Putting the "Performance" Back into Performance Management

Dissatisfaction with traditional performance management processes—often perceived as burdensome, demotivating, and without value—is on the rise, driving many organizations to focus on improving their approach to managing performance.

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Overview

In this paper, we examine how the best companies improve performance management by tightening the link between performance management processes and organizational objectives, which requires three fundamental shifts: making goals more flexible and responsive, making effective performance feedback part of everyday work, and making performance reviews more forward looking.

Current State

Dissatisfaction with performance management is at an all-time high.[1] Even the highest performers see performance reviews as highly demotivating and of little value.[2] Performance management activities (e.g., formal goal-setting processes, mid-year and year-end reviews, extensive rating and calibration processes) cost organizations millions of dollars annually, and yet research shows individual performance management ratings have absolutely no correlation with business unit performance.[3]

Questioning the merits of the formal performance management process, some organizations have begun to modernize parts of their performance management approach to drive critical behaviors for the new work environment (e.g., providing informal feedback, setting clear expectations, working collaboratively). A few very high-profile companies, including Microsoft and Adobe, have publicly and significantly changed their formal performance management processes; others, indeed the majority, are making incremental changes by taking more measured steps.

[1] CEB, *Driving Breakthrough Performance in the New Work Environment*, Arlington, VA (2012).

[2] S. S. Culbertson, J. B. Henning & S. C. Payne, "Performance Appraisal Satisfaction: The Role of Feedback and Goal Orientation," *Journal of Personnel Psychology* 12 (2010): 189–195; D. Rock, "SCARF: A Brain-Based Model for Collaborating with and Influencing Others," *NeuroLeadership Journal* 1 (2008): 1–9.

[3] CEB, *Driving Breakthrough Performance in the New Work Environment*, Arlington, VA (2012).

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The Purpose of Performance Management: Separating Aspiration from Reality

When we ask organizations what they use performance management for, the top answers include:

- Making decisions about pay, promotions, or other personnel actions.
- Identifying poor performers and holding them accountable.
- Providing documentation to defend against legal challenges.

When we ask organizations what performance management should achieve for them, the answers are much more aspirational:

- Help employees develop and grow.
- Improve communication between employees and managers.
- Align individual work to achieving the organization's goals.
- Help individuals and teams perform to their highest potential.

The first list is administrative in nature, while the second list reflects the desire for performance management to improve individual and organizational performance.

Ultimately, performance management approaches that try to serve too many purposes will not serve any purpose well. Different types of decisions require different criteria.

For example, an employee's annual merit increase is usually based on the organization's budget, changes in the labor market for the specific job, the employee's salary relative to her peers', and her performance. In contrast, a decision about whom to promote is based on performance and demonstrated potential to operate successfully at the next level. These two different actions require different decision processes and criteria.

If the fundamental purpose of performance management is to help organizations maximize productivity by enabling employees to perform to their potential, the performance management approach should be designed to accomplish the following three critical goals:

- Enable employees to align their efforts in a manner that contributes most to the organization's goals.
- Equip employees with guideposts to monitor behavior and results and make adjustments in real time as needed to maximize performance.
- Help employees identify and remove barriers to performance.

The Performance Management Process: Three Critical Shifts Required for the New Work Environment

Managers and employees complain that they spend too much time on performance management documentation, forms, and administrative tasks that have little to no impact on actual performance. There is appetite for change, but the options are overwhelming and often expensive (e.g., making radical changes to the performance management system or technology).

We have identified three shifts companies must make to significantly improve performance management: improving how performance goals are set, providing ongoing feedback, and streamlining the performance review process.

Examples of Effective Goals

- By X date, launch the webpage advertising the new product.
- Handle at least X service calls per day, with fewer than Y callbacks for the same problem.
- Enhance division visibility by:
  - Publishing an article on X topic by Y date.
  - Publicizing our upcoming event on a variety of social media outlets, resulting in Z registrations on our website.

Performance Goals

Goals direct energy and focus, improve performance, and work best when they are challenging and meaningful to the individual. Unfortunately, traditional annual performance management practices tend to undermine the very characteristics that make goals so powerful.

For example, cascading goals are used to tie organizational objectives to individual work. To cascade goals, each unit sets its own goals based on the unit above it. In turn, individual employees' goals flow down from their unit's goals. But because this process is sequential, it is incredibly time-consuming. In complex organizations with many layers, the entire cascade can take months, leaving many individuals without performance goals for a significant amount of time. And with so many translations of the original goal, by the time the cascade reaches individual employees, the relationship to organizational objectives and even to their own jobs can be murky at best.

SMART goals are another example of a "best practice" that can actually undermine performance. They are used to ensure all employees make progress against specific, measurable, achievable, realistic, and time-bound work. But applying a one-size-fits-all rule for goal setting doesn't work well for everyone in most organizations; it actually reduces differentiation among employees and often fails to challenge them.

