GETTING THE MOST FROM YOUR PERFORMANCE MANAGEMENT SYSTEM

Is your organization realizing the results it wants from its performance management system? In a study including responses from numerous organizations who had implemented DDI’s performance management system and had been using it for approximately three years, the average dollar value of positive changes attributable to the new system equaled $750,000 for the three-year period. Improvements were seen in employee productivity, customer satisfaction, employee job satisfaction, quality of products and services, degree of innovation, and financial performance. If your organization is not realizing similar results from its performance management system, you need to determine why.

First, you need to answer two critical questions: What does your organization want from its performance management system? And, what do your employees want from it? Our clients tell us that organizations typically want to use performance management to improve organizational results; stay focused on strategic priorities; shift focus when needed during times of rapid change, such as was seen after September 11; continually develop employees and raise the performance bar; and provide a culture that will attract and develop employees. And what do employees want? Our study, Retaining Talent: A Benchmarking Study, collected data from 745 employees of 118 organizations worldwide. This data indicated that employees want a good relationship with their leaders, meaningful work, cooperation from co-workers, trust in the workplace, opportunities for growth and advancement, and a clear understanding of work objectives.

Are organizations and employees expecting too much from performance management systems? Not at all, but ensuring a successful performance management system implementation is hard work and requires a rigor and discipline to which most organizations aren’t willing to commit.

The key phases in converting the installation of a new performance management system into a successful implementation include:

2. Accountability: Clear roles and accountabilities for all key stakeholders, starting with the CEO.
4. Alignment: Aligned systems to reinforce the desired behaviors.
1. MAKE THE BUSINESS CASE
When a new performance management system is implemented, it is critical that the organization develop a pre-launch, launch, and post-launch communication plan. Multiple communication vehicles should be used, such as newsletters, Internet information flashes, posters, letters from the CEO and other executives, voice mails, e-mails, videos, brochures, user handbooks, reminders attached to pay stubs, Q & A hotlines, mandatory training, refresher training, etc. Communications should be crafted to build enthusiasm, understanding, and commitment by continually explaining the benefits of using the system to employees, to leaders, and to the organizations.

The communication also needs to continually demonstrate that leaders on the senior executive team are articulate advocates who are passionate about using the new system and who are continually communicating the value and importance of the system to the organization and to all employees. We have seen our clients use a variety of techniques to promote senior-leader advocacy of their performance management systems, including:

- Identifying a senior executive sponsor who has accountability for owning the performance management system and keeping it alive and well.
- Having senior executives randomly audit performance plans and provide coaching when quality problems are identified.
- Cascading strategic priorities from mid-level managers down to individual contributors.
- Identifying specific objectives within each senior executive’s plan that support the continued use of the system.
- Providing a hot line where questions can be asked and answered.
- Providing online tools and refresher tips.
- Training all new leaders in the process within the first month after they are hired.
- Tying bonuses to the quality and timeliness of performance reviews within each VP’s functional area.
- Publishing senior VP’s performance plans and performance reviews.
- Including performance management system best practices and implementation issues as ongoing agenda items in monthly senior management meetings.

Only by constantly advocating, cajoling, recognizing, rewarding, and encouraging any and all employees to use the performance management system effectively will the message be clear. Using the system is mission critical and the senior executive team is 150 percent behind it.

2. CLEAR ROLES AND ACCOUNTABILITIES FOR STAKEHOLDERS
A performance management system, in and of itself, is an accountability system. It shows everyone from senior executives to front-line employees what business results they are accountable for and sets expectations for how they should go about achieving results. But, to be effectively implemented, the process needs to start at the top. Senior executives need to clearly define the organization’s strategic priorities and communicate them throughout the organization. The strategic priorities are the “make or break,” action-oriented targets the organization must focus on in order to move the organization toward its vision—such as improving the customer retention rate or accelerating speed to market of products. One of our clients identified the long-term implementation of a new performance management system as one of its strategic priorities.
Once the priorities are defined, the senior executive team needs to establish measures for those priorities. Using the balanced scorecard approach, including both lead and lag measures, is an excellent way to establish organizational measures. The lead and lag measures then should be integrated into the senior executives’ performance objectives. Using the performance management system, senior executives then need to transfer accountabilities to the next level down, and so on throughout the entire organization.

A large banking institution has high-priority objectives which are published on its intranet. From those high-priority objectives, business unit, departmental, and unit objectives are established which are then cascaded into individuals performance plans, starting at the executive level. Milton Hershey School uses a similar approach. It cascades from a five-year strategic plan. From the strategic plan, an annual plan is arrived at for each division or school, and from that, objectives are cascaded into individual plans. Briggs & Stratton Corporation starts the cascading process with its EVA (Economic Value Added) measures which are cascaded into each plant’s goals, then cascaded down to the department level, to the team level, and to specific shifts of workers.

