

Driving Organizational Strategy Through Performance Management

The Case for Aligned PM

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Among the many criticisms leveled at performance management (PM) perhaps the most damning is the lack of evidence that it actually leads to better individual, team, and organizational performance (DeNisi & Murphy, 2017; DeNisi & Smith, 2014). For example, in an examination of 23,339 performance ratings across 40 organizations, Gartner (formerly CEB) found no relationship between business unit profitability and performance ratings in those units (Gartner, 2012). Units with highly rated employees were no more likely to be profitable than units with low-rated employees. Other research has shown that performance ratings and feedback not only are inaccurate, but can also lead to decreases in performance, even for those who were high performers (Aguinis, Joo, & Gottfredson, 2011; Culbertson, Henning, & Payne, 2013). In short, numerous critics have noted that the typical approach to PM is burdensome, time consuming, and demoralizing (Adler et al., 2016; Buckingham & Goodall, 2015; Culbert & Rout, 2010; Pulakos, Mueller-Hanson, O'Leary, & Meyrowitz, 2012; Pulakos & O'Leary, 2011), prompting many articles in the business press about how to “kill” PM. As Murphy (Chapter 16, this volume) notes, the lack of evidence that PM works as intended constitutes “a crisis” and how it is resolved will determine its future.

The inability of PM to improve individual and organizational performance stems from three major flaws in how it is implemented. First, PM is often designed in a piecemeal and reactionary fashion that is not aimed at supporting the organization's goals or priorities in the first place. Organizations adopt “best practices” from high-profile companies without first thoroughly considering whether those practices will work within their organization's unique context. Second, PM practices are out of sync with how work is actually done in organizations today. As Pulakos and Kantrowitz

(Chapter 12, this volume) note, organizations are facing unprecedented change, requiring new levels of agility. Yet, PM practices remain static and tend to discourage innovation. Third, PM is often implemented without careful consideration of the purpose that it should serve. While most organizations say that they want PM to improve employee performance, in practice most PM systems are designed with other goals in mind (e.g., making compensation decisions) and do not emphasize the practices that have a demonstrable impact on individual or organizational performance.

This chapter provides an evidence-based, practical road map for how organizations can address these challenges. It begins by summarizing each of these three themes and presents an overarching idea for how to address these challenges: aligning PM practices to support the organization's goals and strategy. Next, it discusses why this approach is likely to benefit organizations and their people. Finally, it concludes with practical guidance on designing a PM approach that is aligned to support the organization's specific context and goals.

Addressing PM Challenges

Overcoming the Tyranny of “Best Practices”

PM approaches are frequently implemented in a reactionary and piece-meal fashion rather than based on what is most important for the organization. Specific techniques are often based on the best practices of others, such as how to set goals, give feedback, evaluate results, and use technology to capture performance data. Others follow the latest trends described in the business press, such as crowdsourced feedback and ratingless reviews. Sometimes, PM practices are reactionary. The organization is sued for discrimination and starts requiring much more thorough documentation to justify every decision. Too often, this yields a Frankenstein-like PM process—various components are bolted together for different reasons without careful analysis of how these components will work together to support the organization's goals.

As the case studies throughout this volume illustrate, there is no one set of best practices that will work in every organization. For example, some organizations (e.g., Patagonia) have eliminated traditional ratings and reviews in favor of more frequent check-ins (Mason, Chapter 9, this volume). Others

have retained ratings but streamlined the formal review process. A few have connected PM transformation to larger change efforts occurring throughout the organization, such as illustrated in the Toyota (Pirruccello, Chapter 2, this volume) and AbbVie (Gorbatov, Lane, & Richmond, Chapter 3, this volume) case studies.

Learning from others' experiences can be valuable, but transplanting best practices for PM design from one organization to another is a recipe for failure. The "best" approach to PM is the one that fits the organization's context and supports achieving its mission and strategic objectives. For example, Microsoft eliminated performance ratings in favor of more ongoing feedback and coaching. The company found that their prior approach of stack ranking employees was creating a climate of unhealthy competition and stifling collaboration, which they believed was key to their future competitive advantage (Warren, 2013). This was a prime example of a PM approach that was not only misaligned to organizational goals, but also was counter to those goals. Their new approach was designed to foster collaboration by reinforcing a climate of meaningful performance conversations and open and honest feedback.

Designing PM for the Future

While organizations today are facing unprecedented levels of uncertainty and change, many PM practices have not changed all that much since the 1980s. Goals and expectations are set at the beginning of the year, and performance is evaluated at the end even though work today is more dynamic, with priorities changing throughout the year. Evaluations and consequently rewards are still largely based on managers' ratings even though decades of research have shown that these ratings are unreliable. The whole process is largely focused on individuals, despite the fact that most work today is done in teams and results are highly interdependent.

If we want to truly help drive performance in today's work environment, we need to design PM to support the work of the future, not the past. For example, a driving force behind Gogo's PM transformation was the rapid expansion of and changes to how their business operated (Glickman & Fisk, Chapter 5, this volume). These changes led to a more dynamic process of setting goals and greater emphasis on ongoing coaching and feedback. PM of the future must adapt to the realities of the new work environment.

- Instead of a static PM process that requires everyone to set goals at the beginning of the year and evaluate performance at the end, goal setting and progress measurement need to be dynamic, in sync with how real work gets done, and embedded in work rather than separate.
- Instead of expecting managers to be the primary judges of employee performance, we need to tap in to other sources of data to measure progress and teach managers to be coaches and problem-solving partners, not just evaluators and feedback providers.
- Instead of only focusing on individual performance, we need to focus on team performance.

