SCHOONOVER ASSOCIATES WHITE PAPER

Performance Management Best Practices

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Executive Summary

Performance management is viewed as a necessary evil in many organizations due to the myriad barriers for implementing a consistent, highly supported process. Half or more of implementation efforts produce limited or even negative results. This paper explores the reasons for failures and presents a best practice approach for instituting performance management programs that work based on the following nine factors.

- Establishing guiding principles and program architecture provides a solid foundation.
- Clear success criteria show what excellent performance looks like.
- Alignment of expectations produces a clear line of sight.
- Clearly articulated roles and coaching capabilities support a fair contract for performance.
- A specified process serves as a reliable roadmap.
- Commitment to developing collaborative coaching capabilities is the primary driver of successful execution.
- Integration into day-to-day practices makes performance management the linchpin for leveraging talent.
- Providing distributed information and ongoing support creates ownership of the process.
- Creating and implementing a change plan makes the process sustainable.

What's Wrong with Performance Management?

Performance management has always been controversial. In most organizations, it is limited to appraisals or administratively driven semiannual or quarterly reviews. In some settings, it entails an organized process comprising goal and standard setting, intermittent coaching, and year-end performance evaluation. A very few organizations take a more comprehensive approach to managing human assets that includes leveraging, tracking, and developing performance. No matter the defined scope, performance management in most settings is a necessary evil, driven by the need to evaluate employees for retention, work assignments, promotability, and pay.

Why then are both managers and employees so universally dissatisfied with performance management? Many experts contend that performance management is actually harmful and should be eliminated. They emphasize that performance management often holds individuals accountable for outcomes beyond their control; that the potential benefits related to coaching, performance feedback, and accountability can be achieved without a formal appraisal process; and that efforts focusing on managing performance should concentrate on collaborative coaching discussions and operational systems and processes, since these account for most of the variances from ideal performance. Other experts cite a range of human factors that undermine performance management, such as rampant sources of rater bias; conflicting purposes for appraisal; inconsistent, incomplete, and irrelevant assessment criteria; poor communication and execution of policies and practices; and lack of skills (and training) to support the process. The result is that half or more of performance management implementations are perceived as unsatisfactory and many goal and competency management initiatives actually produce negative, not positive, results. Figure 1 shows the most frequent sources of dissatisfaction with performance management.

FIGURE 1:

Major Sources of Dissatisfaction with Performance Management

- Manager appraisal ratings linked to administrative purposes such as promotion, pay, and work assignments are often an inaccurate assessment of performance (mangers tend to game the system by being overly lenient).
- Rater distortions are often known, tolerated, and even supported at the highest levels.
- Perceived fairness is often lacking due to unfair goals or too little employee control over assigned expectations.
- Performance ratings are often perceived as unfair because of problems related to the following.
  - Outcome (e.g., evaluation consistent with expectations).
  - Relationship (e.g., thorough, timely, honest feedback).
  - Procedure (e.g., a consistent process with criteria highly relevant to work).
- Poor or inconsistent assessment and coaching skills do not build a foundation of trust and do not shape positive performance.
- Lack of clarity around expectations (e.g., how to align individual and team behavior and goals with organization requirements) leads to suboptimal employee satisfaction and performance.
- Critical work priorities leave little or no time for ongoing feedback.
- The process and administrative requirements for implementing performance management are too complicated.

Why Try to Make Performance Management Work?

Since human nature and organizational behavior put so many barriers in play, why should an organization pay such a high price—and it is high, when considering design, development, implementation, and institutionalization costs of implementing performance management? While creating a formal system is challenging, various factors make developing and implementing strong performance management systems a critical organizational requirement, particularly for organizations with significant scale.

First, no matter what the difficulties, in modern organizations human behavior represents a large source of error and variation in implementing strategies and processes. Misalignment of individual actions with purpose, strategy, and goals; low motivation; poor fit to roles; and skill deficits are always major contributors to performance problems. These issues must be addressed in some systematic fashion to create and sustain a high-performance enterprise.

