Performance Development

Proven success strategies for employee development

Many corporations view their performance management systems as organisational wallpaper, meaning that they exist only in the background and are not expected to add value.[1]

Yet surveys of businesses internationally clearly show that such programmes, if well designed and implemented, have positive impacts on individual productivity and financial results.[2]

Use of Performance Development Systems

Performance appraisal is ubiquitous in most large organisations, but much less prevalent in small businesses, where approximately 60% of managers say they have no formal performance evaluation.

In an Aberdeen Group employee survey almost two thirds of respondents reported their performance evaluation involved an interview. 48% recorded information using a paper based system, and 17% used some form of computerised system.

The Meta Group reports in their research that over two thirds of the organisations had introduced new systems within the last three years. Many organisations go through repeated reinventions of performance management systems.

In most organisations performance management is primarily an annual event, a form completed prior to the end of the financial year. The form is filed and in most cases will not be touched again until the next review the

[1] Watson Wyatt Work USA 2004 Ongoing study of employee attitudes and opinions.
[2] Watson Wyatt 2001-2007 Human Capital Index.

following year, if then. Typically the review covers some high level competencies, individual objectives, an overall comment and rating and a review of development plans.

The performance appraisal may or may not be referred to at the annual pay review. If it is, usually only the overall rating is taken into account. It is not surprising then that research consistently indicates that most performance management systems are of poor quality and poorly executed.

Common Problems

Design

Many performance management systems consist of an annual appraisal which may review a list of objectives. In most cases the connection between individual objectives and organisational values, goals and strategies is not made.

Often the performance appraisal includes a list of organisational citizenship behaviours such as communication, leadership and teamwork, accompanied by definitions representing desired levels of competence. Apart from the difficulty in defining such broad capabilities effectively, this places the emphasis on inputs to work rather than outputs - results.

The argument for this approach has been that organisational results are dependent on a range of factors which are often outside the control of the individual, and that it is not fair to evaluate performance based on results.

This is obviously true of the results of an organisation as a whole, but employee performance management systems are about individuals. Individuals are employed for specific jobs. Therefore employee performance management should be primarily concerned with job performance.

Most performance management systems do not adequately address role specific job requirements, many do not address them at all.

Finally many performance management systems are lacking in quality measurement systems.

Credibility

Many people in organisations are quietly sceptical of the value of performance appraisals.

Not surprisingly, US surveys of employee feelings about performance appraisal indicate that 70-80% disagreed that their performance review helped them to improve personal performance.

While the majority agreed that a better performance appraisal would lead to improved compensation, over 60% felt that their performance management system did not provide honest feedback or set clear goals.[3]

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[3] Aberdeen Group, Business At Risk, Watson Wyatt WorkUSA 2004.

Why have a Performance Development System

Some managers oppose any form of performance management system, claiming that communication between people, getting people to talk to one another, is all that is needed.

This is not realistic, even in micro businesses, but it does enable managers to avoid confronting incompetence, and everyone else to avoid accountability.

There is a school of thought that recommends abandoning annual performance appraisal altogether. However alternative solutions proposed by such authors are still performance management systems, albeit superior alternatives to the ubiquitous annual appraisal.[4]

Some in the modern discipline of operations management view the backward looking, inputs oriented focus of most performance management, along with its unreliable and inconsistent measurement system as totally counterproductive to quality initiatives.[5]

In fact all of this criticism is a comment on the poor quality of most performance management systems. It is not an indictment of the concept of performance management itself.

Key Pre-requisites

It is obvious from the high rate of change that performance development management systems are not satisfactory in most businesses. Simply adopting a new system, new competencies, new templates, new procedures is not enough to make performance development effective.

There are some basic pre-requisites at an organisational level.

A. Clear Purpose

The US Office of Personnel Management defines performance management as the systematic process of:

- Planning work and setting expectations
- Continually monitoring performance
- Developing the capacity to perform
- Periodically rating performance in a summary fashion
- Rewarding good performance

To achieve this every organisation must have a clear idea of critical success factors, as well as a performance management culture, meaning an emphasis on individual accountability and results.

In order to develop the capacity to perform, there must also be a comprehensive capability analysis, especially where there is a known knowledge and skills gap in the industry or organisation. The performance management system must be able to identify, facilitate and track individual development, career potential and succession planning.

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[4] Lee, C. (2004).The fallacies of Performance appraisal (and how to overcome them). Paper presented at Society for Human Resource Management Conference, New Orleans.

[5] Soltani, E., Van der Meer, R., & Wiliams, T. (2003). *Performance Management: TQM versus HRM. Lessons Learned*. Strathclyde Business School.

B. Performance Culture

Clear organisational values and strategies and a scorecard approach to measurement of organisational performance are the tools that underpin a performance development culture.

