Raising the Bar on Performance Management—
Best Practices To Optimize Performance
Reviews and Goal Management

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In today’s workplace, performance improvement and the role of performance management is an increasingly popular topic. Why the intense focus on performance management now? Business pressures are ever-increasing and organizations are now required to become even more effective and efficient, execute better on business strategy, and do more with less in order to remain competitive.

While human resources professionals clearly understand the importance of optimal performance management, they often face significant internal obstacles. When someone mentions performance management or reviews at your organization, what is the typical response? Do employees and managers alike cringe? Do they avoid performance management related tasks? Do visions of tracking down incomplete appraisal forms come to mind? This can be changed.

Forward thinking companies are taking steps to successfully address this negative view of performance management. They are implementing innovative solutions that ensure processes deliver real results and improve performance. The purpose of this guide is to provide concrete guidelines and practical steps that can be used to improve the performance management processes at your organization. In addition, a new class of automated performance management solutions has emerged to specifically address small- and medium-sized businesses. We conclude this guide with a few tips for selecting an automated performance management system to implement best practices across your company.

The Performance Review- Only Part of an Ongoing Process

Frequently when performance management is mentioned, people think of the performance appraisal or review. Performance management, however, involves so much more. Properly constructed appraisals should represent a summary of an ongoing, year-round dialogue. Focusing only on an annual appraisal form leads to misunderstanding and under appreciation of the benefits of performance management.

An effective performance management process enables managers to evaluate and measure individual performance and optimize productivity by:

- Aligning individual employee’s day-to-day actions with strategic business objectives
- Providing visibility and clarifying accountability related to performance expectations
- Documenting individual performance to support compensation and career planning decisions
- Establishing focus for skill development and learning activity choices
- Creating documentation for legal purposes, to support decisions and reduce disputes

"As shown in Watson Wyatt's Human Capital Index® research report superior human capital practices not only are correlated with financial returns, but also are a leading indicator of increased share holder value." WorkUSA® 2004: An Ongoing Study of Employee Attitudes and Opinions www.Watsonwyatt.com
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Many of the practices that support performance also positively impact job satisfaction, employee retention and loyalty. Recommended practices include:

a) Delivering regular relevant job feedback  
b) Setting and communicating clear performance expectations  
c) Linking performance to compensation clearly  
d) Identifying organizational career paths for employees  
e) Evaluating performance and delivering incentives in a fair and consistent manner  
f) Providing appropriate learning and development opportunities  
g) Recognizing and rewarding top performers

Consequences of a Poorly Structured Process

What is the impact of a poorly structured performance management process? If individual goals are not aligned with business strategy, then time and resources are wasted. Low employee engagement levels may mean that individuals are not performing at their best. Inconsistent evaluation criteria and rewards can lead to mistrust, lower productivity and higher attrition. If top performers see no differentiation in performance ratings, opportunities and compensation from underperformers, morale can suffer. Lack of documentation, visibility, and accountability can negatively affect stakeholders who are demanding more and more transparency. If accurate performance information is unavailable or difficult to access, training and development decisions along with project assignment decisions may not be made in the company’s or the individual’s best interests. An annual process will not adequately alert managers to problems in a timely manner. Last, but not least, a lack of proper documentation related to performance may result in legal issues.

Management “buy-in” is equally important to the performance management process. If management does not understand the importance and value of the process, it can lead to consistently late or incomplete appraisals, mistrust, avoidance of performance discussions, and a lack of honest performance-related discussions. Often managers may feel unprepared to deliver quality feedback and oversee effective performance discussions.

A Closer Look at the Benefits of Performance Management

The primary reason to make sure performance management processes are functioning properly is to **tighten the link between strategic business objectives and day-to-day actions**. Effective goal setting (including timelines), combined with a method to track progress and identify obstacles, contributes to success and bottom line results. Regularly tracking progress against performance goals and objectives also provides the opportunity to recognize and reward employees for performance and exceptional effort, contributing to job satisfaction and productivity. Employees want to feel successful, to do well at their job and feel they are making a valuable contribution. In order to ensure this happens, employees need a clear understanding of individual goals and how they fit into the larger organization. New technology-based solutions
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offered can provide goal visibility across entire organizations, offer extensive reporting options and can reduce paperwork by as much as 90%.

Clear visibility, regular individual analysis, and company-wide performance assessments help identify corporate competencies and skill gaps. With this valuable data in hand, companies can identify training and development plans.

When effectively implemented, performance management best practices result in a wide range of benefits for employees, managers and companies.

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10 Ways To Optimize The Performance Review Process

1. Set Goals Effectively

Goals are the basis of an effective process. There are two key elements to consider when developing goals. First, are goals written clearly and objectively? Second, are they directly contributing to the achievement of business strategy?