The highly distributed, virtual nature of contemporary work also requires more structured, commonly shared methods for managing performance. Historically, managers led teams of workers whose performance of activities was directly observed. As organizations have developed layers and more complex structures, with work often performed out of the manager's view, more specified performance criteria and monitoring and feedback processes have become a necessity to replace direct observation.

An increasingly diverse and global workforce also presents challenges for managers to tailor coaching and performance feedback methods to different audiences. Developing the practices and accompanying coaching skills to harness the disparate perspectives of different types of individuals is a key factor for leveraging the collective performance of the workforce. In some cases, this means managing subcultures within organizations, perhaps stemming from mergers and acquisitions. In other instances, managers must be able to provide performance coaching for individuals from diverse global cultures.

In the face of all these challenges, creating and consistently implementing performance management according to a commonly accepted set of practices is essential for optimizing organizational capabilities.

Key Factors That Make Performance Management Successful

The overarching solution to performance management problems is to adopt a simple, staged, systemic approach. Experience and research both strongly indicate that consistently applying a few standard principles produces positive results, improved employee motivation, and positive levels of satisfaction with the performance management process. Nine maxims or factors, applied together, can drive performance management excellence.

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The primary elements that make each factor work best are highlighted below.

Establishing Guiding Principles and Program Architecture Provides a Solid Foundation

One of the most important factors for promoting successful performance management implementations is to develop an initial blueprint for the initiative. Engaging champions, sponsors, and a defined project team in clarifying a program, purpose, and business value proposition are important initial steps. However, determining guiding principles (e.g., major assumptions, focus areas, process boundaries) and specifying the structural components of the program create a blueprint for change. The process of articulating the elements also engages stakeholders early in the endeavor and clarifies opportunities for barriers up front.

Clear Success Criteria Show What Excellent Performance Looks Like

When people are asked to do their best, they generally don’t. The request is too vague. In organizations, a balanced approach for measuring performance focuses on both what people do (defined by their key activities and goals) and how people behave (defined by setting-specific competencies).

While there are many methods for articulating what an excellent performer looks like in a particular context, competency-based approaches represent the current best practice. Competencies are a collection of observable behavior statements linked to a particular context that require no inference or assumptions. The statements, typically referred to as behavioral indicators, are grouped according to a central message or theme, which becomes the title of the competency and is then supported by a summary statement capturing the essence of that theme, called a definition.

Competencies are important because they enable us to provide employees with a roadmap of the kinds of behaviors that will result in excellent performance. How employees do their jobs now represents the competitive edge for organizations in all work settings. Excellent customer service and total quality performance can happen only when attention is paid to how employees carry out their tasks. When we know the competencies required for excellent performance in a job or role, we can select, motivate, develop, and reward employees to perform at that level. And when we have employees at optimal performance, we maximize the overall performance of the organization. Competency models are not ends in themselves. They are simply a means to an end: a set of standards to drive human resource processes.

Focusing on goals or what gets done is obviously critical, since delivering a valued product or service enables organizations to prosper. Studies on everyone from woodworkers to CEOs show that employees concentrate better, work longer, and do more if they set and follow defined steps to meet specific, measurable goals. Specifying not only a goal, but also a path for reaching that goal directs attention, energizes and motivates individual performance, and prolongs engagement. But goal setting can have unintended effects. Blindly following initially set goals, even those that make sense at the time, can do severe damage. A consistent approach to goal setting most often works well—just not always in the ways intended.

Studies suggest that goals with rewards, if not carefully calibrated, can short-circuit our intrinsic enthusiasm for work and even undermine employees’ learning process. What is often required is a learning goal, coupled with performance goals, to focus on how to achieve an objective. Finally, the best goal a person can have is to reevaluate goals, semiannually or annually, to make sure they remain rational and achievable.

So what are the best practices for creating and managing goals? Like competencies, excellent goals have a clear, context-driven purpose; focus on the critical few factors that drive performance; and are implemented through methods that produce measurable results. Effective goals are also similar to competencies in relying on specific structures and quality criteria.

