PUTTING PERFORMANCE BACK INTO PERFORMANCE MANAGEMENT

IF YOUR ASPIRATIONS AND YOUR SYSTEMS ARE IN CONFLICT, YOUR SYSTEMS WILL WIN

Many leaders and organizations have had a love-hate relationship with performance management systems for some time, but there has been a noticeable upsurge in this sentiment recently. The dialogue has been fueled by many reputable organizations publicly declaring that they have abandoned traditional methods in favour of innovative new approaches that produce much greater outcomes with far less effort.

With a little digging, it's apparent that at least some of these organizations may not be dumping their old ways with as much abandon as their press might suggest. That said, almost every leader or team member we encounter – including HR professionals – agrees that there is an opportunity to significantly improve their approach to performance management.

Our point of view on this subject is based on our experiences of trying to align leaders, teams and entire organizations to their aspirations. And of course, alignment is not possible on this scale without paying close attention to the people and performance systems, of which performance management is the most critical. One thing we have learned for certain is that if your aspirations and your systems are in conflict, your systems will win.

In our view, calls to end performance management are simplistic. The question is not how to get rid of it, but how to adapt it for the modern world.

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THERE IS A STRONG CASE FOR CHANGE

There are a plethora of scary statistics available that indicate a need for change. Following are just a few examples:

- Only 8% of companies reported that their performance management process drives high levels of value, while 58% said it is not an effective use of time
- 30% of performance reviews end up in decreased employee performance
- 58% of organizations rated their performance management systems as "C grade or below"
- 45% of HR leaders do not think annual performance reviews are an accurate appraisal for employee's work
- 62% of rating variance relates to individual rater peculiarities of perception (idiosyncratic rater effects), and only 21% relates to actual performance

There are many complaints about performance management. The most common gripes we encounter are that it's overly complex, bureaucratic and time consuming; that it's more about completing the process than enabling performance and growth; that it's too infrequent – after all, an annual or even bi-annual review rhythm is insufficient in such a fast moving world. It's difficult to judge an entire year or half year of work in one discussion. Infrequency also increases the risk of surprise, and raises the stakes for each conversation, which ultimately increases the pressure on all concerned.

Others complain that it's too hierarchical and top down, which can encourage a judgmental, one way lecture, rather than a collaborative conversation where both parties own the outcome. It's too focused on the negatives and problems relative to strengths and successes. There is too much feedback, not enough feed forward.

Technically, many argue that performance management ratings say more about the rater than the rated. The challenge is that personal biases underpin even the most objectively designed systems, and it's also notoriously difficult to standardise views of performance across an organization.

Perhaps most damagingly, some feel that it's predominantly a front for the allocation of financial rewards and managers are really just attempting to justify a pre-determined position. The result is suspicion and mistrust.

WE NEED TO SHIFT FROM THE SYMPTOMS TO THE CAUSES

Before we can think about solutions to address the scary statistics and complaints, it's critical to get underneath the symptoms and explore what may be some of the core challenges inhibiting a more effective approach to performance management.

It's a complex, multi-dimensional challenge, but lends itself to simplistic opinions. The challenge for any HR professional is that almost everyone has a strong opinion on the subject, making it very difficult to have an informed debate and find common ground based on sound research and proven practices.

The 'system' provides an easy scapegoat. Managers who are not committed to really manage performance, or lack the capability to do so, blame the system in order to avoid responsibility. There is no such thing as a perfect system and effective managers work with sub-standard systems all the time to get things done.

The primary purpose is unclear. We are typically using one system to try and cohesively solve for multiple needs, some of which conflict with one another. One need is alignment and fit, where the key questions are; what is the individual's unique contribution to our collective success? What is their current trajectory/how are they tracking? How aligned is the individual to our values? Additionally, we must address performance and accountability; how has the individual delivered against their goals? How satisfactorily has the individual met expectations of performance? A related need is remuneration and reward; how does this individual rate against others? What remuneration and bonus should this individual receive? And finally, growth and development; what are the individual's developmental needs? What is the individual's potential? What are the options for the next steps in their career?