The typical financial measurement system is merely a measure of what happened last period, but other measures, such as customer relationships, productivity, efficiency, and development activity indicate the organisation's fitness to meet the future. The Balanced Scorecard.[6]

A performance management culture means that senior management insists on measurement of those factors that are critical to the success of the organisation, both at the organisational and individual level.

C. Alignment

A means of ensuring the effort of every individual is aligned with the organisation's direction and goals, that each individual understands their contribution and its importance.

D. Fairness

Perceptions of fairness are based on comparisons. Typically staff compare their inputs, such as expertise and effort, their job performance and their compensation with others. The key factor in ensuring that staff feel their compensation is fair is procedural justice. Staff need to feel that the method used to determine recognition and rewards is fair.[7]

E. Relevance

Research shows that many decisions about career development are made on an ad hoc basis rather than on merit.[8]

A performance development system must be seen to accomplish its purpose; to communicate expectations, reward top performance, and address skills and knowledge gaps.

The system must be perceived to be capable of capturing accurate and relevant data with sufficient frequency to enable decisions on the basis of objective reports; facts rather than opinions or personal preferences.

F. Commitment

There must be commitment to performance management from all levels. Senior management and Human Resources staff, if the organisation has HR staff, must require proper and regular use of the programme. Requirement to use alone is not sufficient, the integrity of the system must be monitored and reports published.

People only respect what you inspect.

G. System integrity

Once designed and introduced there must be a mechanism for ensuring that the system is working according to the defined procedures, and processes completed with the correct frequency and timing.

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[6] Kaplan, R., & Norton, D. (1992). *The Balanced Scorecard.* Harvard Business Review.

[7] Katz, N. R. (2000). *Incentives and Performance Management in the Public Sector.* Harvard University.

[8] NZ State Services Commisison. (2002). *Current Practices on Competencies in Public Service Departments in New Zealand: Feedback Report to Departments.* http://www.ssc.govt.nz 6/6/04.

Effective Implementation

Step 1 Clear strategy and values

The organisation must publish clear values and promote them to every individual staff member. It is best to focus on just a few values. More is not better - just confusing. Three values are ideal, five at the maximum. Include these in a competency profile for all staff.

Step 2 Outline organisational objectives.

The overarching objective of most organisations is to add value for stakeholders. There are of course different strategies for achieving this. Staff contribute in different ways. Show them the key organisational objectives and a small hierarchy of contributing objectives, and they will ensure their own objectives align with the organisational ones, understanding the importance of their contribution.

Step 3 Ensure accountability

Some organisations believe they don't need the formality of job descriptions. That may be true if your organisation is tiny and the jobs very limited and very routine.

Nevertheless we do employ people to do a job, so it makes sense to outline to them in writing what that job is, especially since the job is an essential element of the employment agreement you have with them.

A frequently quoted reason for not having job descriptions is that people will do only what is written there. This is easily overcome with a general purpose statement expanding the job description accountabilities to include other activities, as needed, to accomplish the purpose of the role.

Probably the most frequent reason for not using job descriptions, and for not referring to job descriptions in performance reviews, is the difficulty in keeping them up to date.

Today technology supports on line job description management, making the update process easy, and auditable.

Research shows that communication and clarification of job expectations is a critical factor in job performance. No need to rely on guesswork and memory.

Language is important. If you have a performance management culture you will use the word 'accountability' - to be accountable for, to answer for.

The job description should include an outline of key tasks in each accountability, set out in order of priority. The job description should describe the expected results of the activities and how they will be measured.

Vagueness gives staff the opportunity to blame others and avoid personal accountability.

Example.   Accountability = Database administration

Key task	Expected Result	Measure
Maintain data integrity of CRM system by checking for duplications. Follow up stale records with sales representatives on a regular basis to resolve and update status.	The system is free of duplicate customer records, and has minimal inactive quotes, leads and opportunities.	System audit

Step 4 Ensure everyone has a current job description.

Research into sources of stress at work[9] has shown that a high proportion comes from role insufficiency, role conflict or role overload.

Quality job descriptions are the first line of defence. Ensure each individual has a current job description, and that it is readily accessible to them. Over time people drift away from their original understanding of requirements so that little by little critical aspects of the job can be overlooked. It is essential that job requirements are reviewed and updated regularly.

Step 5 Performance Planning

While the job description is an overview of day to day performance requirements, organisations often have specific periodic and short term objectives and budgets they wish individuals and teams to achieve. It is well established that staff with goals out-perform those who have no goals.

The best way to manage goals is within an individual performance plan, a series of objectives.