This last point is especially critical and the area in which we have the most work to do. Individual performance is still important, but team performance has become important as well. In particular, we have to get more serious about thinking through implications for goal setting, evaluation, and distributing rewards at the team level (Schrage, Kiron, Hancock, & Breschi, 2019).

Defining PM's True Purpose

The third and arguably most important challenge for PM is getting an honest understanding of what it should achieve. PM is broadly defined as the set of activities that align individual effort to support the organization's goals and priorities (Aguinis, 2013). It includes setting expectations for individuals and teams, tracking progress, providing coaching and feedback that help employees improve, and evaluating employee performance to inform talent decisions. This definition rests on two assumptions: (1) that PM practices have the potential to improve employee performance and (2) better performing employees will lead to better organizational results. As noted previously, evidence to support either of these assumptions is scant (DeNisi & Murphy, 2017; DeNisi & Smith, 2014). Therefore, we need to ask ourselves a hard question: Do we sincerely believe that PM has the potential to significantly improve our organization's performance and results? A yes answer to this question must also be backed up by a willingness to invest the time and energy in setting PM up so that it actually has a chance to help the organization achieve its goals.

If the answer is no or if we are not willing to invest the energy in transforming PM, then our path is clear. We should create the bare minimum PM system needed to justify talent decisions (compensation, promotion, selection for development opportunities, etc.). In this scenario, PM is a way to document decisions and protect against legal challenges. If this is our path, we should own it and be honest with employees about PM's true purpose and not try to make it into something more. The PM system can then be very straightforward and require a minimum amount of time from managers and employees. However, if we truly believe that PM can support organizations in achieving their goals, we need to be intentional about designing it for that purpose: to fit in with the organization's unique culture and context and to further the organization's purpose and strategy: *aligned PM*.

Many factors aside from PM impact organizational performance: a solid business strategy, access to resources, the right talent in the right roles, favorable environmental conditions, and more. What is the potential for PM to impact performance beyond these factors? It is not through the mechanics of the process—how performance goals are written, whether ratings are used and if so what kind of ratings, how ratings link to pay, or what type of technology system is used to capture data. Rather, the potential for impact comes from the PM's influence to shape everyday behaviors in a way that contributes to the organization's goals.

It starts with knowing what high performance looks like within a given organizational context and then creating the right culture and ways of operating to support it. In short, an aligned PM approach is not about choosing the right system features (e.g., rating scale, goal-setting approach) per se. However, research and practice do suggest there are important principles for fostering high performance that should be embedded in the PM system (e.g., facilitating a feedback climate, having clear expectations, helping employees overcome barriers to success). Aligned PM is about creating an environment that encourages the right PM behaviors and ways of operating within a larger ecosystem to create high performance.

Aligned PM

The concept of aligned PM is best illustrated by contrasting it with PM that is not aligned. Aligned PM is tailored to the organization's context and is

designed to support the organization's purpose, values, culture, and strategic goals. In contrast, nonaligned PM is largely unconnected to the organization's purpose and goals. It is created based on perceived best practices or as a reaction to organizational challenges, such as complaints or lawsuits. While components of nonaligned PM may in fact support organizational goals, as a whole the process is more focused on serving administrative purposes (e.g., protecting against legal challenges, providing justification for reward decisions) than actually helping the organization perform better. Table 15.1 summarizes the distinctions between aligned and nonaligned PM.

Box 15.1 provides an example of what nonaligned PM looks like. Global Products Group (GPG), like many organizations, is undergoing significant transformation. The company wants to improve collaboration and innovation and have disparate groups operate as a team. However, the PM approach is solidly focused on individuals: Expectations are set, performance is judged, and rewards are distributed based on individual performance. Despite the desire for greater innovation, the PM process is very traditional, with goals set at the beginning of the year and then performance evaluation happening at the end of the year. The process feels heavy and time consuming and does not encourage a rapid and dynamic performance cycle that is important for innovation. The PM approach described here could be in any organization. It is based on conventional wisdom and best practices that do nothing to address the unique needs or context of GPG.

In contrast, Box 15.2 shows an example of aligned PM. Quantum Partners has a highly collaborative culture, values relationships, and strives to be known for its expertise. There are many ways that Quantum Partners could have designed its PM system, and the choices reflect what the company believes would best fit organizational goals and culture. The PM approach fosters collaboration by setting goals at the team level and rewarding team outcomes. The goals emphasize associate development, and they reward increased expertise and experience with promotions. Because the company's core competitive advantage is the expertise of its associates, the aim is to hire the best and then invest heavily in their growth. Poor performers are dealt with early so that time is spent on developing already good performers into great performers rather than remediating poor performance. The company has a strong climate of feedback at the team and individual levels. Client feedback is used to judge performance because that is the most direct measure of success and links to the overall success of the business. The company avoids