What to do instead: Innovate on traditional goal-setting practices. Given these challenges, organizations may be tempted to abandon goal setting altogether. However, because having goals can lead to higher performance, we recommend evolving goal setting as follows:

- Each unit and employee sets their own goals by "linking up" to the organization's objectives. This step avoids having to wait for each level above to complete its cascade and allows for a more direct line of sight between an individual's goals and the organization's objectives.
- Employees and managers collaborate to set three to five performance goals that clearly relate to the organization's priorities. Goals should be brief and include only the most important results the employee is expected to achieve.
- Goals are based on the time horizon for which the employee and manager have line of sight. Quarterly goals are a good standard, as three months is enough time to accomplish a significant result, and revisiting goals each quarter is doable if the process is streamlined.
- Employees strive for meaningful and sufficiently challenging goals. Although some jobs lend themselves to quantitative metrics, measures of success in other jobs are more subjective. Ultimately, a goal should push an employee to put forth a good deal of effort, so it's important not to get so wrapped up in making sure goals are SMART that you lose sight of what's most important for employees to accomplish.
- Rewards make sense for the work. For jobs in which results are quantifiable and under the employee's direct control, rewards tied to goals can work well. In complex jobs where results are hard to quantify or affected by things outside the employee's control, the tie between goal attainment and rewards should be a judgment call. Consider tying incentives to simply making progress against challenging (but achievable) goals.

Ongoing Feedback

Many organizations use performance check-ins during the year to monitor progress, to provide feedback in between goal setting and performance evaluation, and to course-correct before the year-end rating. In some organizations, a simple conversation is all that's required. In others, the process is very formal and includes a written self-assessment, supervisor rating, written narrative, and performance conversation.

Contrasting Traditional Feedback with Teachable Moments

Traditional Feedback:
"At the last staff meeting, you did a nice job of setting the agenda and kicking things off. However, you didn't engage the quieter members of the group, and you let Sam dominate the conversation."

Teachable Moment:
"Let's discuss how that meeting went. What did you think went well? I agree the agenda was very clear—any lessons learned that will help you continue this habit in future? What would you do differently next time? I agree Sam seemed to dominate the conversation. What techniques will you try next time to keep things more balanced?"

Organizations that require this more formal mid-year process believe the formality is important for accountability. These policies often arise from a concern that, without them, managers will fail to provide any feedback to employees. This premise makes sense, but in practice it falls short for many reasons:

- Getting feedback once or twice a year is too infrequent to impact behavior and performance.
- Formalized processes are viewed as burdensome and time-consuming and rarely yield performance improvements.
- Managers may avoid giving feedback on a more regular basis, thinking it can wait until the formal conversation.
- A formal mid-year review is often as perfunctory as the year-end review, with neither managers nor employees finding the process valuable.
- Formal and informal mid-year reviews reinforce the view of feedback as backward looking and evaluative; current neuroscience research shows that this approach causes employees to become defensive and high performers to even perform worse.[4]

What to do instead: Build a culture of ongoing feedback. Managers and employees must be trained to check in more frequently to clarify expectations and provide feedback as part of ongoing work. This means moving beyond mere skill building to providing employees with the guidance and structure needed to practice and solidify feedback and coaching behaviors in the context of day-to-day work. Critical new habits include:

- Setting clear expectations at the outset of new work;
- Recognizing and praising high performance as work progresses; and
- Providing coaching that is forward looking and focused on the process (not the outcome) in the moment or as soon as possible after an event.

Cultivating clear expectations, informal feedback, and forward-looking coaching throughout the organization will have a much higher impact on increasing performance than any formal performance management step.

Performance Reviews

Traditional performance management approaches typically include a formal year-end evaluation with a written self-assessment and a supervisory assessment, which often include numerical ratings on competencies, performance objectives, or both, plus a narrative description of the performance. The written documentation is usually followed by a conversation to review the evaluation, after which the form is signed and retained for recordkeeping purposes.

The purpose for this traditional approach is rooted in several long-standing assumptions. However, research does not support most of these assumptions. Table 1 provides a comparison of common performance management assumptions and the realities.

[4] D. Rock, "SCARF: A Brain-Based Model for Collaborating with and Influencing Others," *NeuroLeadership Journal* 1 (2008): 1–9.

Table 1. Assumptions and Realities About Performance Ratings

Assumption	Reality
More rigorous ratings will provide better data for making effective decisions.	Most performance ratings are not accurate reflections of objective performance. Managers have a number of competing interests and constraints—unrelated to an employee's actual performance—that influence ratings.[5] Moreover, studies have found the correlation between individual performance ratings and business unit performance is zero.[6] Therefore, ratings are typically a flawed basis for decision making.
Employees need to know where they stand so that they have a realistic view of their performance.	Most employees believe they are above-average performers. Therefore, a rating system that accurately labels the majority of employees as average or at the middle of any rating scale will be inherently demotivating to most people. Employees must know where they stand on decisions that affect them. However, using a label such as "meets expectations" is an indirect way of communicating that tends to frustrate more than inform.
Making distinctions with ratings is motivating because it rewards high performers and provides motivation for average performers.	Backward-looking evaluations are demotivating and put people on the defensive, sometimes leading to decreased performance, even among high performers.[7]
Managers won't take the time to have performance conversations with employees unless it will be verified with written documentation.	Most performance management approaches only hold managers accountable for compliance with the formal process (e.g., filling out forms completely and on time) and not for having high-quality performance conversations. Few, if any, performance management approaches actually hold managers accountable for the behaviors that matter—providing informal feedback as needed, ensuring employees have clear expectations, and helping employees solve problems, for example.
In instances of poor performance, the performance management rating process protects employers in case of litigation.	Less than 5% of the employees in an organization are typically poor performers, so it does not make sense to require extensive documentation of everyone. Moreover, performance management documentation often works against employers in challenges because performance appraisals often reflect a pattern of satisfactory ratings for poor performers.

