Next Generation Performance Management – *It's About Time*

DJ King and Sherri Petro

Companies, large and small, have been looking for a replacement for the annual performance appraisal. In a search of HR and OD blogs and internet posts one is likely to find hundreds of postings about them – 99% of them negative, but few with ideas on what to do instead. The only arguments in their favor seem to be that they are all we have going and the only performance feedback some employees get!

There are compelling reasons why now is the time for the next generation of performance appraisals.

The Corporate Leadership Council, in a study of 19,000 employed from 34 companies in 7 countries, found three practices that are linked to higher individual performance.

Clear performance standards → 36%

Mutual problem solving → 24%

Focus on strengths → 25%

Reason #1 –Do or be done unto

Change can happen through evolution or revolution. Evolution, although slower, is organic, manageable and controlled. Revolution is hostile and messy. If we choose not to evolve this system…now…our younger generations in the workforce will eventually force it. We see strong indicators from our cross-generational work that the landscape is ripe:

- The rise of the collaborative culture attributed to Baby Boomers,
- A stronger results-orientation (ROI, anyone?) from Generation X born 1965-1980,
- Immediate feedback requested by our youngest workers - Generation Y.

Creating a system that appeals to each generation in your multi-generational workforce, understanding their motivations and work styles, will help your organization avoid the impending revolution. And it just makes sense, because…

Reason #2 – What we have is not working

Standard annual performance appraisals aren't achieving the results we want–a higher performing organization and more productive employees–and we know it! Managers lament preparing for and giving them. Employees dread receiving them. Additionally, when tied with compensation, appraisals often impact morale–and not in a good way. Even quality guru Dr. W. Edwards Deming dismissed the concept, naming performance reviews as one of the seven diseases that block companies from becoming healthy, mainly because… *(continued on page 3)*

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The cost of under performance

What is the cost to a company of employing individuals who under-perform and what is the value of those who perform well? Both are the outcomes of selection, training and development, leadership and motivation throughout the employee's life-cycle.

Extensive research shows us that an employee must generate twice their gross salary in order for their employment to be only marginally profitable.

We are all aware of the cost of hiring a non-performer. These people are fairly easy to spot and within a short period of time will either leave or be let go.

But what about a slight under performer or someone who's become somewhat disengaged? This person isn't a rock star, but they get their work done. They may have the right skill set, but lack motivation. Or they have the motivation, but not the proper skills. They probably require a bit more hand holding, a bit more managing, a bit more time. What are the costs associated with this person? According to organizational scientific research it can be significant.

Let's compare two employees, both of whom make $50,000 per year, plus about $6,200 in benefits, taxes, etc, for a total of $56,200.*

With an above average performer we can expect to get about 165% in productivity and improvement value on our salary investment the first year after hire as they learn the way around their job. So an above average performer will give us $92,730 in effort for the $56,200 we pay him.

The below average performer, on the other hand, will give us only 150% during that first year. Not bad, we're still getting $84,300 in effort for our $56,200 investment.

Now, let's look at years 2 and 3.

During year 2, we will likely get 200% from our above average performer, and an impressive 300% in year 3. By year two, the person is profitable for the company – and by year 3, the contribution is significant.

The below average performer, however, begins to wane in year 2, giving us only 120%. And by year 3, that effort is down to 85%. By year 3 we are receiving only $47,770 in effort for the $56,200 we're spending. If, in order to be marginally profitable, we need to get $112,400 in effort from this employee, we are losing $64,600 just by keeping this person in our employ.

During year 3, the difference in productivity and improvement between a slightly under performer and a slight over performer is a whopping $120,830! At our stated salary, we could hire 2 additional employees for what one below average hire is costing the company.

By year 2, our above average performer is adding to our profitability. Our under performer, however, is actually costing the company money.

** based on a non-revenue producing employee*

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Reason #3 – Once is not enough
When there is a problem, an annual performance appraisal as the only performance-related feedback is not cutting it. Frequency is important. Online conversations about performance appraisals almost universally indicate that we should be communicating *more often,* with some people saying this ongoing communication should be structured and systematized.

