Performance management is viewed as a necessary evil in many organizations due to the myriad of barriers for implementing a consistent, highly supported process. At least half of implementation efforts produce limited or even negative results. This paper explores the reasons for failures and presents a best-practice approach for instituting performance management programs that work.

This paper focuses on five attributes of a well designed performance management system:

- Established guiding principles and program architecture provides a solid foundation
- Clear success criteria show what excellent performance looks like
- Alignment of expectations produces a clear line of sight
- Clearly articulated roles and coaching capabilities support a fair contract for performance
- A specified process serves as a reliable roadmap

Part Two, Program Implementation, focuses on the key requirements for implementing an effective performance management process.

What’s Wrong with Performance Management?
Performance management has always been controversial. In most organizations, it is limited to appraisals or administratively driven semiannual or quarterly reviews. In some settings, it is an organized process comprising of goal and standard setting, intermittent coaching and year-end performance evaluation.

Very few organizations take a comprehensive approach to performance management that includes leveraging, tracking and developing human performance. No matter what the defined scope, performance management in most settings is considered a necessary evil, driven by the need to evaluate employees for retention, work assignments, promotability and pay.

Why then are both managers and employees so universally dissatisfied with performance management? Many experts contend that performance management is actually harmful and should be eliminated. They consistently emphasize that performance management often holds individuals accountable for outcomes beyond their control, that the potential benefits related to coaching, performance feedback and accountability can be achieved without a formal appraisal process, and that efforts focusing on managing performance should concentrate on collaborative coaching discussions and operational systems and processes since they account for most of the variances from ideal performance. Other experts cite a range of human factors that undermine performance management, such as rampant sources of rater bias, conflicting purposes for appraisal, inconsistent, incomplete and irrelevant assessment criteria, poor communication and execution of policies and practices, and a lack of skills and training to support the process.

As a result, more than half of performance management implementations are perceived as unsatisfactory and many goal and competency management initiatives produce negative, not positive, results. Figure 1 outlines the most frequent sources of dissatisfaction.
Developing the practices and accompanying coaching skills necessary to harness the disparate perspectives of different types of individuals are key factors for leveraging the collective performance of the workforce. In some cases, this means managing subcultures within organizations. In other instances, managers must be able to provide performance coaching for individuals from diverse global cultures. To meet these different challenges, creating and consistently implementing performance management according to a common, accepted set of practices is essential for optimizing organizational capabilities.

Key Factors That Make Performance Management Successful

The overarching solution to performance management problems is to adopt a simple, staged, systemic approach. Experience and research both strongly indicate that consistently applying a few standard principles produce positive results, improved employee motivation and positive levels of satisfaction with the performance management process.

The next section of this paper explores the first five of the nine key factors that drive performance management excellence.

Establishing Guiding Principles and Program Architecture Provides a Solid Foundation

One of the most important factors for promoting successful performance management implementations is to develop an initial blueprint for the initiative. Engaging advocates, sponsors and a defined project team in clarifying a program, purpose and business value proposition are important initial steps. Beyond that, determining guiding principles (major assumptions, focus areas, process boundaries) and specifying the structural components of the program create a blueprint for change. The process of articulating the elements also engages stakeholders early in the endeavor and clarifies opportunities to remove barriers up front.

Clear Success Criteria Show What Excellent Performance Looks Like

When people are asked to "do their best," they generally can't. The request is too vague. In organizations, a balanced approach for measuring performance focuses on both what people do (defined by their key activities and goals) and how people behave (defined by setting-specific competencies).

While there are many methods for articulating what an excellent performer looks like in a particular context, competency-based approaches represent the current best practice. Competencies are
a collection of observable behavior statements linked to a particular context that requires no inference or assumptions. The statements, typically referred to as "behavioral indicators," are grouped according to a central message or theme, which becomes the title of the competency and is then supported by a summary statement capturing the essence of that theme called a "definition."

