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HOW TO DESIGN AND IMPLEMENT AN EFFECTIVE PERFORMANCE MANAGEMENT PROGRAM

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Despite its bad reputation, performance management can be one of the most powerful interventions an organization can implement. When designed and implemented correctly, the potential for a return on investment exists because:

- *Performance standards that are related to organizational success are implemented throughout the company.*
- *High-performers can be more easily retained.*
- *A mechanism exists for correcting substandard performance.*

This guide presents a framework for implementing a performance management program that will increase the likelihood of meeting your organization's objectives and gaining support from your employees.

INTRODUCTION

The mere mention of performance management (PM) elicits negative responses from all parties involved. Supervisors dread giving negative feedback and dealing with disgruntled employees. Employees often feel attacked and unappreciated, and are concerned about whether or not they are being treated fairly.

Given all the pain associated with this process, why do the vast majority of organizations continue to put their staffs through it? The answer is simple: Without performance management, there is little accountability for performing at acceptable levels. Documentation and consistency would be nonexistent and most employees would never get any feedback about their performance, positive or negative. Handled correctly, though, an effective PM program can increase productivity and morale in your organization and help you retain valued high-performers.

Productivity will increase because you'll have standards and metrics to evaluate employee performance against. Morale can increase because employees are differentially rewarded for their performance based on objective criteria rather than on favoritism. In addition, high-performers eventually get tired of carrying the weight for low-performers and want the poor performers to be dealt with. A well-executed PM program can provide the tools to make that happen.

In contrast to performance appraisals, performance management is a process, not an event. In order to be effective, observing and documenting performance must be a continuous, ongoing activity. Because feedback is most effective when it occurs immediately after a behavior or action, supervisors should attempt to respond to their employees' actions promptly. You need to acknowledge positive behavior when you see it or hear about it and take immediate corrective action when you see or hear about negative behavior. If you wait too long, the power of the reward or discipline is diminished.

For example, you could thank an employee for a job well done ("Thanks for staying late to get that report out on time. I appreciate your dedication.") or issue a reprimand ("Sara, I overheard your conversation with Pete. It is not appropriate to discuss confidential infor-

mation with people outside our department. Do you understand that you have violated a company policy?”). In either case, the key is to respond quickly. The longer the delay between the behavior and the feedback, the less likely you are to see a change in the employee’s behavior. That’s why appraisal meetings held once a year have little impact on overall performance.

When developing your PM program, consider three phases:

1. the preparation before the appraisal meeting;
2. conducting the appraisal meeting; and
3. the follow-up after the meeting.

A breakdown in any one of these areas will decrease the effectiveness of your PM. Within each phase, a variety of steps can be taken to improve your PM system and employee reactions.

Before the Appraisal Meeting

In order to design an effective PM program, you need a strong foundation. Considerable thought must be given to the corporate strategy, job analysis, the format of the appraisal tool, documenting performance, goal setting, and the communication plan. If you take these factors into consideration during your design, your PM program will be viewed more favorably by your employees and will be more likely to achieve the desired productivity results.

Strategy. The strategy will help you determine what skills, abilities, and behaviors you require of your employees currently, as well as what will be needed in the near future. It is important that you clearly link the strategy to the performance goals for each employee. Here is an illustrative scenario:

Carol is a phone representative in a customer call center. She needs to understand that the reason you are asking her to increase her troubleshooting skills is so that she spends less time on the phone with each customer. Spending less time with each customer means that Carol answers more calls and customers spend less time on hold. Cutting the time on hold for customers means their satisfaction ratings go up. Increasing customer satisfaction by 15 percent is a corporate goal. Meeting the goal will result in a larger pool of money available for raises. Carol is able to see how she contributes to the corporate goal and benefits from meeting that objective.

The strategy also keeps employees focused on the actions that will make the company successful. If a primary goal of the organization is to increase customer satisfaction, decisions need to be driven by whether a particular action will result in an increase in satisfaction. If the goal is to decrease costs, decisions should be evaluated based on cost–benefit ratios.

Job analysis. A job analysis (whether formal or informal) will help you determine what tasks are being performed and should be performed in the future as business conditions change (e.g., automation is introduced, staffing levels are reduced, functions are outsourced). The job analysis also provides the important links between key job behaviors and the organization's strategy. It is critical to understand the purpose and processes associated with each position in order to determine how the performance will be measured and evaluated. This understanding also helps you clarify where each employee's accountability begins and ends, so you can establish appropriate goals.

Format. The format of the appraisal tool is of primary concern to the management staff who complete them. The forms should be:

- simple to understand, with clear instructions and definitions of rating scale points (e.g., unacceptable, meets standard, exceeds standard);
- easy to use, such as a template to fill in that does not require complicated formatting, flows logically (e.g., mark the scale from 1 to 5), and provides a place for some narrative explanation. Technology (on-line forms) can make the forms more convenient to complete.