Each objective should contribute to a selected organisational objective. The individual objective may be described as an activity but it should have an expected outcome, be measurable and have a time frame. It may also have a priority weighting. Each individual and their manager should jointly agree objectives and expected results to ensure they are realistic, that there is total commitment, as well as appropriate resourcing.

Step 6 Plan for feedback

Research shows that on its own the activity of monitoring performance results in more effective work behaviour.

Feedback must be ongoing - once a year is not enough. Behavioural science has given us some basic laws. Positive feedback encourages more of the activity that it follows, negative feedback discourages activity that it follows - but only if the feedback is perceived as immediate. if it's a week or a month later feedback is likely to be quite ineffective.

Feedback must be objective. The ability to give unbiased feedback is dependent on the quality of the expected results and measures in job descriptions and objectives. If expectations are vague then you cannot give meaningful feedback.

There are many sources of the data you need for feedback.

- Supervisor observation
- Work sampling
- Self report
- Peer report
- System reports

Ensure it is captured in some form of performance diary.

Management also needs feedback, but rarely gets it. The performance development system should provide a communication channel where barriers to performance can be identified early, and thus minimised or removed.

[9] www.apa.org.

Feedback on performance should be linked to individual capability development, so that, where gaps are identified, plans can be made for coaching and individual development

Step 7 Clear methodology to deal with poor performance.

In the absence of feedback performance tends to slip. If poor performance is not confronted it continues and spreads.

There are of course many causes of poor performance. Managers often attribute poor performance to attitude problems, or to lack of skill. Sometimes they are right, but most people are not deliberately negative. Bad attitudes can be created by the work environment.

The manager's role is to create a work environment that enables staff to perform well, and to identify and correct skills and knowledge gaps.

It is vital then that managers have a diagnostic system for analysing the causes of poor performance, with a view to first identifying and eliminating environmental factors.

Step 8 Recognition and reward. Plan to align the consequences

There is consensus today that with the shortage of skilled staff it is vital to retain top performers.

In order to achieve this there must be a transparent and systematic means of differential recognition and reward for top performers if they are not to be disillusioned.

Where bonus or other pay for performance schemes are operating it is essential that the requirements are clear and targets realistic.

Step 9 Fair evaluation

It is essential to accurately identify both top and bottom performers, and differences in performance for the majority of average performers.

Accurate evaluation depends on two key factors, plentiful and objective performance data, and a sound methodology for evaluating it.

Standard methods of performance appraisal depends heavily on opinion. Especially for lower level or technical roles without cost or profit centre accountability, there may be no objective performance data at all.

A vast body of research shows that such evaluations are biased by a number of factors in particular:

- similarity of rater and ratee,
- degree to which the ratee 'fits in" - exhibits 'citizenship' behaviours.

Those staff members most like their supervisor and those who are better communicators and 'fit in' well, are rated better, regardless of their actual results. [10]

For consistency of evaluation, rating schemes must have a clear label and expanded meaning descriptor for each level.

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[10] Hunter, J. E. & Scmidt, F. L. (1996) Intelligence and Job performance. *Psychology, Public Practice and Law.*

Example
Meets expectation. Performance is at an acceptable level for the position, expected results are achieved and are due to staff member skill and effort.

Where a performance development system is linked to pay for performance, a more structured and quantitative approach is required.

Components of the review may be weighted and an achievement percentage for each and for overall performance calculated according to the ratings.

People must know how they will be measured and what achievement levels and ratings are required to earn the rewards.

Step 10   Fair evaluation process

So long as there is capture of ongoing informal feedback an annual review is sufficient, and in fact in small organisations may not be needed at all, unless for the purposes of reviewing remuneration.

In this way there are no surprises, there is an ongoing record of dialogue on achievements, development and performance issues.

Review components should be flexible and include options for evaluation of:

* Individual Job role
* Performance Plan – Objectives
* Competencies; Values, Core, Functional, Technical
* Feedback - for example on career direction.

We have seen that most staff are sceptical of the review process. To gain staff confidence the review process must be totally open and transparent.

Staff must have the opportunity to prepare for the review, to self assess. They should be able to refer to the records of feedback through the year. If there are no records of feedback, then reliance on memory guarantees inaccurate and biased assessments.

Managers face a huge administrative burden in doing performance appraisal. When staff are able to self assess managers work load is reduced because they need only add to the self assessment selectively.

