in the payment of wages.

- **Title VII of the Civil Rights Act of 1964 (as amended by the Equal Employment Opportunity Act of 1972)**: Prohibits discrimination on the basis of race, color, religion, sex, or national origin.

- **Age Discrimination in Employment Act of 1967 (as amended in 1986)**: Prohibits discrimination on the basis of age.

- **The Pregnancy Discrimination Act of 1978**: Makes it illegal to discriminate against a woman because of pregnancy, childbirth, or a medical condition related to pregnancy or childbirth.

- **Americans with Disabilities Act of 1990**: Makes it illegal to discriminate against people with disabilities.

- **Sections 102 and 103 of the Civil Rights Act of 1991**: Among other things, this law amends Title VII and the ADA to permit jury trials and compensatory and punitive damage awards in intentional discrimination cases.
Genetic Information Nondiscrimination Act of 2008 (GINA): Makes it illegal to discriminate against employees because of genetic information. This includes information about an individual's genetic tests and the genetic tests of an individual's family members, as well as information about any disease, disorder, or condition of an individual's family members.

Laws affecting performance management around the world

Do you need to know what laws affect performance management in other countries? Similar laws exist in numerous countries around the world, including Canada, Australia, Germany, and Spain, among many others.

A study published in the journal *Industrial and Organizational Psychology* compared laws and regulations across 22 countries and found that the majority of countries have laws similar to the ones I describe earlier for the United States.


In Germany, there is the Allgemeines Gleichbehandlungsgesetz: General Equal Opportunity Law (last modified in April 2013), which covers all stages of the employment relationship, including definition of payment, performance appraisal, promotion, and dismissal.


These laws aim at forcing organizations to implement performance management systems that are applied consistently to all employees, regardless of demographic characteristics. Although these laws are not enforced to the same degree throughout the world, their collective goal is that performance management systems focus on job-related factors and not personal, individual characteristics that are unrelated to job performance.
Lawful performance management in global organizations

One question that is particularly pertinent to organizations that operate across borders is the extent to which laws from the company’s headquarters apply to performance management systems in the subsidiaries.

In the specific case of applying U.S. laws, there are four questions that you need to ask:

- What is the work geographic location?
- What is the employer status (for example, U.S.-based firm or not)?
- What is the employee status (for example, U.S. citizenship status)?
- Are there international law defenses (that is, international treaties)?

Let’s answer these questions about four different scenarios:

- We may assume that U.S. laws apply to non-U.S. firms working in the United States. But U.S. employment discrimination laws don’t apply to jobs located inside the United States when the employer is a foreign entity exempted by a treaty.
- U.S. employment discrimination laws also don’t apply to jobs located outside the United States when the employer is a foreign entity, even though the employee is a U.S. citizen.
- U.S. laws apply to jobs located outside the United States when the employer is a U.S. entity and the employee is a U.S. citizen, if compliance with U.S. laws would not violate foreign laws.
- U.S. laws apply to jobs located outside the United States when the employer is a U.S. entity and the employee is a U.S. citizen (assuming that compliance with U.S. laws doesn’t violate foreign laws).

Putting it all together: A legally defensible performance management system

The following list, adapted from the chapter “Current legal issues in performance appraisal” by S. B. Malos (in the book Performance Appraisal: State of the Art in Practice, published by Jossey Bass) gives you a summary of the seven features of legally defensible performance management systems:

- Performance dimensions (including behaviors and results) and standards are clearly defined and explained to the employee, are job-related, and are within the control of the employee.
» Procedures are standardized and uniform for all employees within a job group.
» Employees are given timely information on performance deficiencies and opportunities to correct them.
» Employees are given a voice in the review process and are treated with courtesy and civility throughout the process.
» The performance management system includes a formal appeals process.
» Performance information is gathered from multiple, diverse, and unbiased raters.
» The system includes thorough and consistent documentation, including specific examples of performance based on firsthand knowledge.