Reason #4 – We're looking in the rear view mirror
The concept of annual performance appraisals looks backward. Most organizations are using a system that is focused in the past to try to improve present and future performance. What is needed a system that is present responding and forward looking.

Reason #5 – We're not helping the people we want to keep
Calculators have now been developed that give us an idea of the real cost of turnover and under performance (*See Sidebar: The Cost of Under-Performance on page 2*). Knowing the cost, it behooves us to develop a better way to manage performance and keep high performers.

Reasons #6-10 – The complexity and diversity of people and the workplace
Add differing needs and expectations (#6), preferred communication avenues (#7), variable work environments (#8), technology mishaps (#9) and the ever-increasing speed of work (#10) into the mix and we have a recipe for communication disasters and lost opportunity costs everywhere.

Almost everyone agrees that the system is broken. A lot of people are saying it needs to be fixed, but so far there hasn't been a viable alternative recommended. A valid evaluation concept has gone awry! What will work better?

The Evolution of Performance Management

As managing performance evolves, what would success look like? We have implemented successful systems in varying environments–from a large national retailer to a $1.5 billion multi-national biotech firm. Here's what we know to be true in a successful performance management system.

- The culture and the frame of mind of those in charge contribute to success. A high level executive champion is necessary.
- A new software package or process can be part of the fix–but not all of it.
- Performance discussed and adjusted in real time generates a true performance culture.
- Built in accountability and direct communication diminishes employee litigation potential.
- Stronger relationships between managers and direct reports are a product of communication and trust.
- When employees receive clear, timely direction, they know where they're going and what's expected of them.

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- Performance discussed continuously eliminates "once a year" surprises and employees are evaluated on the entire year's worth of performance, not just what managers can remember from the previous month.
- Less time is spent in the long run. No more 5-hour forced focus on each employee's appraisal to complete a long, cumbersome form based on vague memory of undocumented performance.
- Everyone must change.

How to Start the Evolution

If you really are committed to positive change in your organization, here are our recommendations to change your existing culture to one of dynamic, constantly improving performance. Before you decide what your new performance management system and process will look like, answer these fundamental questions.

- **What really matters to our organization?**

  Identify what success looks like. This shouldn't be done in isolation; it is a co-creative process with your staff. Is innovation important? Are you incentivizing it or are you incentivizing the status quo? If living your values is important, how are you measuring appropriate behavior?

- **Are managing and improving performance really important? And how do we show that?**

  If your managers are also implementers and they are told, either explicitly or implicitly, that their tasks are more important than managing their staff, they will focus on their tasks. If your managers say: "I don't have time for this" or "I already have too much on my plate" they are more focused on tasks than managing. Hold managers accountable to having regular performance dialogues. If you don't make it important, from the top down, it won't stick. Make it part of how you measure their success.

- **Are we willing to take the time and energy required to effectively change our culture?**

  Sorry, but this won't be an easy, quick fix. It will likely even be a bit painful at times. And it will take longer than you either expect or desire to get everyone fully on board. People will resist change, even if they know it's good for them. If you aren't willing to put in the time and the energy, you're likely to get frustrated and look for something new before you've given this new process the time to work. However, the investment is definitely worth it – in improved performance, increased morale and employee engagement, and enhanced innovation. And, ultimately, wasn't that the original purpose of performance appraisals?

- **Are we ready to coach and mentor our employees?**

  Wouldn't it be nice if our staff acted like adults who achieve results? Well, let's stop treating them like children. In a culture of coaching, managers help employees find solutions. Supportive managers

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partner with their direct reports on goals and solutions. This gives employees a sense of personal ownership and more willingness to take responsibility for their future. The quality of our conversations with our managers has a dramatic impact on how we feel about our work and our work relationships. (*See sidebar above*.)

What is the value of ongoing performance discussions?