Competency/Performance Review

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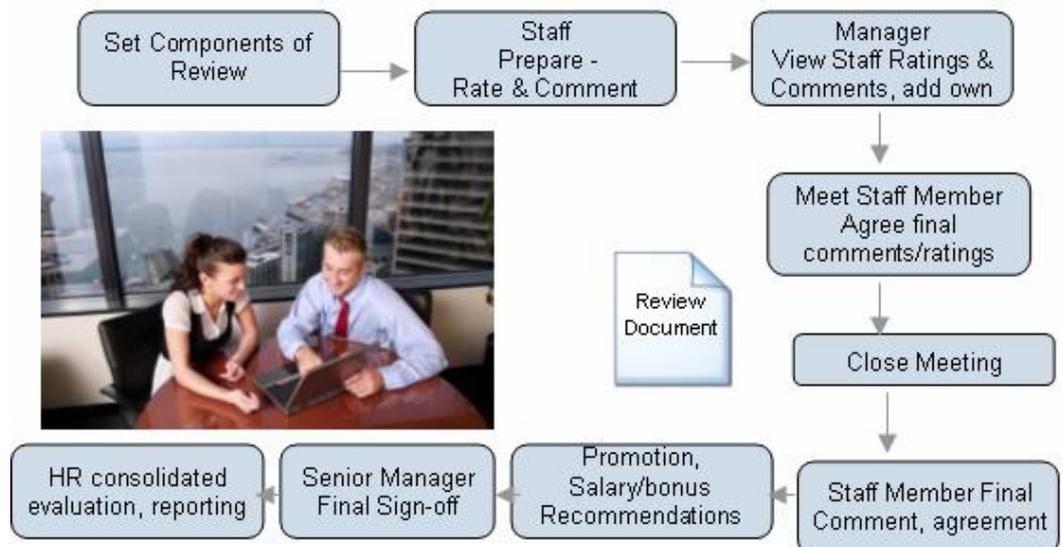
Comments and ratings made by each party on their review form should be available to the other. No secrets and no surprises.

Performance review meetings should be conducted face to face so that manager and staff member can fully discuss progress and issues on all aspects of the role, and finalise their comments and ratings. There should also be discussion and update of the job description.

After the meeting the staff member should have the opportunity to sign off their review and indicate their agreement or otherwise. In larger organisations a senior manager sign off is preferable.

Normally recommendations for promotion, salary changes, and bonus awards are made after the review meeting, and together with performance data, are the subject of consolidated reporting.

Step 11   Implementation

Senior management must champion the performance development process, they should not exclude themselves.

Education and communication programmes on a just in time basis are most effective in making the transition to new systems.

Preferably there is a comprehensive self -help and training functionality within the system and its documentation.

Step 12   Ensuring process integrity

So how to make it all work?   There must be a means of monitoring the performance management process itself, to ensure that managers and staff are using it appropriately.

One of the reasons performance management systems are rated as ineffective is that they are heavily reliant on old technology. They are too time consuming and too hard to operate effectively.

Putting the old paper forms on line does not alleviate the situation because for quick and meaningful reporting on process and performance the data must be captured in a central relational database. Modern systems use this technology.

What you can expect to achieve

Most organisations today list as their major HR concern difficulties in getting and keeping skilled staff. As routine jobs have been automated or moved offshore those that remain have become more complex, requiring above average abilities. Often significant resources must be invested to bring new recruits up to speed.

That means today it is more critical than ever for organisations to monitor performance, reward and retain their top performing staff. People become rapidly disaffected if their expectations are not met, in many organisations staff turnover runs at 20-30%. The cost of replacement is estimated to be at least double the annual salary for management and technical staff.

Research shows that effective human capital practices can add up to 47% more shareholder value.[11]

Research shows too that individual differences in work output are very large.[12] In work of medium complexity top and bottom performers can differ on output by a factor of 12 to 1.

There is evidence that committed employees are more productive. In a people intensive business every extra 1% of productivity overall can improve bottom line results by 10%.[13]

Over the last three decades extensive Gallup surveys[14] have established that keeping employees happy and committed depends on a few simple practices, most of which centre on the immediate supervisor:

- Knowing what is expected
- Having the resources needed to do one's job
- Having the opportunity to use one's skills
- Getting feedback and recognition, including appropriate rewards for top performance
- Knowing how one's work contributes to the organisation as a whole
- Having the opportunity for personal and career development
- Having one's inputs and opinions count

All of these practices are embodied in and facilitated by a well designed performance management system.

Centranum HRadvance

The Centranum HRadvance system supports both competency evaluation and results based performance appraisal. Designed for flexibility, the system can be configured to meet the entire employee performance development process of any organisation.

Contact us for further information - info@centranum.com

[11] Pfau, B. N., Kay, I. T. (2002). The Human Capital Edge.

[12] Hunter, J. E., Schmidt, F. L., Judiesch, M. K. (1990). Individual differences in output variability as a ences in output variability as a function of job complexity. Journal of Applied Psychology.

[13] Barber, F., Catchings, P., Morieux, Y, & Strack, R. (2005) New Rules for People Businesses. Boston Consulting Group.

[14] Gallup Organisation.