Table 15.1 Aligned Versus Nonaligned PM

	Aligned PM	Nonaligned PM
Purpose	<ul style="list-style-type: none"> A clear and obvious link exists between the purpose of PM and organizational goals and priorities. The PM purpose is tailored to the organization's needs rather than generic. 	<ul style="list-style-type: none"> The link between PM and the organization's goals is not clear. PM is focused more on administrative processes than helping the organization achieve its goals (e.g., handle poor performers, protect against legal challenges, make pay decisions).
Focus	<ul style="list-style-type: none"> PM efforts are focused at the team or individual level, depending on what is most relevant to the work. Successful individual and team performance is well defined and is clearly linked to the organization's unique context as well as individual roles. 	<ul style="list-style-type: none"> PM is focused mainly on individual employees, regardless of whether people do most of their work in teams. One-size-fits-all competency models or standards are used to define success. Definitions of success are generic and are not specific enough to guide employee actions.
PM practices	<ul style="list-style-type: none"> PM practices are clearly consistent with organizational priorities and values. For example, if the organization values innovation, employees are allowed and encouraged to take reasonable risks without fearing that their performance reviews (and pay) will suffer. PM practices are embedded in day-to-day work rather than separate, stand-alone administrative processes. For example, regular check-ins among teams and between managers and employees occur in which work progress is discussed. Managers are adept at giving frequent, in-the-moment coaching and feedback. 	<ul style="list-style-type: none"> PM practices may inadvertently undermine organizational priorities and values. For example, the organization says it values innovation, but specific goals are set at the beginning of each year and rarely changed. Failure to meet one's goals results in a negative review and lower pay increase, which encourages people to set goals that can be easily attained and discourages risk-taking. PM practices are disconnected from day-to-day work. For example, feedback happens at prescribed times throughout the year via formal check-ins or annual reviews. Managers often avoid giving feedback and may not be skilled at delivering it.
Perceptions	<ul style="list-style-type: none"> PM is perceived as valuable by managers and employees alike because it helps clarify what is expected and enables effective feedback and coaching conversations. Employees clearly understand how their work contributes to the organization. 	<ul style="list-style-type: none"> PM is at best viewed as an annoying waste of time and at worst as a detriment to morale. Employees see little relevance between their performance expectations and goals and the organization's goals and priorities.

using formal evaluations, ratings, and individual incentives that might undermine teamwork and create unnecessary competition.

In comparing these two examples, a few key themes emerge:

1. Aligned PM is highly customized to the organization; nonaligned PM mostly consists of generic practices that could apply to many organizations.
2. Aligned PM has a clear and obvious relevance to the organization's context and goals; nonaligned PM is unrelated or actually counter to the organization's goals.
3. Aligned PM is connected to and integrates with other talent practices (hiring, career development, etc.).
4. Aligned PM is more informal and dynamic. It relies heavily on trust, relationships, and communication. Nonaligned PM is process driven and typically includes a series of prescribed steps that are monitored for compliance.

The Value of Aligned PM

A key assumption in this chapter is that aligned PM is more beneficial to organizations and their people than nonaligned PM. Research by Pulakos and Kantrowitz (Chapter 12, this volume) demonstrates that real-time PM practices, a key component of aligned PM, have a significant impact on organizational organizational agility, and, in turn, financial performance outcomes. Aligned PM is valuable because it does the following:

1. **Increases focus:** Increased focus clarifies the organization's goals and priorities for employees and helps people understand how they can best contribute so that they can focus their energy on what matters most to the organization.
2. **Supports desired culture:** Support of the desired culture reinforces the organization's culture and values and helps employees understand, embrace, and act in accordance with the organization's desired culture.
3. **Engages employees:** Engagement helps people feel connected to the organization and fosters strong communication and relationships among all organizational members.

Box 15.1 An Example of Nonaligned PM

Organizational context and purpose: Global Products Group (GPG)¹ is a large consumer products company. The company has recently made numerous acquisitions of companies with varied strategies and diverse cultures. The organization is undergoing significant transformation, and the primary goals are to bring the various acquired organizations together to start operating as “One GPG” and increase collaboration across business units. In particular, they are facing stiff competition from emerging markets making similar products more cheaply. To compete, they believe they need to start rapidly developing and testing new products, and they need to find a way to deliver existing products in more cost-effective ways.

PM purpose and guiding principles: GPG has recently implemented a new standard PM approach globally. The new automated PM system is designed to drive performance and accountability, and it aims to provide a fair and consistent way of setting expectations for employees, evaluating their performance, and linking performance to rewards. The executive team believes strongly that employees will perform better if they see a clear link between their performance and pay.

Key PM Features

- At the beginning of the calendar year, executives set goals for their business units that are cascaded down through every subordinate level to create individual performance goals. Most people have their performance goals finalized by the end of March. GPG also uses a standard set of competencies (e.g., collaboration, innovation, customer focus, etc.) to set expectations for how the goals should be carried out.
- Managers are encouraged to give frequent feedback throughout the year via monthly check-ins, which are informal one-on-one performance conversations; extensive training has been provided to help teach managers how to do this well.
- At the end of the year, employees do a self-assessment of their performance by rating each goal and competency on a scale of 1 to 5, ranging from “not met” to “far exceeded.” Managers review the self-assessments and complete an online appraisal form that includes ratings of competencies and goals.

- Managers meet in calibration sessions to review their ratings and make adjustments to ensure fairness. A formula is applied to the final rating to determine the salary increase and bonus for each employee.
- Managers and employees then meet by the end of the year for a formal performance review conversation to discuss ratings and salary increases.

Results

- The PM process is time consuming and requires many steps outside of day-to-day work. Most managers and employees are too busy to have regular check ins, so these are less frequent than desired.
- Many of the specific requirements of the system (e.g., goal format, ratings process) are more a function of the way the technology works rather than an intentional choice driven by organizational needs.
- Employees and managers are ambivalent about the process; they understand the need to set expectations and hold people accountable, but they do not perceive the system as impacting their day-to-day work.
- There is no evidence that the system actually improves collaboration or innovation.

¹ Global Products Group is a pseudonym.

Increase Focus

Aligned PM increases focus by making the organization's goals more visible to employees and helping them better connect their work to these goals. This happens when the organization's purpose and strategy are well understood, employees see how and why their work matters to the organization, and employees are personally motivated to help the organization achieve its goals. As Pulakos and Kantrowitz (Chapter 12, this volume) demonstrate, a shared view of the organization's mission that aligns and focuses employee behavior is associated with better organizational performance. Aligned PM begins with a thorough understanding of the organization's purpose and goals and helps translate this understanding into clear expectations. Once employees know what is expected of them, they are better equipped to track their progress and obtain meaningful feedback to help them improve their performance.