According to Partnerships With Industry (PWI) CEO, Mark Berger, they are critical to the success formula of this San Diego-based nonprofit. PWI integrated coaching discussions into their delivery model decades ago. They learned that coaching creates an environment in which their workers prosper, builds support for teaming, and recognizes the real environment people are working in.

How does PWI use coaching? They pair a job coach disabled worker. The job coach first demonstrates what success looks like and probes for understanding. The coach then monitors behavior, decreasing the monitoring time required each month. For Mark, it's about the 3 "R"s: Reinforcement, Recognition and Responsibility. Coaching reinforces positive activities, recognizes gaps and emphasizes personal responsibility. "It's about progress. We talk to the whole person, identify what great performance behaviors look like and coach for better delivery. And we evaluate and celebrate success continuously."

Designing Your Evolution…from the Beginning

When designing your new performance management system, keep these five tips in mind.

1. **Separate performance discussions from compensation discussions.**

   Ultimately performance will drive decisions about compensation, but the conversations on performance should be distinct and separate from compensation, and should be ongoing. If they're linked, the focus is on "how much of a raise did I get?" not on "How can we improve performance?"

2. **Establish solid success criteria--competencies, metrics, benchmarks.**

   Prepare for your employees' success before they start by defining what success should look like, so you can communicate it to them.

3. **Select software to manage the process that is intuitive and easy to use.**

   It also must be robust enough to provide you with valuable information for compensation decisions and succession management. Remember, managers won't be using it every day. If it's too

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While serving as Marketing Manager of the San Diego Union-Tribune Newspaper group, Mindy Bortness established and implemented the newspaper's only non-sales Pay-for-Performance program.

The quarterly program was thoughtful in execution and rich in results. Working together, Mindy and each staffer established annual goals with quarterly milestones. Each employee also took on three stretch goals to be achieved within the quarter. The department's energies were aligned with those of the newspaper and everyone agreed what a good job looked like. Creating a quarterly program supported constant communication and course correction, and allowed for reward and encouragement when even a portion of their goal was completed.

Achievement of the goals was completely within the control of the individual. They challenged themselves.

In times when managers and recipients dread the process of performance appraisals, Mindy's staff couldn't wait for their next one-to-ones! The program kept employees engaged and management alert to progress and/or disengagement. There were no surprises.

As a result of this program, Mindy earned the highest scores of all the organization's managers in the Employee Attitude and Opinion Surveys they conducted. By regularly outlining expectations, delegating "how" things were going to get done to share control, and measuring results, they were an amazing and successful team.

cumbersome or complicated, they will forget how to use it from one session to the next and won't want to use it. Be sure to get input from your line managers before you implement.

4. **Establish a change management and communication plan.**

   Your plan should explain to managers and employees what you're doing and why. Employees are human, and humans generally dislike change – even if they know it's good for them. Have you ever tried to start an exercise program or a diet?

5. **Take the time needed.**

   A complaint we have heard over the years is that moving to this type of coaching system will take too much time. However, the conversations are so meaningful, employees look forward to them rather than resenting them. They are willing to take the time if it gets both the managers and the direct reports the results they want.

Six Tactics for Implementing and Sustaining the Evolution

Here are six tactics for making your new performance management system work: (*See sidebar*)

1. Begin performance discussions early in a new employee's tenure with the company (within the first month).
2. Communicate clear expectations of performance, identifying what good performance looks like from a behavior and results perspective. Let them know, in advance, what they'll be measured against. Give them concrete examples. Don't make assumptions that the other person understood what you meant. The truth is they may have had a completely different perception. Using examples helps ensure you are both on the same page.
3. Partner to set co-created goals that are strategic, aligned, measurable, and meaningful to both the organization and the employee, and are outcome focused, not output focused.

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Consider the research by MIT that suggests extrinsic rewards only motivate certain types of performance. If you're looking for creativity and critical thinking, find, emphasize and support intrinsic rewards.