The balancing of focus on behaviors and outcomes is a key factor in making performance management work. By providing support for both meeting objective performance expectations and behaving competently, organizations can fulfill short-term requirements for meeting goals and a longer-term need for encouraging behaviors that support an organization's culture, values, vision, and strategies.

Alignment of Expectations Produces a Clear Line of Sight

One of the most critical purposes of an effective performance management system is to motivate and focus individuals to perform to their optimal level of competence during a defined period (usually a yearly performance cycle). Ultimately the collective efforts of individual performers must add up to positive organizational performance for an enterprise to succeed. Too often, however, organization strategies and goals are created and passed down to others wholesale, without a clear set of principles, an understanding of the key requirements for meeting them, nor a translation into to meaningful, realistic targets and activities individuals can perform. In top-performing organizations, the operational focus of performance management includes the following.

- Key performance indicators, often supported by yearly strategic initiatives defined by top management, which serve as a starting point for defining and cascading goals.
- Specific guidelines for goal cascading, including methods outlining an appropriate number of goals, goal types, and goal criteria.
- Coaching support for focusing on the critical few, including guidelines for ensuring goals are relevant and aligned with the most important areas of an individual's contribution to the overall enterprise (versus a focus on day-to-day activities).
- Discussion to refine and tailor goals and the associated action plans to individual needs and preferences, so that individuals have plans they can own and realistically complete.
- Ongoing dialogue to refine and update goals and related actions, ensuring calibration of initial plans and accommodating inevitable changes in direction and tactics.

Alignment, then, is a reciprocal set of interactions with transparent, fully communicated updates on business strategies and related changes in goals cascaded frequently and with open, upward communications about problems and opportunities for improved performance that reach and are acknowledged by top management. This feedback loop is one of the most important attributes of successful performance management systems.

Clearly Articulated Roles and Responsibilities Support a Fair Contract for Performance

In many organizations, performance management is exclusively operational, sometimes enforced through the use of technology. It can circumvent or even undermines the relationship between manager and employee. Yet in practice, the dynamic between manager and team member—and the contract about roles and responsibilities—is a vital contributor to success. The manager primarily is a coach, providing consistent support and anchoring, advising each individual about performance and growth according to his or her unique capabilities and needs. The employee's role is to take charge of his or her performance and development, seeking ways to make positive, proactive contributions to the team and the organization. (*See Figure 2.*)

In the most successful organizations, the process for articulating and gaining commitment around roles and responsibilities is implemented in a full set of collaborative discussions resulting in clear expectations and ground rules.

FIGURE 2:

Key Roles and Responsibilities	
Manager's Responsibilities	**Employee's Responsibilities**
▪ Selects and ensures alignment of goals and competency criteria between employees and the organization. ▪ Establishes and records clear, specific performance criteria with employee. ▪ Engages employees in a collaboration to manage goals and competencies. ▪ Provides intermittent feedback and coaching on performance. ▪ Documents a clear, no-surprise appraisal. ▪ Conducts a full performance discussion, including accomplishments, opportunities, and development needs. ▪ Translates strategies from business planning into team and individual goals.	▪ Suggests new or revised goals to improve performance. ▪ Provides input on actions and behaviors to support goals and competencies. ▪ Develops agreement about process methods and interactions to support targeted goals & competencies. ▪ Solicits feedback from manager & others (peers, customers, mentors) about performance related to targets and career development opportunities. ▪ Defines areas to discuss and clarify with manager in the year-end review. ▪ Participates actively in year-end discussions, including exploration of career and development planning. ▪ Provides feedback on opportunities and limitations related to the team's ability to meet business expectations.

A Specified Process Serves as a Reliable Roadmap

A clear path for managing performance is a vital component of a high-impact process. This should entail a clearly communicated set of steps consistently followed. To start an ongoing conversation, set aside time to find out what matters to employees—their vision, purpose, aspirations—and listen with the sincere intention of drawing them out. Begin building trust and a collaborative foundation by asking questions such as the following.