Competencies are significant because they enable us to show employees what kinds of behaviors will result in excellent performance. How employees do their jobs represents the competitive edge for organizations in all work settings. Excellent customer service and total quality performance can happen only when attention is paid to how employees carry out their tasks. When we know the competencies required for excellent performance in a job or role we can select, motivate, develop and reward employees to perform at that level. And when we have employees performing at an optimum level, we maximize the overall performance of the organization. Competency models are not ends in themselves, they are simply a means to an end—a set of standards to drive human resource processes.

Focusing on goals is obviously a critical outcome since delivering valued products or services enable organizations to prosper. Studies on everyone from woodworkers to CEOs show that employees concentrate better, work longer and do more if they set and follow defined steps to meet specific, measurable goals. Specifying not only a goal, but also a path for reaching it directs attention, energizes and motivates individual performance and prolongs engagement. But goal setting can have unintended effects. Blindly following initially set goals, even those that make sense at the time, can do severe damage. A consistent approach to goal setting most often works well—just not always in the ways intended. Studies suggest that goals with rewards, if not carefully calibrated, can short-circuit people’s intrinsic enthusiasm for work and even undermine employees’ learning process. What is often required is a “learning goal” coupled with performance goals that focus on how to achieve an objective. Finally, the best goal a person can have is to reevaluate goals, semiannually or annually, to make sure they remain rational and achievable.

So what are the best practices for creating and managing goals? Like competencies, excellent goals have a clear, context-driven purpose, focus on the critical few factors that drive performance and are implemented through methods that produce measurable results. Excellent goals are also similar to competencies in relying on specific structures and quality criteria to be effective.

A balanced focus on behaviors and outcomes is a key factor in making performance management work. By providing support for both meeting objective performance expectations and behaving competently, organizations can fulfill short-term requirements for meeting goals and the longer-term need to encourage behaviors that support an organization’s culture, values, vision and strategies.

For a more in-depth analysis, see Part One and Part Two of Kenexa’s “Goal Management Best Practices.”

Alignment of Expectations Produces a Clear Line of Sight

One of the most critical purposes of an effective performance management system is to motivate and focus individuals to perform to their optimal level of competence during a defined period, usually an annual performance cycle. Ultimately, the collective efforts of individual performers must add up to positive organizational performance for an enterprise to succeed. Too often, however, organizational strategies and goals are created and passed down to others without a clear set of principles or a clear understanding of the key requirements for meeting them and without translation into meaningful, realistic targets and activities that individuals can perform.

In top-performing organizations, the operational focus of performance management includes the following:

- A clear set of key performance indicators, often supported by yearly strategic initiatives defined by top management that serve as a starting point for defining goals passed down in the organization
- Specific guidelines for goal "cascading," including methods outlining an appropriate number of goals, goal types, and goal criteria
- Coaching support for focusing on the critical few, including guidelines for ensuring goals are relevant and aligned with the most important areas related to an individual’s contribution to the overall enterprise
- Discussion to refine goals to fit individual needs and preferences, including tailoring plans and actions to fulfill goals to give individuals a clear direction and actions they can own and realistically complete
- Dialogue to refine and update goals and accompanying actions to fulfill them, ensuring calibration of initial plans and inevitable changes in direction and tactics for goal completion

Alignment is a reciprocal set of interactions with transparent, fully communicated updates on business strategies and related changes in goals, cascaded frequently with open, upward communications about problems and opportunities for improved performance that are acknowledged by top management. This feedback loop is one of the most important attributes of successful performance management systems.

Clearly Articulated Roles and Responsibilities Support a Fair Contract for Performance

For many organizations, performance management is driven exclusively as an operational set of activities, sometimes using technology to enforce compliance, but in doing so, the interactive relationship between manager and employee is circumvented, if not undermined. In practice, the human relationship between
manager and team member is a most vital contributor to success. The foundation for the relationship rests on a “contract” around clear roles and responsibilities. The manager’s primary role is as a coach who provides consistent support and anchoring during the performance management process and who offers advice about how to perform and grow, tailored to each individual’s capabilities and needs. The employee's primary role is to take charge of his or her performance and development, seek ways to make positive, proactive contributions to the team and the organization as a whole. Figure 2 provides a sample list of accompanying responsibilities.

