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What are the Most Efficient and Effective Practices Surrounding Performance Management?

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Abstract

Research Question: What are the most efficient and effective practices surrounding performance management? Specifically, how have large corporations, been able to simplify their practices so that performance management is not a lengthy and arduous process?

Keywords

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Comments

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Research Question:

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Value of Performance Management

The value of performance management is a hotly debated issue in the business world. Samuel Culbert, a professor at UCLA's Anderson School of Management, wrote an article in the Wall Street Journal calling performance reviews "bogus and ill-advised".[1] A 2007 Salary.com survey of 2,200 employees found that more than 60% of workers believe reviews do not help their future performance.[2] Recent research by McKinsey & Company, Boston Consulting Group, and Deloitte also tell the same story.[3,4] Their studies confirm that organizations are unhappy with their ability to grow talent and are becoming increasingly frustrated as their talent needs become more severe. Outside their walls, they see a competitive environment in which winning requires top-quality talent, while inside those walls, they see millions spent on talent development with very few results. However, the majority of HR practitioners and academics believe performance management systems are essential and valuable when the systems are designed correctly. Edward Lawler, a USC professor, finds that those who argue against performance appraisals suggest that feedback needs to be ongoing versus once annually.[5] Lawler believes ongoing feedback is critical, but only a partial substitute for a performance appraisal, which provides valid data about individual performance that can be used in determining rewards and supporting talent management decisions. Additionally, in the legal reality of today, employers must defend themselves against unlawful termination lawsuits by providing documentation, usually in the form of performance reviews.[2]

Recommendations for Optimizing the System

Below we highlight four strategies for improving the performance management system based on findings from the academic and practitioner literature. Additionally, we provide examples of tools organizations currently employ to drive individual and organizational performance, which can be applied to the performance management context.

I. Start at the top

Academics believe that the performance management system must start and be led by senior management and the board.[5] The board needs to appraise the CEO and the CEO then needs to appraise his/her direct reports. The appraisal process needs to be cascaded down the organization so that every level experiences it. Additionally, at every level of the organization, goals should be tied to the business strategy and there should be transparent discussion around what needs to be accomplished, how it will be accomplished, and the measurement processes used to assess goal achievement. A 2010 Aon Hewitt survey found that currently only 15% of surveyed organizations said their employees' goals are "very aligned" with organizational priorities.[6] This percentage has not changed since they conducted a similar survey five years earlier. Alignment is key to the system providing value to the organization.

II. Training for managers and employees

Training is essential for both managers and employees given the importance and complexity of the performance management system. Aon Hewitt's 2010 survey also found that 65% of respondents ranked "manager's ability to coach" as one of the top three areas for process improvement.[6] Training goes beyond explaining how the system works and the purpose of the system. Managers need to be trained on effective coaching methods, which will help in the development of interpersonal skills and thereby lead to effective review sessions. Without this training, managers often have difficult providing negative feedback, which

reduces the efficacy of the system. For employees, training should be provided for how to receive feedback and on how to be more accountable for their own performance review. When the burden is entirely left to managers, who can have many direct reports, performance reviews are likely to be late and poorly done. By training employees to be accountable for only one person (themselves), they will be more likely to keep better track of due dates and to schedule meetings with their manager to proactively discuss feedback and progress.[5] We identified a trend in the literature; employees at some companies, including Google, have started to track and analyze their behaviors to identify trends and areas of improvement.[7] This can be helpful in the performance review context; employees can provide hard evidence by using auto-analytics in situations where traditionally they have relied on intuition and anecdotal feedback. Auto-analytics can provide the knowledge worker the feeling of more accountability and authority in a performance review. However, employers should be careful to stay out of workers' way. Too much managerial interference could make the programs seem like Big Brother and dissuade workers from signing on. Workers are a lot more comfortable with close scrutiny when they are the ones doing the watching. Therefore, managers can buy subscriptions for influential employees who can help seed interest across the company.

III. Appraise the appraisers

In order for the system to be effective, managers need to conduct good performance appraisals.[5] They need to appropriately set goals, deliver constructive, ongoing feedback, assess the right competencies for development, evaluate performance, and deliver appropriate rewards. The literature suggest appraising the manager and including performance management capabilities in their development goals is critical for making this a high, attended to priority for managers.