- Which organizational goals, strategies, and priorities for this year are most relevant to the work?
- What competencies are most important to support performance?
- Will the person's work contribute to any special projects? What specific contribution(s) can or she make toward achieving these goals?
- What is realistic for him or her to produce?

Then, conduct a clear, unambiguous dialogue about performance expectations that matter to the organization and the individual. The manager's competency requirements and goal activities can be used as a starting point (some goals for individuals are passed down directly and shared without change; some are a subset of a manager's goals; some capture a unique local contribution that is not part of a cascade).

The most effective goal-setting approaches encompass a balance of leading and lagging indicators. Lagging indicators apply more quantitative metrics (that is, a more historical look for which objective data is often available). Leading indicators entail more qualitative metrics (since they focus more on the future and rely on less reliable data and assumptions). The "maturity" level of a person, process, organization, and available metrics also dictate how quantitative the goals and supporting activities should be; less overall maturity suggests more qualitative goals. Then, create a case for action that links the goals to what is important to the person.

Next, create a plan specifying competencies an individual should focus on most (either to leverage performance or to address development needs) and actions and supports that can be applied to perform them better. Goals should fulfill the following "SMART" criteria.

- Specific. Excellent objectives are described in specific, discrete terms.
- Measurable. Each objective should include criteria that can be monitored by available data (time, cost, quantity). Develop specific performance indicators clarifying the essential attributes of each goal. Possible measures might include quality, quantity, cost, timeliness, or customer satisfaction.
- Achievable. The best objectives focus on specific actions and challenge people to excel.
- Realistic. Excellent objectives consider context; they are framed according to realistic opportunities and barriers posed by day-to-day business issues.
- Time-bound. Every good objective has time boundaries, and in many cases a timeline or goal path with landmarks over a period of time.

Each goal should be accompanied by a clear goal statement specifying the most essential driving action to fulfill it, the focus or target, and the key outcomes or metrics (i.e., expected measureable results, by when). Supporting activities (usually the two to five critical few actions to reach a goal) should follow a logical order; focusing whenever possible on the critical path (goal path) gives a roadmap for completing the goal in discrete, achievable steps.

After clarifying targets and supporting activities, the manager should lead discussion to develop a clear contract about how the plan will be supported and fully realized. This mutual commitment should reiterate the roles and responsibilities of each party and deepen the commitment by specifying guidelines for conducting the relationship, such as the following.

- The context for performance criteria is fully disclosed.
- Performance targets are considered reachable (realistic, clear path, appropriate supports).
- Manager is trusted as genuine, consistent, participative, and fair.
- Manager and employee develop reciprocal, comparable stakes in performance outcomes.
- The employee's personal benefit is integrated into the performance plan.
- Concerns, problems, changes, and required updates are discussed openly and nonjudgmentally.

The manager and employee should review the plan for completeness and practicality and individuals should specifically commit to their plans. During the summary of the planning process, individuals should be encouraged to solicit feedback about performance related to targets and career development opportunities and to suggest how to improve goals. Ideally, a follow-up conversation should be scheduled.

Commitment to refining the performance plan based on changing circumstances is important for reflecting inevitable changes in situations, plans, organizational priorities, or operating requirements; individual assignments and/or promotions; or business conditions.

Finally, the manager and employee should ensure that conversations result in a no-surprise evaluation at the end of the performance lifecycle. This requires frequent, mostly informal, feedback about progress with examples of strong performance and potential improvements. As a result, the best performance appraisals should affirm and refine feedback provided throughout the year and look ahead to future accomplishments, opportunities, and development needs.

FIGURE 3:

Key Process Steps for Performance Management

- Lay the groundwork for setting objectives by exploring aspirations, needs, and preferences.
- Conduct a collaborative discussion about performance expectations (competencies, goals, and development).
- Create specific plans that can be implemented and tracked pragmatically.
- Develop commitment to a transparent contract between manager and employee around a performance plan.
- Revisit objectives regularly.
- Provide a no-surprise evaluation at the end of the performance lifecycle.

