

Performance Management: Our people are our greatest assets?

By Linda Holbeche



What's in a name? When the old control-oriented appraisal systems first started to be rebranded as 'performance management' a few years back, the aim was for a much more positive, strategic, organizational performance-related and employee engagement-oriented agenda. After all, performance management is intended to align organization strategy, personal objectives and action and so maximize individual performances. By implication, performance management should be a means whereby people receive the recognition, reward and development investment they deserve if they really are a firm's 'greatest assets'. Also, by linking together many of the disparate strands of HR policy – such as goal-setting, appraisal, training and development, talent management, reward and diversity – a performance management system (PMS) should reinforce employee motivation, drive continuous improvement and meet business needs. It should also ensure that employees feel fairly treated and that their development needs are met; and from the firm perspective it should provide concrete evidence on which talent spotting, promotions, or separation decisions can be based. All great, positive intentions.

The problem is that these positive intentions are hard to realize in practice. While the impact of performance management practices stands out as highly significant in most research studies¹ on high performance working, all too often performance management systems seem designed to catch out the underperformer rather than to identify potential or reward great contribution. Implementation is often poor, with performance management reduced to a complex, bureaucratic HR process, mechanistic data collection and non-existent follow-up and only a vague connection to short-term business strategy. Add to that the often formulaic, low quality conversations with line managers who may consider performance management a burdensome addition to their real 'day job' and it is easy to see how performance management can actually reduce employee engagement and performance in the long-term; far from feeling like 'assets', many employees are left feeling like disposable commodities. And in today's fast moving and highly pressurized climate it's easy to understand why something better is needed.

So how can organizations avoid these traps and produce truly meaningful and valuable performance management practice? Let's be clear - this is not about HR designing yet another sophisticated competency framework to add to an existing process. To achieve managerial objectives and also improve employee job satisfaction, a performance management system should be designed to enhance overall performance and be about the development of potential, not just control. It should be company-wide, flow from the business plan, with senior managers having a clear idea of their own goals and modelling the process.

It's about going back to fundamentals, taking a broader look at what's needed to stimulate and sustain high performance.

Back to basics

The underpinning principles on which effective performance management systems are based are as follows:

- Effective performance results from a partnership between the job holder and the organization
- The employee has adequate skills for the job
- The employee understands what the organization is trying to achieve and knows his/her role in the process

- The employee's responsibilities match her/his accountabilities
- The employee has access to the information needed, at the right time.

So it's worth paying attention to the following areas:

1. Strengthen the link between organizational purpose, strategy and people's work. Wherever employees work, they need to know what good looks like and what their part is in delivering the company's vision. Start with the strategic drivers and what you are trying to achieve overall in your business, short-term and longer-term. A broad scorecard of performance can be far more useful than a disparate set of KPIs since it is possible to define clear performance measures that really add value and link to business outcomes. At Carphone Warehouseⁱⁱ, a leading telecoms retailer and provider, the company have used their Compass scorecard of five sets of criteria to drive a major culture change and higher financial performance. In their retail stores this represents a shift from the short-termist view of achieving quick sales towards driving profit through giving brilliant service. The performance management process - and bonuses - drives the strategy down into everyone's performance management goals and rewards. Leading indicators are as important as short-term financial metrics and there is a wide range of tools and guidance available to managers and staff. The strategy has also compelled a rethink of the company's reward strategy as a result of which basic wages in store have been increased and the variable pay element is more team-based and geared to rewarding excellent customer service.

2. Design the PMS to continuously improve rather than just to prevent performance failure. Instead of the system encouraging people to work ever harder, use it to help them work smarter. Work with line managers to identify and remove bottlenecks that prevent smooth workflow or create unmanageable workloads; the emphasis should be on the quality of output rather than input or hours worked. At Netflix, an American provider of on-demand Internet streaming media, emphasis is placed on recruiting the 'right' people who will put the company's interests first, on the basis that the vast majority of employees will do the right thing. (same source reference) Trust is the basis of Netflix's willingness to treat people as adults. A simple performance management and grading system provides people with clarity about how to succeed.

3. How well people perform can be as much a function of how they've been treated as what they are capable of. The challenge for managers is to produce the conditions in which people are doing, and believe they are doing 'good work', for which they willingly release their discretionary effort and achieve satisfaction from a job well done. So help managers create a high performance climate in which people are trusted and expected to do what's needed and have the resources - including information - and the authority they need to be truly empowered. Employees usually thrive in roles which give them scope to use their initiative and chance to develop so work with line managers to design jobs that will make best use of the talents of employees and deliver business value and also provide employees with real stretch, growth and job satisfaction. Developing quality leadership and management becomes a priority. KPMGⁱⁱⁱ extensively trained more than 300 Performance Management Leaders across their business to act as the vanguard of a movement to build continuous, ongoing performance feedback and review throughout the organization. As a result the proportion of staff who feel they have clear goals related to the organization's strategy and who feel their reward is linked to their performance has improved significantly.

4. Appraisals often tend to be process-driven whereas effective performance management is primarily relationship-based. So it's important to get line managers involved in redesigning the appraisal process to make it more stimulating, relevant and useful. Concentrate on improving the quality of the

conversation. A strengths-based approach to performance conversations and reviews can bring many benefits since it builds on employee's strengths and energy levels, rather than diminishing and demotivating them. Some organizations are now replacing formal annual appraisals with informal and regular conversations between the individual and someone senior in their team, with the individual typically having gathered feedback from other stakeholders first. One example is Netflix, where formal performance reviews have been replaced by getting managers and employees engaged in conversations about performance as an 'organic part of their work'^{iv}.

5. In most contexts today, especially firms whose output is creative, business success is not based on individual brilliance alone and it's essential that you have people working collaboratively. High performing teams are characterized more by the communication and knowledge-sharing that goes on between them than by individual excellence so the old individualistic performance management models made famous by Jack Welch and others are not so useful when it comes to encouraging team work. In 2013 Microsoft changed its forced ranking from one that rated its top people as individuals to one that assessed teams.

So as HR professionals adapt their own PMS to today's context and their organization's needs, it is right to focus effort on improving the things that matter in the short-term. After all, it's tough out there, with increasing economic pressures on employers and employees to continuously achieve peak performance. However, it's important to avoid the temptation of simply going for the quick win by tightening up the performance management system to get 'more for less' out of the workforce, squeezing the lemon until the pips squeak. Really successful performance management is about achieving a better balance of employer and employee needs - and is more about building trust, performance and capacity to drive the organization forward in the years to come. There are enough examples out there of firms making the high engagement/high performance connection to demonstrate that the real task for HR is to ensure a brighter future by equipping line managers with the tools and ambition to develop talent and build sustainable high performance through employee engagement. A positive goal that's really worth going for!

About the Author

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ⁱ See Combs, J., Longmei, L., Hall, A., Kecthan, D. (2006): How much do high performance work practices matter? A meta-analysis of their effects on organizational performance, *Personnel Psychology*, Autumn

ⁱⁱ In *Performance Management*, Institute for Employment Studies (forthcoming)

ⁱⁱⁱ In *Performance Management*, Institute for Employment Studies (forthcoming)

^{iv} Mendoza, M. (2014): Breaking better, *Work*, Issue One, June, CIPD