Four Questions the CEO Should Ask About
Performance Management

The Importance of Performance Management

Performance management drives employee behavior to align with organizational goals and objectives. This alignment happens because (1) job responsibilities and expectations are clear, resulting in increased individual and group productivity; and (2) better information is available to use for compensation and promotion decisions.

Unfortunately, performance management is seen as an unwelcome activity in many organizations. Managers hesitate to provide candid feedback and have honest discussions with their employees and often fail to discriminate in the ratings they give. They fear reprisal or damaged relationships with the very individuals they count on to get the work done. Employees feel that their managers are not good at discussing their performance and are ineffective at coaching them on how to develop their skills. Some employees don't believe they need feedback, or they're confused about how the feedback affects future career prospects.

Overcoming these inherent challenges requires commitment from the top, a culture that says feedback and development matter, and a well-designed process.

Role of the CEO in Performance Management

- Model effective performance management with the executive team.
- Establish clear expectations of performance management for all staff.

How Employees Feel About Performance Management

A survey by Watson Wyatt showed that only three out of 10 workers agree that their company's performance management system helps improve performance. Less than 40 percent of employees said their systems establish clear performance goals, generate honest feedback or use technology to streamline the process.

1. What is the purpose of our performance management system?

Performance management systems serve two primary purposes for organizations: (1) employee decision-making and (2) employee development. Clearly, these two purposes are related, but they are rarely supported well by a single system. When a performance management system is used for decision-making, the appraisal information is used as a basis for pay increases, promotions, transfers, assignments or reductions in force. When a performance management system is used for development, the appraisal information is used to guide the training, job experiences, mentoring and other developmental activities. Although it is theoretically possible to have a performance management system that assists in both decision-making and development, this can be difficult to achieve in practice. In addition, research has shown that the purpose of the rating (decision-making versus development) affects the outcome.

Ratings used for decision-making tend to be lenient, with most employees receiving ratings on the high end of the scale. Ratings for developmental purposes tend to be more variable, reflecting both employee strengths and development needs.

understanding of what is expected and perceive the process to be fairer. Managers benefit also as they have uniform standards to use in evaluating employees, thus increasing their ability to be consistent, transparent and fair.

A Case in Point: Decision-Making vs. Development

To effectively link performance with rewards, one organization offers a large range of percentage increases and stock options. Managers make reward decisions based on performance ratings. When managers conduct reviews, developmental feedback is supposed to be included. However, with so much at stake, the majority of the meeting ends up focused on justification by both parties. The climate of the meeting is not conducive to giving and receiving feedback, and employees are reticent to discuss their development needs for fear this will negatively affect their rewards. Thus, decision-making becomes the priority by default.

Three Ways to Use Competency Models

- Develop a common competency model at the organizational level and create subsets of performance standards reflecting those competencies (for example, professional jobs, administrative jobs and managerial jobs).

- Identify job families such as information technology, finance and management. Develop customized competencies and performance standards for each job family and level.

- Define a core set of performance standards and competencies—such as interpersonal effectiveness, teamwork and communication— across all jobs. Define specialized technical competencies for each individual job group.

2. Does our performance management process support our company goals and objectives?

Today, many organizations are using competency models as a basis for their performance management systems. Competency models articulate the knowledge, skills, abilities and characteristics deemed most important in achieving organizational goals. An advantage of competency models is that they typically include the full array of factors associated with success—technical, leadership and interpersonal. Competency models are especially useful because they communicate what is important to an organization and also provide a common foundation for developing integrated HR management systems, such as staffing, training, promotion, succession planning and performance management. When a company defines competencies in terms of behavioral performance standards and identifies the expectations associated with those behaviors, employees have a better

3. How can we make sure our system works?

Starting at the top and getting the commitment of upper management is a prerequisite for success. If the organization does not have a strong performance management culture, the executive team may need to be educated on the critical role of performance management and the importance of their role in leading the effort. Piloting a new system with the executive or higher-level management teams can be a useful strategy for gaining the support of these critical individuals. Equally important to success is ensuring the performance management system is aligned with other HR systems in the organization. Competencies used as the basis for performance management should be the same as those used for recruitment, staffing and training. This alignment ensures that employees are being hired, trained and appraised on a consistent set of critical job requirements. This sends a strong

message internally and externally about the behaviors valued by the organization. Frequent and clear two-way communication with constituents about the design and implementation of a new system is essential to gain buy-in. Extensive change management work may be necessary if a strong performance management system has not existed in the past or the current system is going to be radically changed. The communication needs to clearly and simply explain to employees the advantages and rationale for the new system. Supervisors must be adequately trained to understand the purpose of the evaluation and how to conduct it in an effective manner. Finally, companies with successful performance management systems understand the need to continuously review the system to ensure it is achieving the desired objectives.

4. Would our performance management process survive a legal challenge?

The same criteria that ensure an effective performance management system also provide a defense in case there is a legal challenge related to an employee's performance. Employees should be rated on factors that are relevant to their jobs. They must be informed at the beginning of the rating cycle about the expectations and the standards against which they will be evaluated. There must be a standard, well-documented procedure for conducting the performance management process, with defined roles and responsibilities, and adequate training for both employees and managers. To substantiate their evaluations, managers should keep records documenting examples of both effective and (especially) ineffective employee performance. Managers need to be held accountable for conveying performance information to employees in a timely manner. Performance evaluations should be reviewed by others, and employees need an appeals process in the event of a disagreement over their evaluation. And, if performance evaluations are used for decision-making, such as compensation levels, the resulting decisions must be consistent with the evaluations.

Conclusion

An effective performance management system clearly defines expectations, helping to align employee behavior with the culture and business needs of the organization. With senior executive buy-in, the system can increase productivity and bring visible, value-added benefits. A well-developed, legally compliant performance management system is an essential talent management tool for high-performing organizations.

For more information on effective performance management, please visit **www.shrm.org/foundation** and select "Foundation Products."