Commitment to Developing Collaborative Coaching Capabilities is the Primary Driver of Successful Execution

Clear roles and responsibilities for implementing the performance management process are important for creating realistic expectations. But perhaps the most critical driver of success is a collaborative coaching relationship based on a manager or team leader's ability to facilitate conversations. The most successful coaches implicitly or explicitly create a personal coaching vision with a deep-seated intention of bringing out the best in people through ongoing conversations that result in significant differences in action.

While commitment to helping others change is the essential context for all coaching interventions, the best performers also think and act holistically. They see themselves as part of a larger system that involves a range of interdependencies that can both help and hinder performance. Excellent coaches help others identify how to mitigate system barriers and leverage positive relationships. An important part of this systems perspective involves surfacing, testing, and improving mental models or patterns of thinking and hidden assumptions that drive the behavior of groups and individuals. Finally, excellent coaches are masters of conversation. They facilitate dialogue in a manner that supports the free flow of ideas, allows—in fact, encourages—the constructive differences and disagreements that enable others to learn and grow continuously.

Even though continuous coaching is clearly so important, most organizations focus too much on the structure and content of performance standards and the administrative aspects of performance management, assuming that setting up the process is enough; and that managers and employees can then fully implement the defined requirements themselves. In practice, this approach does not work well and often produces negative impact and a demotivated workforce. Best-in-class organizations instead provide ongoing communications and significant training on coaching and feedback techniques—often in stages over an extended period—and vigorous supports such as tools, templates, and enriched learning resources to focus managers and team members on best practices.

Integration into Day-to-Day Practices Makes Performance Management the Linchpin for Leveraging Talent

Performance management is the centerpiece of the talent management system in most organizations, as they apply competency standards and goal management principles day-to-day to optimize performance. In standard approaches, performance management encompasses assessment, development planning, ongoing coaching and feedback, and accountability for performance in a process that spans a whole business performance period. In optimal approaches, performance management also includes workflow and planned application of data and decisions to inform career planning, workforce planning, promotions, succession planning, and rewards and recognition.

By positioning performance management as the hub of the human capital management system, organizations can leverage competencies across various applications and provide employees with a clear picture of the manner in which they will be managed, motivated, supported in their growth and development, and compensated for their contributions. In practice, more integrated methods energize employees better, avoid conflicts among talent management interventions, support continuous process improvement of core processes, and simplify the overall system.

Providing Distributed Information and Ongoing Supports Creates Ownership for the Process

Clear, open communications and adequate training are important for creating ownership for performance management at all levels of the organization. The implementation of effective systems relies not only on formal communications planned for each stage of the roll out, but also on informal access to information and supports. In many cases, this is achieved through various technologies such as talent management software, learning portals, and online toolkits. No matter what techniques are used, user access should be very open and easy. Speed and simplicity for finding what is needed for an intervention just in time is most important.

One of the most common barriers in implementing performance management is lack of end user skills for applying key principles. Often the blame is placed on human resources, for insufficient hand-holding; or on managers, for not being motivated enough to comply with requirements. The underlying cause of poorly applied best practices, though, is usually limited capability to follow practices that work. To support expression and development of needed skills, tools and job aids in many forms (e.g., training, talent management modules, and learning support sites) are the key to broadening manager and team skill over time. Better-prepared managers and employees are much more likely to embrace the process without coercion.

Creating and Implementing a Change Plan Makes the Process Sustainable

Organizations consistently expend considerable effort, but frequently fall short in fully implementing performance management programs. The change management model outlined below specifies stages and key activities necessary for marshalling the sponsorship, resources, and commitment required for producing sustainable impact.

Organizations too often create a project plan that focuses on activities for rapid implementation. They fail to clarify change requirements up front (see Figure 4, Define the Change); to design the program and its various elements with enough care, particularly in creating a staged plan with defined successes (see Figure 4, Develop Plans and Capabilities); and to generate and deliver a plan for sustainability. *(See Figure 4, Deliver Value to End Users).*

The other compelling reason for creating a specific change plan is that significant new programs or systems proceed in stages with inevitable barriers and setbacks, often over several years. Typical stages encountered in most large-scale changes include the following.