In the most successful organizations, the process for articulating and gaining commitment for roles and responsibilities is implemented in a full set of discussions resulting in clear expectations and ground rules about how the relationship will be conducted collaboratively.

**Figure 2: Key Roles and Responsibilities in Performance Management**

<table>
<thead>
<tr>
<th>Manager’s Responsibilities</th>
<th>Employee’s Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Select and ensure alignment of goals and competency criteria between employees and the organization</td>
<td>Suggest new/revised goals to improve performance</td>
</tr>
<tr>
<td>Establish and record clear, specific performance criteria with employee</td>
<td>Provide input on actions and behaviors to support goals and targeted competencies</td>
</tr>
<tr>
<td>Engage employees in a collaboration to manage goals and competencies</td>
<td>Reach agreement with manager about means and interactions to support targeted goals and competencies</td>
</tr>
<tr>
<td>Provide intermittent feedback and coaching on performance</td>
<td>Solicit feedback from manager and others (peers, customers, mentors) related to performance targets and career development</td>
</tr>
<tr>
<td>Document a clear, no-surprise appraisal</td>
<td>Define areas to discuss and clarify with manager in the year-end review</td>
</tr>
<tr>
<td>Conduct a full discussion of performance, including accomplishments, opportunities and development needs</td>
<td>Participate actively in year-end discussions; explore career and development planning</td>
</tr>
<tr>
<td>Translate strategies from business planning process into team and individual goals</td>
<td>Provide feedback on opportunities and limitations related to the team's ability to meet business expectations</td>
</tr>
</tbody>
</table>

**A Specified Process Serves as a Reliable Roadmap**

Having a clear path for managing performance is a vital component for creating a high-impact process. This should entail a clearly communicated, consistently followed set of steps. In creating a high-impact system, organizations should generate guidelines for ongoing conversation, including procedures for setting aside time to find out what matters to employees—their vision, purpose, aspirations—and methods for listening with the sincere intention of drawing them out. Part of building trust and a collaborative foundation entails asking questions such as the following:

- Which organizational goals, strategies and priorities for the coming year are most relevant to the work?
- What competencies are most important to support performance?
- Are there any special projects to which the employee’s work will contribute? What specific contribution(s) can he/she personally make?
- What is realistic for him/her to produce?

Successful programs also provide support for clear, unambiguous dialogue about performance expectations that matter to the organization and the individual. Managers’ competency requirements and goal activities can be used as a starting point (since some goals for individuals are passed down directly and shared without change; some are a subset of a manager’s goals; and some capture a unique local contribution that is not part of a cascade).

The most effective goal-setting approaches encompass a balance of leading and lagging indicators, with lagging indicators applying more quantitative metrics (since they provide a more historical look for which objective data is often available) and leading indicators more qualitative metrics (since they focus more on the future and rely on less reliable data and assumptions). The maturity level of a person, process, organization and available metrics also dictate how quantitative a manager can and should make goals and supporting activities. Less overall maturity means goals will be more qualitative.

These factors should each be carefully considered when designing a practical approach for goal management. Regardless of the approach, effective systems should also create a case for action that links the goals to needs and wishes that are important to the person.

While articulating clear performance standards is a critical success factor, each person needs to be engaged in creating a specific plan. Performance management programs that work require clearly outlined methods for specifying competencies on which an
individual should focus on the most (either to leverage performance or to address development needs), what actions and supports can be applied to perform them better and goals that fulfill the following SMART criteria:

**Specific**
Excellent objectives are described in specific, discrete terms.

**Measurable**
Each objective should include objective criteria that can be monitored by available data (time, cost, quantity, etc.). Develop specific performance indicators clarifying the essential attributes of each goal. Possible measures for completion might include quality, quantity, cost, timeliness and customer satisfaction.

**Achievable**
The best objectives focus individuals on specific actions they can perform and challenge the individual to excel.

**Realistic**
Excellent objectives consider context; they are framed according to realistic opportunities and barriers posed by day-to-day business issues.