Box 15.2 An Example of Aligned PM

Organizational context and purpose: Quantum Partners¹ is a medium-size professional services firm. Its mission is to provide expert business consulting services to its clients; these services lead to greater efficiency and effectiveness of client organization operations. The company prides itself on developing deep client relationships, understanding their needs, and applying client knowledge and superior technical expertise to develop tailored solutions. Future strategic objectives include expanding into new markets by becoming internationally recognized as thought leaders in their areas of expertise.

PM Purpose and Guiding Principles

The purpose of PM at Quantum Partners is to develop the expertise and skill of its associates so that they can build deep relationships as trusted advisors to clients. Guiding principles include the following:

- Commitment to professional development
- A focus on winning as a team
- Open communication; everyone is responsible for giving and receiving coaching and feedback

Key PM Features

- A well-defined career structure is in place that recognizes associates for increasing their knowledge and experience with level changes and promotions. Career options include a dual track for leadership and technical experts. Each role and level has clearly defined performance expectations and standards for behavior.
- Goals are set at the team level for each major client engagement and include financial targets as well as more qualitative measures like client satisfaction; managers meet one on one with each team member to discuss what will be expected of the staff member individually and as part of the team.
- As part of their ordinary work, teams meet regularly to discuss project progress. These meetings are also an opportunity for team members to share feedback and work together to solve problems and help each other improve; project leaders meet individually with team members as needed to offer specific coaching and feedback.

- There is no formal annual review or rating process, but associates and managers meet each year to discuss career goals and progress. Client feedback is solicited and shared. More documentation is required for associates not meeting expectations.
- Salaries are set using market data, and annual increases are based on budgets. Bonuses are largely based on team, not individual, performance. Individuals can increase their earnings primarily by getting a promotion.
- A rigorous hiring process minimizes the potential for poor performance. New associates are supervised carefully during their first year on the job, and poor performers are weeded out early. Those who make it past the first year tend to stay with the organization long term.

Results

- Managers and employees believe the PM system is helping to improve associate expertise and results in better project outcomes and customer satisfaction.
- Quantum Partners has collected data on the value of the PM process. They know it is valuable because teams that do the best job of discussing expectations up front, tracking project progress, and having robust performance conversations receive the best customer feedback and the most repeat business.

¹ Quantum Partners is a pseudonym.

Traditional, nonaligned PM practices often use cascaded goals as the way to ensure employees are focused on the work that is most important to the organization. While decades of research have supported the finding that setting specific, meaningful, and moderately challenging goals improves performance (e.g., Chartered Institute of Personnel and Development [CIPD], 2016; Latham & Locke, 2006), goal setting as part of formal PM systems often fails to improve performance because the way it is implemented undermines the very principles that make it valuable (Mueller-Hanson & Pulakos, 2018). For example, goals are cascaded from above in a lengthy process that makes it difficult at the end for people to see how their work fits the big picture. Goals are set just once a year in line with the performance review cycle rather

than in line with actual work cycles. Goals are used as the basis for evaluation and rewards, even though research shows that goals used as the basis of evaluations are often too easy and do not encourage the moderate challenge needed for goals to be powerful motivators of performance (Winters & Latham, 2006).

Despite these pitfalls, goal-setting practices can be easily altered to support organizational needs. First, goals should link to larger organizational priorities, but a formal cascade is not needed for this to happen. Rather, employees can link their goals up to organizational priorities (Mueller-Hanson & Pulakos, 2015). For example, as illustrated in the PYXERA Global case study, once employees were taught how to align their performance goals to the organization's strategic imperatives, they reported having more clarity about what was expected of them (Ginsberg & Habbas, Chapter 8, this volume). Second, goal setting should be flexible and dynamic to fit the work and not just to satisfy PM requirements. This means that the timing, format, and focus of goals should be allowed to vary in accordance with the needs of the job, including setting them at the team rather than the individual level if appropriate. Finally, goal attainment alone should not be the basis for rewards or consequences. Rather, goals and expectations provide a foundation for effective feedback and coaching. Accomplishments and contributions may be a better foundation for rewards (Pulakos, Mueller-Hanson, & Arad, 2019).

Support Desired Culture

Organizations are increasingly turning to culture initiatives as a means of increasing performance. According to research by Gartner (2018), organizations with aligned cultures grow 9% faster and have 22% better employee performance than organizations without aligned cultures. Culture alignment comes from three factors: employees understand what the culture is, they believe in it, and they act in accordance with it. While many organizations focus on communication from leaders and training as key drivers of culture alignment, Gartner found that the biggest driver of culture is the extent to which it is embedded in how the organization operates (processes, budgets, structures, rewards). For example, if the organization is trying to drive a culture of collaboration, it is not enough to talk about the importance of collaboration or offer training in how to collaborate better. What will really drive a collaborative culture are business systems and processes that support

collaboration rather than hinder it. Team members should be able to communicate easily with each other and across business units without having to go through a cumbersome chain of command, goals should be aligned across business units so that they are not competing with each other, and information should be shared broadly rather than delivered on a need-to-know basis.

The role of PM in helping to achieve cultural alignment is clear: PM practices should be consistent with the desired culture and aimed at helping to shape the way the organization operates. For example, if the organization is trying to drive a culture of collaboration, PM practices could support cultural alignment by

- Defining what effective collaboration looks like in behavioral terms and connecting these behaviors to important business outcomes (e.g., when different teams proactively communicate with each other about the status of customer projects, customers are better informed and more satisfied with progress).
- Creating a means to track the success of collaborative efforts in real time and share information proactively so that employees can take action to improve collaboration.
- Fostering real-time feedback and coaching aimed at improving collaborative behaviors.
- Helping managers address environmental barriers that might inhibit collaboration, for example, requirements to communicate only through certain channels or outdated and inefficient communication technology.
- Recognizing collaborative efforts by teams and individuals and offering praise and encouragement to reinforce this behavior, such as ensuring collaborative behaviors are not inadvertently punished (e.g., reprimanding employees for going “around” managers to communicate about an urgent issue or problem with another department).