IV. Simplify the system

In a book titled "One Page Talent Management", Marc Effron and Miriam Ort provide strategies and case studies of companies who have successfully reduced complexity in their talent management systems.[8] In many organizations, the talent management process is burdened by needless complexity, adding no value to the business, and lacking in accountability and transparency. They proposed a One Page Talent Management (OPTM) model as the solution. It integrates behavioral science, simplicity, accountability, and transparency into practices that accelerate the development of talent. The first step in the OPTM design process is to understand your business objectives and how existing organizational research can help the company achieve them. It is suggested that the most effective design process involves taking small, incremental steps toward the goal, weighing the value-complexity trade-off at each step. By doing so, complexity was eliminated, which ensured the implementation of the talent practices.

At IBM, they utilized the OPTM model to improve their talent review process for leaders. Prior to implementation, they believed the talent review process was lacking in discipline in the time between review sessions. To solve the problem, IBM established "five-minute drills". These drills are discussions where a business unit leader would present their proposal for a talent move or promotion in a standard format, followed by a discussion among senior leaders to decide if the move was valuable to the person and organization. The process is replicated every month in each senior leader's staff meeting. The key takeaway is that simplification is possible in any talent management system.

Conclusion

Despite the debate over performance management, both practitioners and academics agree that it is by far the most useful tool for determining rewards, supporting talent management decisions, and ensuring legal compliance. To improve the efficiency of performance management, the focus should be directed on streamlining the overall process and creating process improvements in areas of particular importance. Creating goal alignment at all levels of the organization, emphasizing manager and employee training, and directing attention on incremental, focused changes are critical considerations in developing an effective and efficient performance management system.

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Further Reading

Effron, M., & Ort, M. (2010). *One page talent management: Eliminating complexity, adding value*. Harvard Business School Press.

Abstract: You know that winning in today's marketplace requires top quality talent. You also know what it takes to build that talent ‑‑ and you spend significant financial and human resources to make it happen. Yet somehow, your company's beautifully designed and well‑benchmarked processes don't translate into the bottom‑line talent depth you need. Why? Talent management experts Marc Effron and Miriam Ort argue that companies unwittingly add layers of complexity to their talent building models ‑‑ without evaluating whether those components add any value to the overall process. Consequently, simple processes like setting employee performance goals become multi‑page, headache‑inducing time‑wasters that turn managers off to the whole process and fail to improve results. In this revolutionary book, Effron and Ort introduce One Page Talent Management (OPTM): a powerfully simple approach that significantly accelerates a company's ability to develop better leaders faster. The authors outline a straightforward, easy‑to‑use process for designing results‑oriented OPTM processes: base every process on proven scientific research; eliminate complexity by including only those components that add real value to the process; and build transparency and accountability into every practice. Based on extensive research and the authors' hands‑on corporate and consulting experience with companies including Avon Products, Bank of America, and Philips, One Page Talent Management shows how to: quickly identify high potential talent without complex assessments, increase the number of "ready now" successors for key roles, generate 360 feedback that accelerates change in the most critical behaviors, significantly reduce the time required for managers to implement talent processes, and enforce accountability for growing talent through corporate culture, compensation, etc.

Goldsmith, M., & Carter, L. (2009). *Best Practices in Talent Management: How the World's Leading Corporations Manage, Develop, and Retain Top Talent*. Pfeiffer.

Abstract: Best Practices in Talent Management offers a hands-on resource, which contains the most current and important information on how to attract, retain, and motivate top talent within any organization. Designed to meet the needs of today's organizations, this handbook is filled with practical advice on how to implement employee and customer-centered programs that emphasize consensus building; self, group, organizational, and one-on-one awareness and effective communication; clear connections to overall business objectives; and quantifiable business results.

With lessons from companies that are widely recognized as among the best in organization change and leadership development, the book offers invaluable lessons for succeeding during challenging times. As best practice organizational champions, these companies share many similar attributes including openness to learning and collaboration, humility, innovation and creativity, integrity, a high regard for people's needs and perspectives, and a passion for change. And all these outstanding organizations have invested in human capital—the most important asset inside of organizations today. Best Practices in Talent Management offers lessons from the world's best organizations in various industries and sizes, and shows how to identify the key elements of leading successful, results-driven talent management; access the tools, models, instruments, and strategies for leading talent management; apply practical "how-to" approaches to diagnosing, assessing, designing, implementing, coaching, following-up on, and evaluating talent management; and measure critical success factors and critical failure factors of a program.