When you think about it, designing a system that is legally defensible is not a difficult goal to achieve, and it is a natural consequence of following the best-practice recommendations I offered in this book. You will see that the preceding list summarizes many of the practices about system design and implementation that I discussed throughout this book.

Two researchers from the United States reviewed 295 different U.S. circuit court decisions regarding litigation involving performance management systems. The goal of their study was to understand the factors carrying the most weight in the decisions reached by the court. They investigated various features of the performance management systems that were challenged in court, including many of the characteristics I just listed.

What was their conclusion? They found that systems that emphasized the measurement of job-related performance dimensions, provided written instructions to raters, and allowed employees to review appraisal results were more likely to withstand legal challenge. Overall, these researchers concluded that the employees’ perceptions of whether the system was fair and whether they were given due process were the most salient issues considered by the courts.

This conclusion reinforces the recommendation offered throughout this book: It is important to allow employees to participate in the design and implementation of the system because employee participation leads to the design of systems viewed as fair.

Fairness and lawfulness don’t necessarily go hand in hand. But systems that are fair are less likely to be challenged on legal grounds.
5 The Part of Tens
IN THIS PART . . .

Discover the benefits of implementing a performance management system.

Design a performance management system to deliver great results.

Work to become an effective coach and leader.
There are hundreds of reasons why your organization should have a state-of-the-science performance management system. If you need to convince others or even yourself about this need, you must consider these ten reasons first.

**Six Useful Purposes**

Performance management provides the following functions within organizations:

- It helps top management achieve strategic business objectives because they link the goals of individuals with the goals of their teams, which in turn are connected with the goals of the entire organization.
It helps your organization in making administrative decisions about employees such as salary adjustments, promotions, employee retention or termination, recognition of top individual performance, identification of high-potential employees, identification of poor performers, layoffs, and merit increases.

It helps your organization communicate the expectations of peers, supervisors, customers, and the organization, and it also conveys what aspects of work are most important.

It helps employees reach development objectives because it improves communication, clarifies roles and expectations in terms of career paths, and includes useful feedback.

It helps organizations with maintenance because it provides information used in forecasting talent needs for the future, including workforce and succession planning.

It helps organizations document information that can be used for several necessary — and sometimes, legally mandated — purposes. This documentation is helpful for important administrative decisions, such as terminations and promotions.

Self-Insights, Development, Motivation, and Self-Esteem

Performance management helps employees develop a better understanding of themselves and of the kind of development activities that are of value to them as they progress through the organization. Participants in the system also gain a better understanding of their particular strengths and weaknesses, which can help them better define future career paths.

Also, receiving feedback about one’s performance increases the motivation for future performance. Knowledge about how one is doing and recognition about one’s past successes provide the fuel for future accomplishments.

Better Understanding of Job Requirement

The job of the person being evaluated is clarified and defined more clearly when a performance management system is implemented. In other words, employees gain a better understanding of the behaviors and results required of their specific
position. Employees also gain a better understanding of what it takes to be a successful performer.

**More Employee Engagement and Voice Behavior**

Performance management improves employee engagement because they know what they are doing and why, which results in employees being more involved, committed, passionate, and empowered. Also, these attitudes and feelings result in behaviors that are innovative, and overall, demonstrate good organizational citizenship and active participation in support of the organization. The performance review meeting can lead to a conversation during which the employee provides suggestions on how to reduce cost or speed up a specific process, which is called *voice behavior*. Voice behavior involves making suggestions for changes and improvements that are innovative, challenge the status quo, are intended to be constructive, and are offered even when others disagree.

**Improved Commitment and Decreased Turnover**

When employees are satisfied with their organization’s performance management system, they are more committed to their organization and won’t try to leave. Satisfaction with the performance management system makes employees feel that the organization has a great deal of personal meaning for them. In terms of turnover intentions, satisfaction with the performance management system leads employees to report that they will probably not look for a new job in the next year and that they don’t often think about quitting their present job.