Engage Employees

Organizations with more engaged workforces have more business success (Gartner, 2004; Macey, Schneider, Barbera, & Young, 2009) and higher profitability (Schneider, Yost, Kropp, Kind, & Lam, 2017). The concept of employee engagement has been defined many ways in the research literature (Byrne, 2015), but as a practical matter, organizations value engagement to

the extent that it leads to increased retention of key talent, willingness by employees to expend more effort to help the organization meet its goals, and a better and more positive work environment.

While there is debate about what drives engagement, some research suggests that it derives at least in part from the extent to which employees believe the organization has a meaningful mission and that their work makes a positive contribution to it and they have good relationships with coworkers, clarity of expectations, a chance to use their skills and grow, and regular and timely feedback and recognition for their efforts (Byrne, 2015). Aligned PM fosters engagement by helping people understand the organization's mission and why their work is important to it. Aligned PM emphasizes clarity of expectations and real-time and dynamic goal setting, progress tracking, and feedback—all embedded in day-to-day work. An emphasis on informal coaching and feedback helps employees receive recognition for their efforts and useful guidance to improve. When aligned PM creates a strong feedback climate, it fosters communication, relationships, and trust necessary for organizations to thrive.

As Schneider and Ledford's research (Chapter 11, this volume) demonstrates, organizations with a strong feedback climate far outperform those with a weak feedback climate. Their research further revealed that feedback climate is determined by a multitude of factors: Leaders are selected in part based on their ability to give good feedback, leaders are trained how to give feedback, the importance of feedback is communicated widely, feedback is modeled by senior leaders, and employees say they receive regular feedback.

Guidance for Aligning PM Practices

While there is no one specific set of practices that will result in PM that is aligned, research and lessons learned from practical experience shed light on general principles and guidelines that lead to it. Finding the right approach requires a bit of educated guesswork and trial and error because what works in one organization may not work in another. What follows is an evidence-based and practical approach for creating an aligned PM process:

1. Understand the organization's purpose and strategy
2. Define PM purpose and guiding principles

3. Identify PM practices that will meet these principles
4. Ensure other talent practices align with PM

Understand the Organization's Purpose and Strategy

Organizations embarking on PM transformation often begin with tactical questions about eliminating ratings, goal-setting formats, and compensation strategies. However, questions about system features are the wrong place to start (Mueller-Hanson & Pulakos, 2018). A better starting point is to consider the organization's purpose, future vision, and strategic objectives. The key question to answer at this stage is, How can our PM system support and align with our organizational goals and priorities? Analyzing mission, vision, purpose, and values statements can help inform the answer to this question.

As an example, Starbucks has as its purpose being the premier purveyor of the finest coffee in the world while maintaining uncompromising principles as they grow. Consider further Starbucks mission and values (<https://www.starbucks.com/about-us/company-information/mission-statement>):

- Mission: “To inspire and nurture the human spirit—one person, one cup and one neighborhood at a time.”
- Values: “With our partners, our coffee and our customers at our core, we live these values:
 - Creating a culture of warmth and belonging, where everyone is welcome.
 - Acting with courage, challenging the status quo and finding new ways to grow our company and each other.
 - Being present, connecting with transparency, dignity, and respect.
 - Delivering our very best in all we do, holding ourselves accountable for results.
 - We are performance driven, through the lens of humanity.”

From these statements, we can glean that Starbucks is seeking to drive repeat business by selling great coffee, making personal connections with customers, acting in a socially responsible way, and creating a warm and inclusive atmosphere in each store—one that brings customers back on a regular basis because they feel welcome and at home. While this is a simplified interpretation of Starbucks' mission, purpose, and values statements, such plain-language

translations can be useful in communicating to employees what is expected of them and how their work contributes to bigger picture goals.

What about organizations that do not have a clearly articulated vision? Not every organizational mission statement is clear and compelling. Some are filled with corporate-speak about driving “shareholder value” and delivering “unparalleled customer experiences.” If formal organizational documents are not helpful for understanding the unique context, another approach is to start from the ground up by brainstorming the following questions:

1. What is the most important product/service we deliver? How do we make our money?
2. What are we known for? What makes us unique?
3. What does high performance look like in our context?
4. Who are our competitors? How will we compete and thrive in the future?

The goal of this exercise is to spend some time thinking critically about the organization’s purpose and why it is unique. Putting these ideas into plain and direct language is essential for building a practical approach to PM that will support rather than hinder the organization’s goals.

Define PM Purpose and Guiding Principles

A solid understanding of the organization’s purpose, values, and goals can lead to useful insights about how to align people processes with the strategy. For example, an organization like Starbucks would likely want to ensure a balance of effective and efficient operations with providing a unique customer experience. It is not enough to simply provide good and fast service—all fast food restaurants offer that. Rather, Starbucks is striving to develop a feeling of community, which means that employees need to demonstrate behaviors different from typical fast-food employees—remembering customer names and drink preferences, for example.

