

Performance Management

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WHAT'S COVERED

In this lesson, you will learn how performance management practices impact an organization's overall performance. Specifically, this lesson will cover:

1. [Introduction to Performance Management](#)
2. [Approaches to Implementation](#)
3. [Performance Management System Challenges](#)

1. Introduction to Performance Management

Performance management practices and processes are among the most important that HR manages, yet they are also among the most contentious processes in an organization. Many people view performance management as a human resources role and believe that it is in some parallel path with the business. On the contrary, for the process to be successful, it should not only be human resources that is responsible for driving performance. For the (typically) annual performance management process, human resources and line management should partner on the implementation and ongoing communication of the process. Although HR is responsible for creating and facilitating the performance management processes, it is the organizational managers that need to strongly support the process and communicate the linkage of performance management to overall organizational goals and performance. If a business manager can't track and drive performance at the individual level, then the overall organization won't know how it's tracking on overall organizational goals. Before discussing the state of performance management in the workplace today, it is important to understand the origin of performance management. Performance management began as a simple tool to drive accountability (as it still does) but has evolved more recently into a tool used for employee development.



DID YOU KNOW

Performance management can be traced back to the U.S. military's "merit rating" system, which was created during World War I to identify poor performers for discharge or transfer (*Harvard Business Review*, 2016). After World War II, about 60% of all U.S. companies were using a performance appraisal process. By the 1960s, nearly 90% of all U.S. companies were using them.

Although the rules around job seniority determined pay increases and promotions for the unionized worker population, strong performance management scores meant good advancement prospects for managers. In the beginning, the notion of using this type of system to improve performance was more of an afterthought, and not the main purpose. By the 1960s or so, when we started to see a shortage of managerial talent, companies began to use performance systems to develop employees into supervisors, and managers into executives.



EVENTS TO KNOW

In 1981, when Jack Welch became CEO of General Electric, he championed the forced ranking system—another military creation. He did this to deal with the long-standing concern that supervisors failed to label real differences in performance (*Harvard Business Review*, 2016). GE utilized this performance management system to shed the people at the bottom. They equated performance with people's inherent capabilities and ignored their potential to grow. People were categorized as “A” players (to be rewarded), “B” players (to be accommodated), and “C” players (to be dismissed).

In the GE system, development was reserved for the “A” players—and those with high potential were chosen to advance to senior positions. Since the days of GE's forced ranking, many companies have implemented a similar forced ranking system, but many have backed away from the practice. After Jack Welch retired, GE backed away from the practice as well.



BIG IDEA

Companies, GE included, saw that this practice negatively fostered internal competition and undermined collaboration and teamwork and thus decided to drop forced ranking from their performance management processes.



TERM TO KNOW

Performance Management

The process by which an organization ensures that its overall goals are being met by evaluating the performance of individuals within that organization.

2. Approaches to Implementation

In a survey by Deloitte Services, 58% of executives believed that their current performance management approach drives neither employee engagement nor high performance. They needed something more nimble, real-time, and individualized—and focused on fueling performance in the future rather than assessing it in the past (Buckingham & Goodall, 2015). In light of this study, Deloitte became one of the companies that has recently sought to redesign their performance processes. As part of their “radical redesign,” they seek to see performance at the individual level, and thus they ask team leaders about their own future actions and decisions with respect to each individual. They ask leaders what they'd do with their team members, not what they think of them (Buckingham & Goodall, 2015). Although there has been some discussion over the last several years about some companies wanting to drop performance appraisals completely, most of the research seems to support that the total absence of performance management doesn't help either. A recent global survey by CEB Global reports that more than 9,000 managers and employees think that not having performance evaluations is

worse than having them (Goler et al., 2016). Their findings indicate that even though every organization has people who are unhappy with their bonuses or disappointed that they weren't promoted, research shows that employees are more willing to accept an undesirable outcome when the process is fair.



BIG IDEA

The key question really becomes: How can HR help the business create a process to fairly evaluate performance and enhance employee development while not burdening the business with undue bureaucracy and non-value-added activities?

3. Performance Management System Challenges

As organizations evaluate their options for a performance management system, human resources and business leadership need to consider several challenges that will need to be addressed—no matter what the system (Capelli & Tavis, 2016).