**Early Detection of Performance Declines and Less Employee Misconduct**

Because good performance management systems include ongoing performance measurement, declines in performance can be noticed, which allows for immediate feedback and continuous coaching. When such declines are observed, remedial
action can be taken immediately and before the problem becomes so entrenched that it cannot be easily remedied. Having good performance management in place provides the appropriate context so that misconduct is clearly defined and labeled as such. Also, performance management can be a detection tool for misconduct before it leads to irreversible negative consequences.

**Differentiation between Good and Poor Performers**

Performance management systems allow for a quicker identification of good and poor performers. This system includes identifying star performers — those who produce at levels much higher than the rest. For example, without a good performance management system, it isn’t easy to know who are the particular programmers in your company producing more and better code. Also, direct supervisors and other managers in charge of the appraisal gain new insights into the person being evaluated. Gaining new insights into a person’s performance helps the manager build a better relationship with that person. Also, supervisors gain a better understanding of each individual’s contribution to the organization. This information can be useful for direct supervisors as well as for supervisors once removed.

**Common Understanding of What Is Good Performance**

Performance management systems allow managers to communicate to their direct reports their assessments regarding performance. In other words, there is greater accountability in how managers discuss performance expectations and provide feedback. When managers possess these competencies, direct reports receive useful information about how their performance is seen by their supervisor.

**More Fair and Legally Defensible Administrative Decisions**

Performance management systems yield valid information about performance that can be used for administrative actions, such as merit increases, promotions, and transfers, as well as terminations. In general, a performance management
system helps ensure that rewards are distributed on a fair and credible basis. In turn, such decisions based on a sound performance management system lead to improved interpersonal relationships and enhanced supervisor–direct report trust. Also, data collected through performance management systems helps document compliance with regulations (for example, equal treatment of all employees, regardless of sex or ethnic background). When performance management systems are not in place, arbitrary performance evaluations are likely, resulting in an increased exposure to litigation for the organization.

**Easier Organizational Change**

Performance management systems are a useful tool to drive organizational change.

For example, assume an organization decides to change its culture to give top priority to product quality and customer service. Once this new organizational direction is established, performance management is used to align goals and objectives of the organization with those of individuals to make change possible. Employees are provided training in the necessary skills and are also rewarded for improved performance so that they have both the knowledge and motivation to improve product quality and customer service.
Want to make sure the performance management system works as intended and delivers excellent results? Then you need to ensure the system has these ten key factors.

**Congruence with Strategy and Context**

Make sure the system is congruent with the unit and organization’s strategy. In other words, align individual goals with unit and organizational goals. Also, make the system is congruent with the organization’s culture as well as the broader cultural context of the region or country.
If an organization has a culture in which hierarchies are rigid, an upward feedback system, in which individuals receive comments on their performance from their direct reports, will be resisted and not very effective.

Regarding broader cultural issues, in countries such as Japan, there is an emphasis on the measurement of both behaviors (how people do the work) and results (the results of people’s work), whereas in the United States, results are typically preferred over behaviors. Thus, implementing a results-only system in Japan won’t be effective.

Thoroughness and Inclusiveness

Do these four tasks to make the system thorough:

» Evaluate all employees (including managers).
» Evaluate all major job responsibilities (including behaviors and results).
» Evaluate performance over the entire review period, not just the few weeks or months before the formal review meeting.
» Give feedback on positive performance aspects as well as those that are in need of improvement.

Also, in terms of inclusiveness, include input from multiple sources on an ongoing basis. The evaluation process must represent the concerns of all the people who will be affected by the outcome. Employees must participate in the process of creating the system by providing input regarding what behaviors or results will be measured and how.

Meaningfulness

Make the system must be meaningful in five ways:

» Make sure the standards and evaluations conducted for each job function are important and relevant.
» Assess performance only for functions that are under the control of the employee.
» Conduct evaluations at regular intervals and at appropriate moments.
Practicality

Systems that are too expensive, time-consuming, and convoluted will obviously not be effective. Make sure good, easy-to-use systems (for example, performance data are entered via user-friendly web and mobile apps) are available for managers to help them make decisions. Also, the benefits of using the system (like increased performance and job satisfaction) must be seen as outweighing the costs (such as time, effort, expense).