Translating an understanding of the organization into concrete PM guidance begins by defining the purpose and guiding principles for PM in the organization. If key stakeholders can agree up front on what these principles are, it will make the rest of the design work go much smoother. Start by getting agreement on what the core purpose of PM is in the organization. The

core purpose should answer these two questions: (1) What does high performance look like in our organization? and (2) What is the *most* important thing PM can do to help drive that performance? Dig deep on the answers to uncover the reasons behind the reason. For example, if the stated purpose of PM is to ensure fair rewards, ask how this will ultimately help foster high performance and in turn help the organization achieve its goals. Challenge the assumptions on which the purpose is based (e.g., what evidence do we have that rewards drive performance?) and look for evidence that supports or disconfirms these assumptions. Example purpose statements could include the following:

- The purpose of PM is to help employees develop the expertise needed for us to be the go-to advisors for our customers.
- The purpose of PM is to ensure everyone delivers an exceptional experience to our customers.
- The purpose of PM is to promote innovation by encouraging and rewarding learning and experimentation.
- The purpose of PM is to identify and nurture the talent needed to lead our organization in the future.
- The purpose of PM is to get teams working together toward common delivery goals.

Performance management systems that serve too many purposes are likely to do none of them well (Colquitt, 2017; Mueller-Hanson & Pulakos, 2018), and having too many purposes make it more likely that inherent conflicts will arise between them. For example, if PM is supposed to both help employees develop *and* provide a basis for pay decisions, development will take a back seat to pay discussions every time. Development requires managers and employees to talk candidly about strengths and capability gaps. It works best when people are honest about what they need and when feedback is given freely. If these discussions were also linked to pay, employees would be hesitant to raise training needs because they would feel compelled to present their work in the most favorable light to get the best possible pay increase.

Once the core purpose has been defined, the guiding principles will follow. Guiding principles address how the purpose will be carried out and can be used to evaluate each proposed PM feature to ensure it is aligned with the purpose and intent of the system. Example principles include the following:

- Transparency—ensuring both process and outcomes are shared openly with employees. For example, 360 feedback is shared directly with employees rather than being filtered through the manager.
- Empowerment—putting the employee in charge of the process (setting goals, seeking feedback, reporting performance) rather than having the manager drive the process.
- Fairness—striving for equal opportunity, consistent expectations, and equitable rewards and recognition. While no one would argue that fairness is unimportant, fairness can be a particularly important principle in organizations that have struggled with inequities in the past.
- Continuous improvement—helping employees continually increase their performance.
- Merit—rewarding people based on their relative contributions to the organization.
- Partnership—using PM as a tool to drive good communications and relationships between managers and employees and fostering a sense of shared ownership of results.
- Learning—emphasizing employee development in the PM process.
- Teamwork—focusing on managing performance at the team instead of individual level.
- Accountability—ensuring employees are held accountable for meeting expectations and that managers are held accountable for executing the PM process.
- Trust—reinforcing a climate in which people believe that others have good intentions and are doing their best for each other and the organization; counting on people to do the right thing without heavy controls or monitoring.

As with the purpose, a few well-chosen principles are better than trying to cover too many ideas. Choose the three to five most important guiding principles and check each to ensure it fits the organization's goals and context. For example, empowerment feels like a worthy goal, but there may be settings in which having employees drive the PM process is impractical and even counterproductive. In highly regulated industries where performance requirements are prescribed, it may be more feasible to set performance expectations from the top down rather than try to pretend that employees have more control over the process than they really do.

Identify Desired PM Practices

Although every PM approach is different, they share some common elements.

1. Defining successful performance—determining which knowledge, skills, and abilities are needed to perform key tasks in various roles and at various levels.
2. Setting expectations—providing direction to individuals and teams about what needs to be accomplished within a given time frame and to what standard.
3. Tracking progress—measuring how people are doing against expectations and using this information as the basis of feedback.
4. Providing feedback and coaching on progress—ensuring employees have real-time information about how they are doing and offering training and guidance on how to improve.
5. Evaluating results and making reward decisions—using a summary evaluation of performance to make decisions about people and reinforce desired behaviors.

There is no single best way to accomplish each of these tasks, and the organization's strategy and context will inform the design. However, in an aligned approach, these elements work together in an iterative rather than linear fashion. How success is defined drives specific expectations, which drives how progress is measured, which is the basis for feedback, which in turn may alter how success is defined, which in turn impacts the final evaluation. No one element can stand on its own without the others. For example, while feedback has been shown to be an important driver of performance, feedback will be off point if expectations were not clear in the first place or if there is no meaningful way of tracking progress on expectations.

Table 15.2 shows examples of how each of these elements might play out in different organizational contexts. As with the other examples in this chapter, there are certainly other equally useful ways to design the PM approach in each of these contexts. However, as illustrated in this table, different structures and goals lend themselves to different approaches.

Organizations can identify the practices that best meet their needs by thinking through how various PM options could be tailored to their unique environment. Table 15.3 proposes key considerations for each component of

Table 15.2 Example PM Approaches in Different Organizational Contexts

PM Component	Examples of Organizational Goals		
Produce new scientific or technical discoveries (e.g., research and development organizations)	Increase production and reduce errors and scrap (e.g., manufacturing)	Improve outcomes for people served (e.g., nonprofit; social services)	
Attributes and behaviors that define success	<ul style="list-style-type: none"> • Demonstrate deep technical expertise • Take reasonable risks • Work collaboratively with others within and across disciplines 	<ul style="list-style-type: none"> • Perform work processes consistently • Demonstrate effective work habits: efficiency, conscientiousness, attention to detail • Alert others to issues and problems that may affect their work 	<ul style="list-style-type: none"> • Act in accordance with the organization's mission and values • Provide effective service to those the organization supports
Setting expectations	<ul style="list-style-type: none"> • Agree on broad priorities tied to organizational goals • Identify key project milestones based on activities rather than outcomes, which cannot be controlled (e.g., develop product concept by X date); milestones and project plans would likely need frequent adjustments as the project evolves over time • Define behavioral expectations that support innovation goals (e.g., listen to and consider diverse perspectives) 	<ul style="list-style-type: none"> • Determine specific production metrics from each team needed to meet organizational goals (e.g., produce 100 units a day with less than 1 error a week) • Define behavioral expectations that support production (e.g., keep team members informed of progress and alert them to equipment malfunctions) 	<ul style="list-style-type: none"> • Agree on specific goals or expectations tied to service delivery (e.g., award \$X in grants each year; deliver X hours of service per month to clients) • Define behavioral standards for effective performance tied to the organization's mission (e.g., make decisions in the best interest of client needs)