4. Support employees to work to their strengths. What we focus on is what we get. Sure, we all need to do things in our jobs that we're not great at or that we don't love. But if the majority of our work doesn't require we use our natural strengths, we have to struggle, we become disenfranchised, disengaged, and, ultimately, we leave or are fired.

5. Find the most effective way to monitor performance on an ongoing basis. Does that mean observing their work? Reviewing reports? Talking to peers? It will be different based on your organization, but it needs to be objective, not subjective. 360s are one way this can be done, but it can also be much more informal and less expensive. The most obvious, and often least used way, is through direct conversation with your employee, as well as through your planned, regular 1:1s.

6. Communicate with employees about their performance on a regular, scheduled, systematic, ongoing basis. This is in addition to their regular 1:1s, which are intended to be tactical -- current status and issue resolution. They're for the near term. These dialogues should be strategic discussions of progress, with course correction as necessary. This is analogous to a space shuttle giving and receiving constant feedback about its course with the land-based mission control station. The shuttle is almost always off course a little. It veers back and forth. Mission control computers calculate where the space shuttle is and compare that to its approved course. Mission control radios back a course correction which the space shuttle immediately puts into action. What do you think would have happened if the system were set up so the shuttle crew only got feedback once, toward the end of their mission? We need to get feedback for the same reason as the space shuttle, to find out if we are off course. Feedback should be timely, specific, honest and sincere – be it positive or corrective. Coach for improvement. Both managers and employees document performance and your regular conversations in the system.

The Beginning of a New Era

We've said for years that people are our most precious asset. The work world is now ready for the next generation of performance management – a system that truly does improve organizational performance, impacts morale in a positive way and makes the most of that asset. It's about time for this change. And it's about *taking the time* to implement a more honoring, time-sensitive, co-creative system that engages employees to bring all their ideas, talents and skills to the table to create better organizational performance. Let the evolution begin!

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Case Study

The Company: *A $3.3 Billion multinational life sciences company which employs highly educated individuals for their innovation and ability to contribute to the business's innovative, dynamic, fast paced, cutting edge culture.*

The Situation: *A significant percentage of their workforce of 9500 of people in 160 countries, have PhDs. Their people are high performers and they expect to be acknowledged as such. An annual performance review with a 16-point performance rating scale, that forced ranking across a curve, was causing severe morale issues.*

Using the system outlined in this article, they transitioned to on-going quarterly discussions of goal achievement, behaviors, and development—without any rating labels. This is <u>not</u> a quarterly review (there are NO ratings and NO "workflow and approvals" in their HR online system), but rather a two-way conversation, and an opportunity for feedback and coaching.

Instead of a long, complicated review process from November to April for a "once a year" review, they replaced one of the manager/employee 1:1s each quarter with a more structured discussion that includes feedback, problem solving and planning.

This change was significant and had implications for the way they calibrated performance, so that they could still reward for exceptional performance.

The old annual review process combined discussions of performance development and pay assignments. Eliminating the annual performance review process led to a system of two linked processes: ongoing quarterly dialogs, for performance development only, and a single calibration of relative contribution and potential for compensation at the end of the year. By separating these processes, managers were able to focus on development without relating it to pay.

In a separate but parallel process, managers go through calibration sessions at the beginning of the year, using the performance data collected from observations and dialogs over the year. These calibration sessions determine changes in compensation—rewards—based on relative contributions and potential of each person in a comparable work group. Expectations are clearly defined as goals are set so employees know what's expected to receive increased compensation, based on how others in the organization are performing. The old performance review timeline was collapsed: from 6 months (November to April) to only 2 1/2 months (mid-December to March).

An employee from the global leadership department stated that specific metrics on the success are difficult to determine due to major changes that caused their workforce to double over the past couple years. However, they have seen the turnover reduced to 6% or less, a 4 point increase in perception of availability and structure for career development, and 75% of employees now rate the workplace as a favorable place to work. Anecdotally, they were able to tell very early after implementation that both employees and managers felt more empowered and encouraged by the new process.

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