- Initial excitement about the purpose and promises encompassed in the change.
- Realization of the challenges of competing priorities to a new system.
- Challenges in identifying, enrolling, and ensuring the success of early adopters.
- Problems and challenges to broadening the rollout.
- Overcoming barriers to integration into normative practices.
- Changing mindset to adopting performance management practices as a way of working and producing a culture of continuous improvement.

Each of these stages poses major challenges. The change plan acknowledges and addresses that a performance management system represents a major transformation that affects all aspects of organizational life. To be successful, it requires high levels of sponsorship, special status and supports, and specific strategies for incorporating practices into day-to-day work. Consistently applying change management principles ensures the organization sustains the focus and commitment long enough to implement the performance management program fully.

FIGURE 4:

Change Management Framework	
Define the Change	**Develop Plans and Capabilities**
▪ Define a purpose and goals. ▪ Create a value proposition for change. ▪ Determine change compatibility. ▪ Specify a champion and key stakeholders.	▪ Build a change team and accountabilities. ▪ Create clear guiding principles and governance. ▪ Specify program architecture. ▪ Clarify change strategies and phased plan.
Deliver Value to End Users	**Direct the Implementation**
▪ Monitor and overcome barriers to change plan. ▪ Design for continuous improvement. ▪ Integrate new practices and mindset. ▪ Create methods for distributed accountability and learning.	▪ Create program content, applications, and processes. ▪ Generate key stakeholder support. ▪ Pilot, refine, and communicate the change. ▪ Enroll end users in the process.

Summary of Key Concepts

Implementing performance management systems is a challenging endeavor. Too many organizations fail to follow the practices required for producing a viable, sustainable process that managers and employees alike embrace—rather than tolerate, avoid, or undermine. Successful organizations consistently apply a simple set of standards, steps, and practices. The guidelines to follow are widely known, but the commitment to long-term execution is most often the lacking ingredient in failed implementations. The principles outlined in this paper can serve as a roadmap for keeping performance management design and implementation initiatives on track. Figure 5 summarizes these guidelines.

However, it is critical to have the organizational will and sponsorship up front for applying the same rigor to the process of managing people as is applied to other core processes. As enterprises have developed, applied, and reaped the rewards of methods for improving operational activities, human asset management processes—and performance management in particular—have become the largest source of variation and the largest source of potential performance improvement. This makes mastering the best practices for performance management a strategic imperative, not just an exercise in human resources compliance.

FIGURE 5:

Summary Guidelines

- Perform a realistic analysis of the overall business reasons and barriers related to performance management.
- Create a business case for implementation.
- Ensure adequate sponsorship and ownership.
- Develop guiding principles for implementation.
- Create a change management plan for the intervention.
- Focus on integration of both the "what" (goals) and the "how" (competencies) into the evaluation.
- Ensure adequate focus on the management of both data (rating and reporting) and relationships (coaching).
- Specify the process: policies, business rules and workflow, performance criteria, and roles.
- Clarify the approach for applying technology.
- Test/pilot the process before broader rollout.
- Provide vigorous support: resources and commitment to communication and training.
- Monitor and continuously improve the process.

About the Author

Dr. Stephen C. Schoonover is currently the President of Schoonover Associates, LLC, an organization that focuses on leadership development and competency-based talent management solutions. Dr. Schoonover has been providing consulting services in this area for over 30 years with organizations in virtually all business sectors, specializing in leadership and executive development, strategic human resource consulting, competency model building, assessment capabilities, and creating integrated talent management systems.

Dr. Schoonover has developed both individual talent management applications for the entire range of interventions from hiring and selection to employee testing and assimilation; from assessment and development planning to career and succession planning; from culture and workforce assessment to leadership program development; from performance management applications to goal management approaches; from coaching and feedback programs to competency-based compensation. In many engagements, Dr. Schoonover and his team have designed and implemented entire TM systems over a period of years.

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