The first is the challenge of aligning individual and company goals. Traditionally, the model has been to “cascade” goals down through the organization, and employees are supposed to create goals that reflect and support the direction set at the top. The notion of SMART goals (Specific, Measurable, Achievable, Relevant, Timebound) has made the rounds over the years, but goal setting can still be challenging if business goals are complex or if employee goals seem more relatable to specific project work than to the overall top-line goals. The business and the individual need to be able to respond to goal shifts, which occur very often in response to the rapid rate of change and changing customer needs.



HINT

This is an ongoing issue that human resources and business leadership will need to reconcile. The next key challenge to think about when designing a performance management process is rewarding performance. Reward structures are discussed later in this chapter, but reward systems must be rooted in performance management systems. Currently, the companies that are redesigning their performance processes are trying to figure out how their new practices will impact their **pay-for-performance** models. Companies don't appear to be abandoning the concept of rewarding employees based on and driven by their performance, so the linkage between the two will need to be redefined as the systems are changed.

The identification of poor performers is a challenge that has existed since the earliest days of performance management, and even the most formal performance management process doesn't seem to be particularly good at weeding out poor performers. A lot of this is due to the managers who evaluate employees and are reluctant to address the poor performers that they're seeing. Also, the annual performance management process tends to make some managers feel that the poor performance should be overlooked during the year and only addressed (often ineffectively) during a once-per-year review. Whatever new performance management models an organization adopts, they will have to ensure that poor performance is dealt with in real time and is communicated, documented, and managed closely.

Avoiding legal troubles is another ongoing challenge for organizations and is another reason for real-time communication and documentation of performance issues. Human resources supports managers as they deal

with employee relations issues, and the thought of not having a formal, numerical ratings system is unfathomable for some people who worry about defending themselves against litigation. However, because even formal performance processes can be subjective and may reveal ratings bias, neither the traditional formal process nor some of the radical new approaches can guarantee that legal troubles will never develop.



KEY CONCEPT

The best strategy for effective and fair performance management is real-time communication and documentation of issues. The employee is told about his or her performance issues (in as close to real time as possible), and the manager has documented the performance issues and conversations objectively and has engaged human resources with any larger or more complex issues.

“Managing the feedback firehose” and keeping conversations, documentation, and feedback in a place where it can be tracked and utilized is an ongoing challenge. The typical annual performance process is not conducive to capturing ongoing feedback and conversations. There have been some new technologies introduced that can be used to capture ongoing conversations between managers and employees.

➦ **EXAMPLE** General Electric uses an app called PD@GE (PD = performance development) that allows managers to pull up notes and materials from prior conversations with employees. IBM has a similar app that allows peer-to-peer feedback.

Although there are clearly some technology solutions that can be used to help communicate and collect feedback, human resources will need to continue to communicate and reinforce rules around objectivity and appropriate use of the tools.



BIG IDEA

Performance management processes—traditional and inventive new approaches alike—will face the same challenges over time. Human resource management professionals need to be aware of these challenges and design a performance management system that addresses them in the format and within the context of their culture.



REFLECT

1. Where did the concept of performance management originate?
2. What are some of the key challenges of any performance management process?



TERM TO KNOW

Pay-For-Performance Model

The process and structure for tying individual performance levels to rewards levels.



SUMMARY

In this lesson, you covered an **introduction to performance management**, noting that while these practices and processes are among the most important that HR manages, they are also among the most contentious processes in an organization. In addition, although HR is responsible for creating and

facilitating the performance management processes, the organizational managers must also strongly support the process and link performance management to overall organizational goals and performance. You learned that recent studies indicate that current performance management approaches are not always effective in driving employee engagement and high performance, leading to redesigns in **approaches to implementation** that focus on processes that fairly evaluate performance and enhance employee development without undue bureaucracy and non-value-added activities. You also learned about several **performance management system challenges**, including aligning individual and company goals, rewarding performance, identification of poor performers, avoiding legal troubles, and communicating and collecting feedback.

Best of luck in your learning!

Source: Access for free at <https://openstax.org/books/principles-management/pages/1-introduction>

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TERMS TO KNOW

Pay-For-Performance Model

The process and structure for tying individual performance levels to rewards levels.

Performance Management

The process by which an organization ensures that its overall goals are being met by evaluating the performance of individuals within that organization.