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The world has changed, but performance management largely hasn't. Performance management has its roots in the 1940s where professional life was much more predictable, linear and slow moving. The speed, complexity and volatility of the world we work in today is radically different, but many of our performance management principles and systems have not changed. For example, a once a year performance conversation is nonsensical in a fast moving world.

We aim to objectify a largely subjective process. One reason many don't like performance management is because they don't trust the process, largely because it's administered by human beings who are subject to all kinds of personal bias. Additionally, there is real pressure on boards and senior leaders to justify financial rewards, and significant legal risks in exiting people from an organization. All of this encourages lots of time spent on and in the *process* of performance management, rather than actually enabling *performance*.

We don't set ourselves up for a game we can win. Sometimes the team or business unit goals aren't clear, or obviously relevant enough for the individual to have a clear line of sight to their contribution. We often falsely assume that individuals know how to set high quality goals, when that's not always the case. Sometimes the balance in a set of goals is missing; meaning that an individual can be deemed 'successful' for achieving a narrow set of goals at the expense of others. Sometimes the flipside is true, where an individual with a large and complex remit can be deemed unsuccessful for narrowly missing a particular target.

The financial overlay trumps everything else. In many organizations, the primary purpose of the performance management system is to allocate financial rewards, which everyone in those organizations is aware of. The outcome is not an environment conducive to stretching or development and growth; but one where people may lobby, negotiate and game the system in a way that's generally uncomfortable, time consuming and often de-motivating for all concerned.

We don't tap into intrinsic motivation. Performance management represents a golden opportunity to tap into intrinsic motivation, but several factors get in the way. The primary driver of motivation is a self-set goal, which is then achieved, however, individuals may be wary of articulating stretch goals for themselves if there is a chance those goals will become their contracted targets. Some managers exert too much control over the goal setting process, robbing the individual of ownership. Very often, there is no detail or discussion about why each goal is critical, which research tells us dramatically reduces the likelihood of its achievement. Finally, quality feedback is a proven motivator for high performers, yet it's often absent from performance management practices; either because managers lack the capability, or the system encourages a more transactional conversation.

Performance management triggers our deepest insecurities. Perhaps the most basic fear of every human being is that *we're not good enough*, and performance management can push this button. No matter how experienced the manager, no matter how constructive the individual, most of us feel at least some discomfort in a conversation where we are judging the performance of others, or having our performance judged.

THERE IS A SOLUTION

While the challenges are real and significant, there is much we can do to improve performance management; none of which involves blowing it up.

Improving the quality of performance management is best built on a foundation of acceptance; acceptance that there is no such thing as a perfect system, that it can never be completely scientific or objective, and that it will naturally be uncomfortable at times for all concerned.

With that acceptance as a foundation, there are several principles that can dramatically improve both the experience and the results of performance management. Following these principles, we outline an integrated process that you can use to put the performance back into performance management.

"We don't set ourselves up for a game we can win."

EMBRACE THESE PRINCIPLES

Set 'red' and 'blue' goals. Encourage the individual to self-set goals in line with the team's overall measures of success. Encourage them to articulate *why* each goal is so critical. Given the many competing demands that all of us experience, we need a strong internal *fire* to achieve any big goal. If their fire isn't strong enough, help them to pick another goal. One way to encourage individuals to stretch without fear, is to distinguish between *red goals* (metaphorically sign in 'blood') and *blue goals* (blue-sky dreams they will strive for), knowing there is no downside for falling short. In a high trust environment, our experience is that individuals usually land between their red and blue goals – overachieving their targets, but with a greater sense of ownership and enjoyment.