Clearly communicating strategic business objectives is the first step to creating alignment. Providing visibility to goals set by departments across the organization furthers alignment. Typically the process begins with departmental managers setting goals for their departments, based upon organization-wide goals, which support the general business strategy. Making departmental goals accessible to all managers ensures there is no overlap, reduces conflict, and allows members of different departments to see where they support each other and ensure they are not working at cross purposes. Each manager in turn shares the overall goals with his/her department and meets with employees to identify individual performance goals and plans.

When setting goals, key job expectations and responsibilities should act as the main guide and reference. Goals should be set that not only address what is expected, but also how it will be achieved. For example, the "what" covers quality or quantity expected, deadlines to be met, cost to deliver, etc. The "how" refers to the behavior demonstrated to achieve outcomes, for example, focus on customer service. In addition, some organizations choose to include competencies within performance expectations, to reinforce the link to business strategy, vision and mission.
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An accepted framework to use to help write effective goals is the "SMART" goal:

- **S** - Specific
- **M** - Measurable
- **A** - Achievable/Attainable
- **R** - Results oriented/Realistic/Relevant
- **T** - Time bound

The inclusion of the above criteria results in a goal that is understandable and easily visualized and evaluated. Making a goal specific, measurable, and time bound contributes to the ability to make progress on the goal and track that progress. Some managers choose to further define goals with a start and finish date with milestones in between. As we have mentioned, goals must be achievable and realistic. An unachievable goal is just that. An employee knows when he/she does not stand a chance of reaching it, and their effort to achieve the goal will be affected. In addition, goals must reflect conditions that are under the employee’s control and the R’s (results oriented, realistic and relevant) should definitely consider these conditions. Sometimes the focus on the outcome of the goals can overshadow the necessary steps to achieve them. Action plans to support each goal can include documentation of the steps necessary to achieve a goal. By keeping goals relevant, a manager reinforces the importance of linking to strategic objectives and communicating why the goal is important. Some organizations have suggested the use of SMARTA, or SMARTR with the additional A standing for aligned and the R standing for reward.

A focus on objective, behavioral-based, and observable outcomes that are job-related helps ensure fairness of the process and reduces discrepancy. Although sometimes difficult to hear, objective feedback supported with regular documentation is difficult to dispute. This is also where an understanding of the organization’s overall objectives and goals and how individual efforts contribute becomes essential. If for example, an individual understands that their actions support an area of the business then it is easier to understand the impact when deadlines are not met. Using the SMART framework provides clarity up front to employees who will be evaluated against these goals.

2. Begin with Performance Planning

Using established goals as a basis, performance planning sets the stage for the year by communicating objectives, and setting an actionable plan to guide the employee to successfully achieve goals.

Performance planning, as with all other steps, is a collaborative process between the manager and employee, although there will always be some elements that are non-negotiable. Begin with the job description and identify major job expectations; expectations then can be clarified for each major area.

Under each key contribution area, it is important to identify long-term and short-term goals, along with an action plan around how they will be achieved. Goals can be weighted to identify priorities. Discuss specific details related to how progress against goals will be evaluated. Next steps include determining any obstacles that would stand in the way of these goals being achieved. If an obstacle is knowledge, skills or behavior - a plan should be developed to overcome, i.e.; training, mentoring, etc.
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Using the performance planning document as a reference document, the employee and manager then should regularly monitor progress against goals, problem solve roadblocks, re-assess goals, change goals as business direction changes, and re-evaluate training and resource needs. This is where the conversation is critical and often where the follow through sometimes falls down.

Performance planning and ongoing performance feedback are critical because they facilitate continuous improvement and aid open communication.

3. Ensure an Ongoing Process
As the following diagram illustrates, goal setting, performance planning, performance monitoring, feedback and coaching is ongoing and supports the creation of the performance appraisal, which in turn supports processes related to rewards, learning and development. Performance monitoring, feedback and coaching creates a separate feedback loop within the larger loop which should take place more often, allowing for necessary adjustments to performance planning as conditions dictate.

4. Improve Productivity Through Better Goal Management
Regular goal tracking allows for the opportunity to provide feedback as needed, make adjustments to performance plans, tackle obstacles and prepare contingencies for missed deadlines. Without a mechanism to regularly track progress against goals, the ongoing, cyclical nature of the process falls apart.

Goal progress discussions, along with all performance feedback, should be delivered with respect and should be objective and supportive. Specific examples provide clarity and help the employee focus on future improvements. It is crucial that the manager listens to the employee’s perspective and incorporates the employee’s observations into future plans – the employee often experiences roadblocks the manager may not see.
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5. Gather Information From a Number of Sources
Gathering performance information from a variety of sources increases objectivity and ensures all factors impacting performance are considered. This information should include objective data like sales reports, call records or deadline reports. Other valuable information includes: feedback from others, results of personal observation, documentation of ongoing dialogue, records of any external or environmental factors impacting performance. Many reviews also include an employee self-evaluation. Other documents that help define performance objectives include: past performance appraisals, current departmental and organizational objectives and documented standards related to career goals.