**Time-Bound**
Every good objective has specific time boundaries (and in many cases a timeline or goal path with landmarks over a period of time).

For each goal, it is important to articulate a clear goal statement by specifying the most essential driving action to fulfill it, the focus or target of the goal and the key outcomes or metrics (i.e., expected measurable results, by when). Supporting activities, usually the two to five critical few actions to reach a goal, should follow a logical order, focusing whenever possible on the critical path (goal path) that can give an individual a roadmap for completing the goal in discrete, achievable steps.

After clarifying targets and supporting activities, the manager should lead discussion to develop a clear contract about how the plan will be supported and fully realized. This mutual commitment should reiterate the roles and responsibilities of each party and deepen the commitment by specifying guidelines for conducting the relationship, such as the following:

- Context for performance criteria are fully disclosed
- Performance targets are considered reachable (e.g., realistic, clear path, appropriate supports)
- The manager is trusted as being genuine, consistent, participative and fair
- Manager and employee develop reciprocal, comparable stakes in performance outcomes
- The employee's personal benefit is integrated into the performance plan
- Concerns, problems, changes and required updates are discussed in openly and non-judgmentally

After completing the performance plan, the manager and employee should review it for completeness and practicality and individual(s) should be enrolled in commitment to their plans. As part of summarizing the planning process, individuals should be encouraged to solicit feedback from the manager and others (peers, customers, mentors) about performance related to targets and career development opportunities as well as suggestions about how to improve goals. A follow-up conversation should be scheduled.

Commitment to refine the performance plan based on changing circumstances is important for reflecting inevitable changes in the following:

- Situations, plans, organizational priorities, or operating requirements
- Individual assignments and/or promotions
- Business conditions

Finally, the manager and employee should ensure that conversations result in a no-surprise evaluation at the end of the performance lifecycle. This requires frequent, mostly informal, feedback about progress, with examples of performance well done and potential improvements. As a result, the best performance appraisal conversations should focus on affirming and refining feedback provided throughout the year and on future accomplishments, opportunities and development needs.

**Figure 3: Summary of Key Process Steps for Performance Management**

- Lay the groundwork for setting objectives by exploring aspirations, needs and preferences
- Conduct a discussion about performance expectations (competencies, goals and development)
- Create specific plans that can be implemented and tracked pragmatically
- Develop commitment to a transparent contract between manager and employee around a performance plan
- Revisit objectives regularly
- Provide a no-surprise evaluation at the end of the performance lifecycle
Summary of Key Concepts
Designing and implementing performance management systems are a challenge. Too many organizations fail to follow the practices required for producing a viable, sustainable process that managers and employees alike embrace rather than tolerate, avoid, or undermine. Successful organizations consistently apply a simple set of standards, steps and practices. The guidelines to follow are widely known, but the commitment to long-term execution is most often the lacking ingredient in failed implementations. The principles outlined in this and its accompanying paper can serve as a roadmap for keeping performance management design and implementation initiatives on track.

However, it is critical to have the organizational will and sponsorship up front for applying the same rigor to the process of managing people as is applied to other core processes. As enterprises have developed, applied, and reaped the rewards of methods for improving operational activities, human asset management processes—performance management in particular—have become the largest source of variation and of potential improvement. This makes mastering the best practices for performance management a strategic imperative, not just an HR compliance requirement.

Figure 4: Summary Guidelines for Performance Management

- Perform a realistic analysis of the business reasons and barriers related to performance management
- Create a business case for implementation
- Ensure adequate sponsorship and ownership
- Develop guiding principles for implementation
- Create a change management plan for the intervention
- Focus on integration of both the “what” (goals) and the “how” (competencies) into the evaluation
- Ensure adequate focus on managing both data (rating and reporting) and relationships (coaching)
- Specify the process: policies, business rules and workflow, performance criteria and roles
- Clarify the approach for applying technology
- Test/pilot the process prior to broader rollout

For a continuation of this discussion, see Kenexa’s “Performance Management Best Practices: Part Two, Program Implementation.”

www.kenexa.com
866.391.9557