Source: CEB analysis.

[5] K. R. Murphy & J. N. Cleveland, *Understanding Performance Appraisal: Social, Organizational and Goal-Based Perspectives* (Thousand Oaks, CA: Sage, 1995).

[6] CEB, *Driving Breakthrough Performance in the New Work Environment*, Arlington, VA (2012).

[7] D. Rock, "SCARF: A Brain-Based Model for Collaborating with and Influencing Others," *NeuroLeadership Journal* 1 (2008): 1–9.

Are Performance Ratings Necessary to Protect Against Legal Challenges?

Performance ratings provide a consistent way for organizations to document performance-based compensation decisions; therefore, many general counsels feel more comfortable with their use.

However, having documented performance ratings as justification for rewards does not automatically protect an organization from challenges, and inconsistent or poorly managed ratings may hurt the organization.

To protect themselves, organizations must:
1) Have a clear rationale for decisions about compensation, rewards, and other actions,
2) Communicate those decisions effectively to employees, and
3) Monitor decisions for potential adverse impact, and take action if it is discovered.

Organizations can make defensible decisions without performance ratings, but we suggest working with internal or external counsel to discuss the implications of any changes to the rating process.

What to do instead: Reduce performance review burden. The question of whether to have performance ratings is complex and requires thoughtful analysis. The answer depends on the organization's circumstances, needs, and readiness to remove ratings. Removing ratings never means abandoning discussion of employee performance and explanations of pay increase, bonus, promotion potential, and other rewards. However, focusing on the performance itself instead of on numerical ratings—and what number the employee is tracking to achieve—will drive more meaningful performance discussions.

Organizations that choose to retain ratings can still make the evaluation process less burdensome and more valuable by taking the following steps:

- Reduce the number of ratings required (e.g., instead of rating each objective and each competency, provide an overall summary rating in key higher-level rating categories).
- Avoid using goal attainment to provide "meets expectations" ratings; instead, set challenging but achievable goals, and evaluate the impact of results or contributions.
- Reduce or eliminate documentation required for performance that is meeting or exceeding expectations.
- Eliminate self-assessments, as they don't actually help improve performance, are time-consuming, and can result in unnecessary conflict.
- Change the annual review conversation from a retrospection of the past year to a forward-looking career conversation.
- Develop a more rigorous process for documenting poor performance, and train managers how to use it; ensure poor performance is addressed as soon as it's observed.

As part of traditional performance management approaches, managers often try to ensure ratings and associated raises are fairly distributed in painstaking calibration sessions. Even when merit pools are small, much time is spent making very fine distinctions in compensation. When performance ratings are eliminated, performance-based compensation decisions can still be made:

- If the budget for annual merit increases is small, consider making annual increases the same for all successful performers. Reward high performers with spot bonuses for outstanding performance or annual bonuses for outstanding contributions. Ensure these bonuses are based on achieving business results and can be clearly explained to employees.
- Turn calibration discussions into talent discussions that determine how best to reward and retain top performers (e.g., bonuses, development opportunities, promotions).
- Train managers to effectively communicate compensation decisions. Compensation decisions are often complex and include many factors, such as the organization's annual budget, equity considerations, and market comparisons—as well as any performance-based increase. Encourage managers to talk about the decision-making process and, at the same time, remind employees of their total compensation (including bonus and benefits) and the many ways in which the organization recognizes good performance.

Conclusion

Effective performance management provides meaningful, real-time feedback, ensures employees have clear expectations, helps employees solve problems, and coaches employees to achieve their maximum performance levels. Formal performance management approaches often undermine the very behaviors that lead to high performance and can pit employees against each other, stifle performance conversations, and even result in manipulation of the system to achieve a particular rating level.

To evolve beyond the formal performance management process, employees and managers will need training and support to achieve the fundamental behavior change required. We recommend replacing the formal performance management system's rigid, burdensome administrative requirements with a more flexible approach that reinforces critical behaviors and aligns individual work to organizational objectives. Ultimately, if a traditional performance management practice does not support the organization's goals, consider eliminating it to allow for a more informal approach to performance management. Although there is no single best performance management approach for every organization, all will benefit from focusing squarely on the performance management practices and, especially, the behaviors that matter most in driving improved performance, thus gaining measurable value from performance management.

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