In order to gather feedback from other employees, organizations will often use a 360° feedback process. Along with the completion of a self-assessment, selected peers, subordinates, and manager(s) are asked to contribute feedback around pre-identified areas. The feedback is based upon specifically identified skills or competencies and the final results are compared against the employee’s self-assessment. This type of feedback increases self-awareness and in some cases is used to support the performance evaluation process.

Objectivity is essential when evaluating performance and it begins with clarity about job expectations and evaluation methods. Certain checks and balances can be built in to ensure objectivity. Managers commonly make mistakes when they conduct evaluations and the first step to minimizing those errors is to acknowledge they exist. Consistent processes organization-wide contribute to fairness and objectivity. Access to information allows others to check the validity of the process. Obviously, not all employees need access to other employees’ performance appraisal results, but processes like calibration meetings will help ensure consistency. In the calibration process, managers with employees in similar positions meet and discuss the appraisals before they are finalized and shared with the employees. A calibration meeting helps establish the reasons individuals are awarded various performance rankings, educates managers about the process across the organization and promotes consistency. It also provides validation for manager’s decisions, if appropriate.

Reporting is very valuable to assess the fairness/consistency of the process - for example, to compare ratings in one division to the next or for one manager to the next.

Note taking must be consistent and include all significant occurrences, positive or negative. Documentation is important to support performance decisions, and notes should be written with the intent to share. In addition to documenting the details of an occurrence, any subsequent follow up should be detailed.

The performance log is a record that the manager keeps for each employee and is a record of performance “events.” The maintenance of a performance log serves a number of purposes. The manager can record successes or performance that requires improvement. When it comes time to complete the appraisal, the manager has a historical record of events and will not have to rely on recent memory. In addition, this documentation can be used to support performance decisions or ratings. But it also can be used as a reminder for the manager – if the log has no recordings for a period of time, perhaps it is time to check in. If an employee does exceptionally well, or meets deadlines consistently, the log can be used as a reminder to provide recognition for a job well done. In addition, if a manager notices an area of deficiency, the log can serve as a reminder and a record of circumstances. The performance log can also act as a reminder for coaching i.e.: record of upcoming tasks, manager can make note to discuss with the employee
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to ensure he/she is prepared for the individual for a task ahead, and then follow up discussion can promote learning and continuous improvement.

This log should be created using the same principles of performance management and should be objective, based on observable, job-related behaviors, including successes, achievements and, if applicable, any documentation related to disciplinary actions taken.

7. Adequately Prepare and Train Your Managers
Managing the performance of another individual is not an easy task and requires many skills. Training may be required to ensure managers feel adequately prepared to effectively complete all the tasks related to performance management. This is especially the case for newly promoted supervisors. Managers need to understand human behavior, how to motivate, how to develop, provide coaching and deal with conflict. To a great extent, managers must be observers and able to assess a situation, provide motivation and identify problems that interfere with performance. In addition, managers must understand that individuals at different levels of comfort, ability and experience with their jobs will require different levels of input, support and supervision.

A manager who feels adequately prepared to provide and receive feedback, deliver a performance evaluation and conduct a performance evaluation meeting will be a major contributor to a successfully functioning process.

8. The Review
The performance appraisal or review should be a summary of all that has been discussed. Based upon job expectations and key areas of contribution, and previously discussed goals and evaluation methods, the appraisal should be a written confirmation of what has already been discussed with the employee.

The form should include key job responsibilities, current project work, relevant competencies, goals and achievements. Previously completed performance appraisals should be used as reference documents. It should also contain an area to allow employees to record their comment and input. All comments included on the appraisal form need to be job-related and based upon observable behaviors.

For the appraisal meeting, it is imperative to prepare ahead of time. Schedule an appropriate place and time with no interruptions. Ensure the employee has the information necessary to allow them to prepare adequately. Begin the discussion with job requirements and strengths/achievements. The focus, as pointed out previously, should be forward looking. The way the manager approaches this meeting conveys a message related to its importance and should be approached with the appropriate level of seriousness and an open mind. The manager must be prepared in regard to what he/she wants to discuss, but just as importantly must be prepared to listen.

Many suggest that it is important to first define the purpose of the meeting and provide an agenda. A factual discussion with a focus on job-related behaviors will keep the discussion objective. At the end of the meeting, key points should be summarized. It is important to note that the employee will be asked to sign the appraisal, whether or not there is agreement.
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9. Link Performance Management With Rewards and Recognition
More and more, organizations are linking performance to compensation. This link, however, cannot effectively be established without the existence of sound performance management processes that are seen as fair and equitable.