Reliability, Validity, and Specificity

Regarding reliability, the system should include measures of performance that are consistent and free of error. If two supervisors provide ratings of the same employee and performance dimensions, ratings should be similar.

Also, the measures of performance should be valid. Validity refers to the fact that the measures include all relevant performance facets and don’t include irrelevant information. In other words, measures are relevant (include all critical performance facets), not deficient (don’t leave any important aspects out), and are not contaminated (don’t include factors outside of the control of the employee or factors unrelated to performance). Measures include what is important and don’t assess what isn’t important and outside of the control of the employee.

And the system should be specific: It should provide detailed and concrete guidance to employees about what is expected of them and how they can meet these expectations.

Identification of Effective and Ineffective Performance

The performance management system should provide information that allows for the identification of effective and ineffective performance. So the system should allow for distinguishing between effective and ineffective behaviors and results,
thereby also allowing for the identification of employees displaying various levels of performance effectiveness.

### Standardization and Thoroughness

The system should be standardized, which means that performance is evaluated consistently across people and time. To achieve this goal, the ongoing training of the individuals in charge of appraisals, usually managers, is a must.

### Openness

The system should have no secrets:

- Evaluate performance frequently and give feedback on an ongoing basis. Employees know how well they are doing at all times.
- Turn the review meeting into a two-way communication process during which information is exchanged, not delivered from the supervisor to the employee without his or her input.
- Make standards clear and communicate them on an ongoing basis.
- Make communications factual, open, and honest.

### Correctability

The process of assigning ratings should minimize subjective aspects. However, it is virtually impossible to create a system that is completely objective because human judgment is an important component of the evaluation process. When employees perceive an error has been made, there should be a mechanism through which this error can be corrected.

Establishing an appeals process, through which employees can challenge what may be unjust decisions, is an important aspect of a good performance management system.
Acceptability, Fairness, and Ethicality

The system should be acceptable and perceived as fair by all participants. Because perceptions of fairness are subjective and the only way to know if a system is seen as fair is to ask the participants about the system.

Perceptions of fairness include four aspects:

- **Distributive justice**: Perceptions of the performance evaluation received relative to the work performed, and perceptions of the rewards received relative to the evaluation received, particularly when the system is implemented across countries.

- **Procedural justice**: Perceptions of the procedures used to determine the ratings as well as the procedures used to link ratings with rewards.

- **Interpersonal justice**: Quality of the design and implementation of the performance management system.

- **Informational justice**: Perceptions about performance expectations and goals, feedback received, and the information given to justify administrative decisions.

Regarding ethicality, the system should comply with ethical standards, which means that the supervisor suppresses his or her personal self-interest in providing evaluations. In addition, the supervisor evaluates only performance dimensions for which she has sufficient information, and the privacy of the employee is respected.
Ten Tips for Becoming a Great Performance Management Leader

If you manage people, you must learn several important skills to become a performance management leader. This chapter describes the ten skills that are most important.

Become an Effective Coach

To become an effective coach, do the following seven things:

» Establish development objectives.
» Communicate effectively.
» Motivate employees.
» Document performance.
Give feedback.

Diagnose performance problems and performance decline.

Develop employees.

Develop a Good Coaching Relationship and Facilitate Employee Growth

A good coaching relationship is essential. The relationship between the coach and the employee must be trusting and collaborative.

You must listen in order to understand. In other words, the coach needs to try to walk in the employee’s shoes and view the job and organization from his or her perspective. Coach with empathy and compassion. Such compassionate coaching will help develop a good relationship with the employee.

Your main role is one of facilitation. You must direct the process and help with the content (for example, a developmental plan) but not take control of these issues. You need to maintain an attitude of exploration; help expand the employee’s awareness of strengths, resources, and challenges; and facilitate goal setting.