The senior executive team also can use the performance management system to hold people accountable for its implementation. A utility company uses the performance management system itself to ensure that the process is effectively implemented. It requires that all leaders have mandated objectives, that they are evaluated against, for conducting reaching-agreement discussions, interim review discussions, and year-end review discussions, within specified timelines. A large insurance company rolled out its performance management system by setting the expectation that all managers would conduct quarterly discussions. When they received training in the new system, leaders were encouraged to incorporate discussions into their quarterly one-on-one meetings, making it a part of their normal routine rather than an additional responsibility. This approach has proven highly successful, making the performance management system a living, breathing entity and not a one-time, year-end review process.

3. DEVELOP THE SKILLS OF EACH KEY PLAYER

In any installation of a process intended to change behavior, it is critical to develop both the confidence and the competence of all employees around fulfilling their roles. An effective performance management system actively involves employees throughout the performance cycle. Managers don’t develop and give employees their performance plans. Instead, they give employees business unit information and the manager’s objectives so the employees can draft their own plans. Employees track and share their performance data, allowing leaders to provide timely feedback to boost or reinforce performance. Employees self-rate their own performance and lead the performance review discussion.

This type of shared ownership requires skill development in the form of training for both leaders and employees. Both need to know their responsibilities in the process; how to create measurable objectives and observable competencies; how to track performance; how to seek, give, and receive feedback; how to evaluate performance; and how to conduct effective performance discussions. One of our client organizations understood the value of training all employees and took steps to ensure that the necessary training would occur. If all employees
within a business unit did not comply, the senior vice president of that business unit was not eligible for his or her bonus.

4. ALIGNED SYSTEMS AND PROCESSES

We have already discussed the importance of aligning your performance management system to support your strategic priorities and business unit goals, but that is just the beginning of the alignment effort. You also need to determine how other systems will support the performance management system and how data from it will be used to support other HR systems, such as training and development, succession planning, selection and promotion, rewards and recognition, and compensation.

A chemical manufacturing company has identified a list of competencies that are important for success in specific positions which represent a large number of employees. They have incorporated the evaluation of the competencies into the selection process for hiring people into those positions. When newly hired employees receive feedback from their hiring managers on their competency evaluations that were part of the screening process, they also begin to discuss those competencies which should have development objectives included in their performance plans. They also determine which of the selection competencies will be most critical to include in performance plans to track and evaluate. This provides an immediate link between the competencies used for selection and the competencies used to evaluate performance in the new job. The two systems are aligned and reinforce each other.

A large manufacturing firm wanted to be sure that its compensation system struck a balance between competencies and individual performance plan objectives. They required that 40 percent of each employee’s performance evaluation be based on the individual’s ratings in the competencies. The overall rating then was used to determine merit pay increases. Thus, the compensation increase reflected the importance of effective demonstration of competencies as evaluated in the performance management system. The two systems were clearly supporting each other.

Competencies can serve as the point of integration for all HR systems. As you review how performance data will be used in other HR systems, check for inconsistencies and address them. Make sure that the same competency database supports all systems.

5. PROVIDE CLEAR MEASURES

It’s important to decide how you will evaluate the effectiveness of your performance management system before you begin implementing it. What are the outcomes you want from the system and how will you measure them? Most organizations will initially focus on monitoring compliance, because the first challenge is getting everyone to use the system.

For example, are performance plans, interim reviews, and final reviews, being completed on time? Often times, HR will measure compliance, but it is best to give line managers the responsibility of improving those compliance measures. This can be done by reminders, one-on-one coaching, or through even more drastic actions which have worked for some of our clients, such as publishing each manager’s review-completion rate or withholding merit increases or bonuses for noncompliance. In one service organization, a group of managers and associates conducted structured interviews and participated in focus groups to determine their performance management system’s effectiveness. They discovered that managers who held mid-cycle reviews had considerably more buy-in and
commitment from associates than managers who set expectations at the beginning of the year and only conducted an end-of-year review. After considerable data verified this result, the organization required that everyone conduct mid-year reviews.

Once use of the system becomes the norm and part of the culture, the focus of the evaluation process usually shifts to the quality and effectiveness of the system. Spot quality audits of performance plans and reviews, questions on employee satisfaction surveys and exit interviews, and linking system effectiveness to key business results are all measurement techniques that clients have found useful.

A large insurance company has its HR generalists review appraisals for quality, quantity, and consistency. Then they provide feedback to the functional area VP, who is tasked with coaching line managers in his or her business unit to improve system effectiveness. Another company used an upward appraisal process where employees were asked to evaluate how effectively their managers used the system. Results were provided to the managers and the managers’ leaders and, when needed, improvement goals were put into managers’ next performance plans.

THE BOTTOM LINE

If your organization will take the time and effort required to rigorously address each of these five fundamental implementation components you will greatly enhance the effectiveness of your performance management system. Will it take a lot of effort? Absolutely. Is the effort worth it? You bet it is. Performance management is a system that affects everyone in the organization. It helps the organization achieve desired business results and maintain its desired culture. It helps employees understand how they are contributing to the organization’s goals, what’s expected of them, how they are doing, and how they can continue to grow, develop, and add value to the business.

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