Clear documentation of progress against performance expectations also allows proper recognition for a job well done. This can be provided a number of ways, i.e.: formal recognition events, informal public recognition or privately delivered feedback.

It is important also to note the benefits of a consistent process across the organization. A consistent process creates a sense of fairness and significantly increases job satisfaction. This is even more critical if compensation is linked to performance. Employees need to know that if an individual in one department is identified as a top performer and compensated accordingly, then an employee performing at the same level in another department will receive similar rewards.

10. Evaluate and Encourage Full Participation and Success
There is widespread recognition that an annual meeting to evaluate progress does not have the same benefits as ongoing dialogue and feedback. Feedback that is delivered when it is most relevant enhances learning and provides the opportunity to make necessary accommodations in order to meet objectives. Some organizations are moving towards conducting performance reviews twice a year, while a small portion is trying to conduct them more frequently. Regardless of frequency, the attitude towards ongoing feedback is crucial. If there is organizational recognition and support for the need to build constructive feedback into the fabric of day-to-day interactions combined with increased visibility into goals, then the environment will encourage development and drive goal-directed performance improvement.

Design the process right. The performance management process must add value, otherwise problems with resistance and non-participation will surface. In addition, the process itself must be efficient and as simple as possible, while still providing the necessary value. Automated reminders and scheduling tools can help keep the process on track.

Another element to consider that contributes to success is upper level management support. This support needs to take not only the form of verbal support, but also through participation in the same performance management process for evaluations. In addition, consider the current culture of your organization when it comes to performance appraisals and performance management. Is the “atmosphere” supportive of an effective process? Is there a culture of open honest communication or are employees fearful when they make a mistake? Employees must be able to honestly discuss performance and consider how to make improvements in order to move forward.

Another thing to consider is the provision of a mechanism to evaluate the process itself, whether it consists of an annual survey, focus groups, manager feedback, reporting, or a combination of these and other methods.
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The Next Step: Automating Best Practices With Technology

More and more organizations are relying on innovative technology solutions to implement performance management best practices and automate painful manual processes. A move to web-based, on-demand technology is making these systems affordable, regardless of the size of an organization, with quick implementation schedules, no IT support requirements and automatic upgrades.

An automated system can ensure that the performance management process is built around world-class best practices, easy to complete, efficient and consistent across an organization. Necessary visibility into organizational and departmental goals is simplified, as is access to necessary data to support accountability, consistent standards, (by viewing manager average ratings) and identification of top performers. In addition, technology enables companies, managers and employees to address many of the issues discussed. When selecting an automated performance management solution make sure to do your research. Some solutions offer nothing more than an electronic appraisal form while others offer complete best-of-breed goal management solutions. The best solutions offer:

- instant form routing and paperless processes
- goal tracking and cascading functionality for complete visibility and alignment
- automated goal management and performance review reminders
- legal scan wizards to ensure appropriate/legal use of language
- writing assistants to help managers prepare appraisal forms
- support tools providing coaching support to managers when they need it most
- dashboards to deliver company-wide, aggregated or individual reporting

It is especially important that technology provides us access to performance data and the ability to evaluate progress against goals, compare average manager ratings, easily access performance levels of individuals and use this data to support decision making. Aggregating and analyzing data in traditional paper-based forms is often too time-consuming and costly.
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Summary: Key Points

The road to effective performance management is not always an easy one, but progressing towards a long-term vision by making manageable changes, step-by-step, will bring about significant results. The points below act as a reminder of some of the key elements of a successful process.

- Communicate and understand purpose and value of process
- Set goals effectively
- Begin with performance planning
- Ensure an ongoing process
- Gather information from a number of sources
- Document, document, document
- Adequately prepare and train managers
- Deliver objective reviews that summarize an ongoing process
- Link performance management with other talent management processes
- Evaluate the process and make it easy, efficient and effective to ensure participation
- Consider the benefits of automation to save money and resources and optimize the performance management process.

As noted, proper training, effective design of an efficient easy-to-use process, and the creation of an ongoing process with the elements discussed will minimize resistance or avoidance when it comes to performance feedback and appraisals, improve organizational performance and positively impact bottom-line results.
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About the sponsor:

SuccessFactors

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Aileen MacMillan - Performance Management - Research/Analyst- Aileen’s work centers on evaluating how performance management impacts organizational success and assessing the various technology solutions available to support performance management. Aileen has a background in psychology. Through her work in the field of social services, Aileen gained experience in the area of clarification of goals, goal tracking and development planning. She has been involved with the planning and implementation of conferences focusing on youth engagement, as well as conducting research projects on Corporate Social Responsibility.