(continued)

Table 15.2 Continued

PM Component	Examples of Organizational Goals
Tracking progress	<ul style="list-style-type: none"> Project plans define milestones and timelines; progress could be tracked via regular team reviews of project plans Production and scrap metrics may be generated automatically on a daily, weekly, or monthly basis
Providing feedback and coaching	<ul style="list-style-type: none"> Peer review and feedback may be particularly valuable, especially if managers lack specific technical knowledge to provide effective feedback Coaching could come from a variety of sources: peers, mentors, etc. Production metrics are a key source of feedback; managers can help teams discuss metrics to uncover problems and potential solutions Behavioral feedback and coaching could come from the manager or peers
Performance evaluation and rewards	<ul style="list-style-type: none"> Overall evaluation may be most meaningful at the team level; evaluations could focus on whether the team achieved key project milestones, and rewards could be team based Overall evaluation may be most meaningful at the team level and could be tied to achieving key metrics; rewards could be tied to production goals at the team level, provided team members had control over the output Some tracking may come from established systems (e.g., financial records, time sheets) Qualitative measures may come from client feedback or peer/manager observations People served by the organization are likely to be an important source of feedback Managers may play a key role in helping employees interpret quantitative and qualitative progress measures; managers or mentors could provide guidance and coaching for improvement Overall evaluation may be most meaningful for individuals, depending on their roles, and could be tied to achieving goals and expectations and demonstrating behavioral standards; rewards may not be tied directly to performance but instead related to tenure or skill development

Table 15.3 Key Considerations in Designing PM Practices

	Key Considerations
Defining success	<ul style="list-style-type: none"> • What type of culture are we trying to create? What specific actions do we need people to take to support this culture? What actions would be inconsistent with our desired culture? • How interdependent is the work? Can individuals accomplish outcomes on their own or are outcomes accomplished at the team level? • What unique behaviors and skills are needed in the organization to help it succeed? What different skills and behaviors are needed by individuals in different roles and at different levels? • Do we need different PM approaches in different parts of our organization?
Setting expectations	<ul style="list-style-type: none"> • How much emphasis should be placed on team versus individual expectations? • Will teams or individuals be accountable for achieving specific goals? • How should we use behavioral expectations? Should they be used as a way to “grade” performance or as a way to communicate minimum standards?
Tracking progress	<ul style="list-style-type: none"> • What systems and tools already exist for measuring progress? • How can these systems be automated so that information can be available to employees directly with little effort? • Which progress measures are most direct and relevant to achieving business outcomes? Which of these can employees control?
Providing feedback and coaching	<ul style="list-style-type: none"> • Who/what is the best source of information about the employee’s performance? Do managers have enough day-to-day knowledge about what employees do to be good sources of feedback? If not, who has better insights? • Do feedback providers have the skills to be able to deliver effective feedback to employees to help them improve? • Are there feedback substitutes that may be more effective than feedback from managers (e.g., customer comments, objective data, etc.)
Evaluating performance and determining rewards	<ul style="list-style-type: none"> • What is our purpose in evaluating employee performance? If we believe that evaluation will lead to better performance, do we have evidence that supports this? • Is evaluation primarily for the purpose of weeding out bad performers or rewarding good performers? If both, will the same evaluation system accomplish both goals? • How do we make sure decisions about people are legally defensible without letting the whole process become a compliance exercise? • Do we believe that rewards lead to higher performance? If so, what evidence do we have that supports this? How does the link between performance and rewards work in our organization? • How much money do we have to devote to rewards, really? Is it enough to differentiate in a meaningful way? What other tools do we have to recognize employees?

PM. The goal of these questions is to prompt serious reflection and critical analysis of why certain practices may or may not be helpful and how best to use them. Consider the example of how behavioral standards should be used as part of the PM process. Best practices in PM design suggest that employees be held accountable for both what they accomplish and how they accomplish it. In many organizations, this translates into performance evaluations that rate employees on how well they achieved specific results, “the what,” along with how well they demonstrated a variety of standards or competencies, “the how.”

It is often taken for granted that employees can and should be “graded” on their behaviors as well as their results. For example, a common behavioral expectation is “treating others with respect” and is defined as embracing diversity, actively listening, being courteous, and the like. This is an important expectation and is often implemented as a means to check employees “who get things done but leave a trail of dead bodies in their wake.” However, once the threshold of respectful behavior is met, are their gradations of this behavior that matter? Is it important to give everyone a “score” on his or her interpersonal skills? If so, to what end? If the organization is serious about creating a respectful climate, it should use this behavioral expectation to set a high bar for expected behavior and take swift action with those who fail to meet it. There is little to be gained by using a rating scale to judge differences between employees who are meeting or exceeding this standard. Instead, standards like respectful behavior may be more useful as binary evaluation criteria; employees either are or are not meeting the standard. Those who fail to meet the standard should be given feedback, coached, and perhaps placed on probation or even exited from the organization.