Understand Your Own Coaching Style

Learn which is your preferred coaching style:

- **Driving style**: You tell your employee being coached what to do.
- **Persuading style**: You sell what you want the employee to do.
- **Amiable style**: You want everyone to be happy.
- **Analyzing style**: You offer logical and systematic analysis and then follow rules and procedures when providing a recommendation.

Here’s the catch: No style is necessarily superior to the others. Performance management leadership involves sometimes providing direction, sometimes persuading employees how to do things a certain way, sometimes showing empathy and creating positive effects, and sometimes paying close attention to established rules and procedures.
Make the Employee the Director of Change

You must understand that the employee is the source of change and self-growth. After all, the purpose of coaching is to change employee behavior and set a direction for what the employee will do better in the future.

This type of change does not happen if the employee isn’t in the driver’s seat. So allow the employee to set the agenda, goals, and direction.

Learn How to Evaluate Performance Accurately

Performance management leaders are experts at observing and evaluating performance. To do so, they participate in three types of training programs:

- **Rater error training (RET):** Increases rating accuracy by making raters aware of the unintentional errors they are likely to make. RET programs include definitions of the most typical errors and a description of possible causes for those errors.

- **Frame of reference (FOR):** Helps improve rater accuracy by familiarizing raters with the various performance dimensions to be assessed. The overall goal is to give raters skills so that they can minimize unintentional errors and provide accurate ratings on each performance dimension by developing a common FOR.

- **Behavioral observation (BO):** Focuses on how raters observe, store, recall, and use information about performance. This type of training improves raters’ skills at observing performance.

Document Performance Accurately

Document performance accurately by following seven recommendations:

- Be specific.
- Use adjectives and adverbs sparingly.
- Balance positives with negatives.
Give Feedback Effectively

Effective feedback has the following seven qualities:

- **Timeliness**: Give feedback as close to the performance event as possible.
- **Frequency**: Feedback should be provided on an ongoing basis.
- **Specificity**: Give feedback about specific work behaviors, results, and the situation in which these behaviors and results were observed.
- **Privacy**: Give feedback in a place and at a time that prevent any potential embarrassment.
- **Consequences**: Feedback should include contextual information that allows the employee to understand the importance and consequences of the behaviors and results in question.
- **Description first, evaluation second**: Focus on describing behaviors and results first and then evaluating them.
- **Advice and idea generation**: Feedback can include advice given by the supervisor about how to improve performance.

Conduct Effective Performance Review Meetings

Use the following nine steps to have good meetings:

1. Explain the purpose of the meeting.
2. Conduct self-appraisal.
4. Discuss development.
5. Ask employee to summarize.
6. Discuss rewards.
7. Hold follow-up meeting.
8. Discuss approval and appeals process.
9. Conduct final recap.

Be Fair and Direct in the Disciplinary Process

When a disciplinary process seems to be the only recourse, treat employees with respect and dignity. This is what performance management leaders do to avoid common pitfalls:

» Don't ignore performance problems and address them as possible.
» Be very specific about the performance problem and the consequences of not addressing it effectively.
» Don't let emotional reactions derail you from your mission and role as a performance management leader, which is to describe the nature of the problem, what needs to be done, and consequences of not doing so.
» If you are planning on implementing a disciplinary or termination process, consult with your HR department regarding legal requirements.

Be Fair and Direct in the Termination Process

This is what performance management leaders do when they face a termination situation:

» Be respectful.
» Get right to the point.
» Let the employee grieve.
» Wish the employee well.
» Send the employee to HR.
» Have the employee leave immediately.
» Have the termination meeting at the end of the day.
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About the Author

Herman Aguinis, PhD, is the Avram Tucker Distinguished Scholar and Professor of Management at The George Washington University School of Business in Washington, DC. He has been elected for the five-year presidency track of the Academy of Management, the world’s oldest, largest, and most prestigious professional organization for management professors.

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Download his latest articles from www.hermanaguinis.com and follow him on Twitter at @HermanAguinis and on LinkedIn, where you will find information about his latest public appearances and publications.

Dedication

I dedicate this book to the love of my life, my soul mate, and my best friend: my wife Heidi.
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