Shift the manager's role to be more of a coach. Playing this role includes defining a clear picture of collective success, supporting the individual to define his or her unique contribution, providing a sense of meaning and significance for that contribution, providing regular feedback, support and correction on the path to that contribution, and being open to feedback from the individual on how to better support him or her to make the maximum contribution. Increasing the frequency and quality of feedback in this way, creates an environment where individuals are more likely to lean into growth opportunities.

Set up a game you can win. In order to see if an individual is set up for success, run two simple tests for each of their goals. The first is the 7C™ test; are they crystal Clear on what success looks like, is their goal really Compelling, do they possess or can they acquire the required Capability, do they have the Capacity, do they possess the required Commitment, can they see how the goal make a meaningful Contribution, and do they have the required Confidence? If the gaps are substantial, then chances are the goal is unachievable by this individual at this time. The second test is the Autonomy-Accountability See-Saw™: determine the level of *autonomy* they need in order to accept *accountability* for each goal. If there is too much autonomy we have the potential for chaos. If there is too much accountability, the individual will likely experience a sense of disempowerment and frustration. We want the see-saw in perfect balance.

Consider separating performance conversations, from the financial rewards conversation. Even though performance and rewards should be closely linked, it can be psychologically helpful just to put a gap between these conversations. Doing so allows the individual and manager to better immerse in performance conversations, knowing that they will come to a financial discussion later.

Maximise collective rewards. Individual achievement is rare without support from others – everyone knows this. The more that rewards are based on team performance, the more teamwork and collaboration you will experience in pursuit of your goals. Progressive organizations typically have a three-tiered bonus system, with organizational, team and individual components indexed to goal attainment.

Maximise the transparency of financial rewards upfront. The best way to minimise the angst associated with the annual allocation of bonuses and salary movements is, as much as possible, to make this transparent at the start of the year. If everyone understands the variables, quantum and calculations that will be used to determine their pay and rewards at the end of the year, there will be a much greater sense of fairness, no matter what the result.

Turn your values into standards. Many organizations now have company values as part of their formal performance appraisal, and some even have financial implications for living or not living those values in the perception of others. The challenge is that values are highly subjective and almost always mean different things to different people. The key to making this process work for any given value, is to answer a critical question, as a team; "how would we know if someone was living this value?" For example, if our value is 'trust', then a standard could be 'we never question each other's motives, we always assume good intent'. Now you have a standard for your value, which allows for a more objective assessment.

Strip the system back to the barest essentials. Most performance management systems are overly complex, often in attempt to cover every possible scenario or control for poor execution by managers. Ask yourself this question; if we assumed an environment of mutual good intention, respect and trust, how simple could we make our

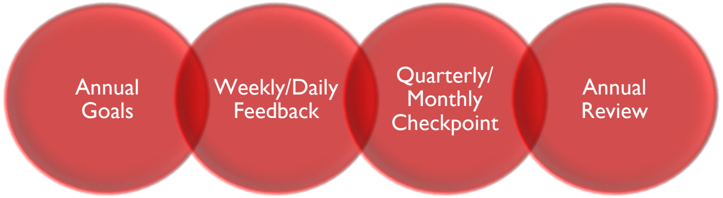
"Most performance management systems are overly complex."

system? For most, that will be a system that enables people to define a small number of goals that will maximise their contribution to the organization, to enable them to model the organization's standards, and to highlight the next development opportunity.

Focus on how you want the individual to feel at the end. Long after we forget what was said and done, we remember how we felt. Ensure that managers prepare for each step of the process by thinking about how they want the respective individual to feel at the end. This simple principle is perhaps the most important of all. It will often overcome all sorts of inadequacies in the system, and guide everyone to a better outcome.

PRACTICE A FOUR-PHASE DRUMBEAT

As we've already highlighted, one reason performance management is so challenging and complex is because we are often trying to squeeze many competing needs into a single event. Most leaders accept that this approach is no longer helpful, but are unsure how to transition to a more useful approach. Our recommended approach, contains four distinct but interrelated rhythms that add up to an effective approach.