A key strategy in identifying the right practices for a given organizational context is to consider what is practical and feasible. For example, high-quality coaching and feedback conversations are important for effective PM. But, if managers and employees rarely see each other, simply requiring more feedback is unlikely to fit the reality of how the organization works. Instead, organizations must look for ways to embed feedback in the way work is already being done. For example, in my own organization, most employees work in the field independently with clients. Managers see staff members at most a few times a month. However, we have long used a practice of monthly one-on-one meetings between managers and staff members to review and discuss client cases. Instead of requiring a separate performance review process, we have embedded monthly performance tracking and feedback as part of the

regular case review meetings. These meetings are an ideal time for managers to get insights on how staff are doing and provide in-the-moment coaching and feedback to help them improve.

Once desired PM practices have been identified, they can be compared to the organization's current PM system and analyzed to identify opportunities for change. Table 15.4 shows an example of how one organization analyzed its current versus desired state and arrived at ideas for change. As this example illustrates, the organization pinpointed numerous ways its current PM approach is not serving its needs and has identified several practical changes that will help bring the system into better alignment with its purpose and goals.

Table 15.4 Example Analysis of Current and Desired Practices

Desired Practices	Current Practices	Analysis	Recommended Changes
Success is defined as what each individual/team needs to best do to contribute to organizational priorities.	All employees are held accountable for demonstrating generic competencies. Each employee also sets individual goals.	Generic competencies do little to help employees understand what success looks like. Goal quality varies widely, and goals do not always connect to organizational priorities.	Invest in training and tools to help managers communicate the organization's mission to employees and how their work contributes in an individualized rather than generic way. Do not use generic competencies as part of PM.
Employees are clear about what is expected of them. Employees believe their work is valuable to the organization.	Goals are set annually and cascade from the top down; employees set individual goals based on guidance from higher levels in the organization. All individual goals must adhere to strict rules about formatting, timing, and so on.	Cascading takes too long and does not provide a clear line of sight between employee expectations and organizational goals. Goals are difficult and time consuming to write.	Stop waiting to cascade goals down. Instead, train managers to help employees connect their work to organizational priorities. Streamline goal format by providing a simple template and do not require a one-size-fits-all approach.

(continued)

Table 15.4 Continued

Desired Practices	Current Practices	Analysis	Recommended Changes
Employees have access to information about their performance in real time so that they can see visible signs of progress and obtain information in time to adjust and improve.	Employees usually do not receive any direct information about their progress until their end-of-year performance evaluation.	The end of the year is too late for employees to change and improve. Ratings after the fact are more demoralizing than empowering.	Help managers identify 2–3 key metrics to track for their teams to provide real-time information. Invest in automation to make tracking easier and more sustainable.
Feedback and coaching occur regularly throughout the year. Managers are skilled at having effective performance conversations.	Most managers avoid giving feedback or are not good at it. They are too busy and do not have good insight into what employees do day to day.	Employees are cynical about their manager's ability to provide effective feedback; feedback is not valued.	Take pressure off of managers to be sole feedback providers. Encourage employees to give each other feedback and provide tools to gather feedback from other sources (e.g., customers).
Compensation practices are designed to retain the most valuable talent in the organization.	Employees are rated on a 5-point scale. Scores are calibrated across employees to ensure fairness. Final calibrated ratings are then used to determine compensation.	Most people receive a rating of 3 or 4, and there is little variation in pay increases. Many employees say they do not see a clear link between performance and rewards and are unsure of how rewards are distributed.	Change pay scales to be market based and adjust for inflation annually. Reward extraordinary contributions with bonuses rather than salary increases. Offer promotions to those who show sustained excellence and an ability to operate effectively at the next level.

Ensure Other Talent Practices Align With PM

Performance management practices alone cannot make or break how people perform in an organization. Aside from having a clear strategy, sufficient resources and tools, and sound business processes, among other attributes, varied people practices need to work together to ensure the organization has the right people in the right roles to meet its needs. In addition to aligned

PM, organizations need aligned hiring practices, training and development, career management, succession management, and compensation practices. An integrated talent management approach links people practices so that they are all working in concert to help the organization achieve its goals.

An integrated talent management approach begins with defining the performance that is needed to help the organization meet its goals. This includes both the work that people need to perform and the knowledge, skills, abilities, and behaviors needed to carry out this work effectively. With a clear definition of success, the hiring process can be targeted to selecting people with the right experience and skills. Talent development strategies can help people enhance their knowledge and skills in ways that benefit the organization. Career management can help employees understand what new skills are needed to help them advance in their careers and provide them with the experience necessary to develop these skills. Succession management helps ensure that leaders with the right skills and experiences are ready when needed to fill key roles. Compensation strategies ensure that the organization is acquiring and retaining the right talent and incentivizing the right behaviors in line with organizational goals. As shown in the Quantum Partners example, PM practices can help knit these approaches together by ensuring people are clear about what success looks like, given effective coaching to improve their skills, and receive recognition for their efforts.

Summary

On its face, an aligned approach to PM seems so obvious it does not need explanation. However, decades of traditional PM guidance and best practices have resulted in homogenized and generic systems and tools that are too often implemented without careful thought about how those practices will play out in the specific organizational context for which they are intended. It is no wonder that PM has largely been deemed a failure and critics have rightly debated whether it should just be abandoned (e.g., Adler et al., 2016).

As the various case studies and research summaries throughout this book illustrate, the right PM approaches have the potential to positively and significantly impact organizational results. Not only can effective PM help organizations better meet their goals and succeed, but also it can lead to better and more empowering experiences for employees. This chapter makes the case that effective PM is aligned PM—tailored and focused on helping the

organization achieve its goals. Specific PM techniques—how goals are set, which feedback techniques are used, how performance is evaluated—are not important by themselves. Rather, it is how PM practices are used in combination in a specific organizational context and how they help people actually perform to their potential that matters. In short, aligned PM is not a recipe for a specific PM approach; rather it is a philosophy about how PM can be a key driver of organizational strategy and performance.

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