Annual Goals; the individual sets a small number of goals that they feel will maximize their contribution and move their organization forward toward its aspirations. The manager and individual refine the goals together using the 7C™ and Autonomy-Accountability™ tests. Once the 'red' performance goals are agreed, have a conversation about one or two potential 'blue' goals; goals the individual will not be held accountable for, but will encourage them to dream big.

Discuss how the individual can model the standards of the organization, and agree the individual's most important development opportunity for the next year, given their role and goals. Finish with a conversation about how each party can help the other to be successful, and establish expectations for the rhythm of conversations for the year. Following the meeting, document the key outcomes within 'the system' and ensure that the individual has absolute clarity of how performance will be measured, and how financial awards will be calculated and allocated.

Weekly and/or daily feedback: If you were a keen tennis player, and Roger Federer's coach happened to be at your local court, you would likely not hesitate to ask for guidance or advice. In a corporate environment, however, coaching can induce fear, suspicion and defensiveness. Historically, coaching was primarily associated with remediating poor performance, though this stigma has diminished quite significantly over the past decade given most people now understand it as a crucial factor in personal growth, learning and ultimately, success. Many fixate on developing greater coaching skills, and these are obviously useful, but there are three principles that are even more important:

- Just make it part of *how we do things around here*. If it's another normal and natural part of everyday life in your organization, any sensitivities or stigma will reduce substantially over time. It also reinforces the close connection between feedback and goal achievement.
- Engage *in the moment*. Treat every interaction as an opportunity for learning and growth.
- Engage as you would *with a friend*. This simple shift in mindset encourages everyone to come from a place of care and support, rather than judgment.

Quarterly and/or Monthly Checkpoint; given the annual review is likely about performance, accountability and career, we need a vehicle to build momentum and alignment towards those big outcomes. That vehicle is a structured checkpoint at monthly (or at least quarterly) intervals between the individual and their manager, based on a simple personal scorecard to guide the conversation.

"Ensure that the individual has absolute clarity of how performance will be measured."

A personal scorecard is a quarterly view of the individual's agreed goals, 2-3 key deliverables against each of those goals for the next quarter, why those deliverables are so important, and 2-3 behavioural shifts that the individual is committed to making in line with the company's values. The goals and the behavioural shifts have a traffic light rating system, and all of this content is captured on one simple page (see format below).

Big Goals (annual)	2-3 deliverables this quarter	Why they are critical	Trajectory		

FROM behaviour	TO behaviour	Trajectory		

At least once a quarter, but ideally every month, the manager and individual do a quick review of the personal scorecard, led by the individual. The purpose is to build momentum towards the big annual goals, and to address gaps or changes in priority. Quarterly (or at least bi-annually), team members share their scorecards with one another to look for gaps, overlaps and potential conflicts, and give each other feedback and suggestions for improvement. The purpose is to increase alignment and build mutual accountability. Coaching and support amongst peers increases as a result.

Annual Review; the annual review is best used to *confirm* an individual's performance, to *confirm* financial awards (unless you can separate this conversation), and to have a big picture conversation about career opportunities and progression. We use the word *confirm* very deliberately. If you have embedded the principles and rhythm recommended above, then the annual review will be a *confirmation* of your ongoing dialogue, based on a huge amount of data and information. Done well, it's a meeting with very little new information or expectation, and therefore much less anxiety for everyone.

CONCLUSION

Mark Twain famously once said "*reports of my death have been greatly exaggerated"* and we have come to the same conclusion about performance management.

The frustrations that many experience with antiquated approaches to performance management are well founded, but to claim the solution is abandonment is simplistic and unhelpful. We will always need a way to enable people to set and achieve worthy goals that move the organization forward, to have conversations about performance and receive feedback on progress, to shape careers, to identify under-performance, and to fairly distribute compensation and rewards.

Performance management is difficult to do well, but that is precisely why it's worth doing.

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