Documentation. As is the case with many personnel-related issues, documentation is critical. By recording specific behaviors, dates, and consequences, you will be able to provide the employee with an objective assessment of his or her performance. Using objective data helps you avoid judgmental terms that are prone to upset employees or put them on the defensive. For example, rather than telling Mark that he is lazy or irresponsible, you can tell him that he has missed three critical deadlines in the last five months (projects x, y, and z). He would be insulted by the use of the term *lazy*, but it will be difficult to deny the fact that he missed the deadlines. This type of dialogue based on fact cannot occur unless you have documented performance on a regular, ongoing basis.

Supervisors often make the mistake of completing appraisals immediately before the meeting. As a result, their evaluations are often clouded by recent events (positive or negative) and do not reflect the employee's overall level of performance. This points out the importance of documenting performance over time, so that we develop a more balanced picture of the employee's capabilities and areas for improvement.

Goal setting. Goal setting is a key component of an effective PM program. If they are not given careful thought, goals can have a negative impact on productivity. In some cases, goals aimed at creating positive change have the opposite effect. Here is an example:

Greg works in the shipping department of a manufacturing company. At a meeting last month, management told everyone that quick turnaround times were the most important measure of success. From now on, raises and bonuses would be based on how many orders each employee was able to process each day. Within two weeks, the number of orders processed increased by 35 percent.

On the surface, this appeared to be a positive outcome. Unfortunately, the number of complaints from customers who received the wrong or damaged merchandise increased by 20 percent. Upon investigation, the warehouse manager found that employees were rushing through the orders and not packing them properly.

By focusing on one part of the job (quantity) without considering the impact on other parts of the system (quality), the goal produced negative results that made the gains in turnaround time moot. In many cases, supervisors can benefit from some goal-setting training (preferably using the new PM format and tools). In order to promote consistency, they should be given some direction in two critical areas:

1. *Rewarding the right behavior:* Employees will focus on what you measure (and reward). Be sure that you are rewarding the behaviors that will help your organization meet its objectives in the long term and the short term.
2. *Establishing clear goals and expectations:* If employees don't understand what they are supposed to do, as well as the quality or quantity they are expected to produce, the results are left to chance. If you give instructions that are open to interpretation, you may not get the results you want. For example, if you tell Jim (who arrives late at least two days per week) to "improve his attendance" and he is late only once a week thereafter, he has satisfied your request. However, this level of improvement is probably not what you had in mind.

Communication plan. It is important to communicate the changes in the PM program and to share the new process with all employees. Do not rely on the grapevine to disseminate the information. Given the level of distrust surrounding PM, it is best to address the issue head-on. Allow for some venting of past grievances and be prepared to explain how the new system addresses those issues. This communication effort is the first step in changing the culture and will impact the success of your implementation effort.

Communication should focus on the benefits of the new system for all parties. Collect information about your organization's concerns so you can incorporate those issues into your PM program design and into subsequent communication efforts.

During the Appraisal Meeting

An appraisal meeting is stressful for all parties involved. The supervisor is often uncomfortable about confronting poor performers and avoids the pain by giving acceptable ratings or making vague comments about the need for the employee to improve his or her performance. Some supervisors also avoid giving positive feedback, which eventually undermines the high-performers' motivation. At the same time, employees are nervous about being judged and dealing with the consequences of their supervisors' opinions. In many cases, both parties rush through the meeting, wanting it to be over rather than using the time in a constructive manner to review past performance and make plans for the future. Here are some suggestions to help you make the meeting more productive and less stressful.

Have an agenda. To reduce the stress for both parties, establish an agenda for the meeting, in advance, so both of you know what to expect. A typical agenda might include:

- reviewing the performance appraisal form and the ratings or comments,
- seeking input from the employee on the ratings or comments, and
- identifying areas for improvement, training needs, and career advancement opportunities.

Focus on the behavior, not the person. By describing events or behaviors rather than personal traits, you are focusing on the behavior that you want to reward or change. As we've already discussed, avoid labels such as "lazy," "irresponsible," and "careless." These words put employees on the defensive. However, if you present the behaviors that would make you attach those labels, it is easy to identify corrective actions. For example, rather than saying, "Tim, your carelessness cost us the Harris account," you might say, "Tim, because you didn't deduct the volume discounts associated with the Harris account, we submitted a bid much higher than our competitor's and we lost the account."

Provide constructive feedback. Focus on behaviors that can change and offer suggestions about how to make those changes. It is also important to solicit input from the employees about how to make the desired changes. Continuing with Tim's story, there are several options for making sure the problem doesn't happen again. If Tim seldom makes mistakes, the supervisor may ask him to double-check his work or to put a checklist together that would remind him to look for volume discounts. On the other hand, if Tim has made several mistakes in the past, the supervisor may send Tim to a training course on developing bids or require that someone look at his work before

he submits it to the customer. Tim needs to be included in the problem-solving dialogue and allowed to make suggestions about how to avoid the problem in the future.

Set expectations. Don't make vague comments about the need to improve. Be specific about how much improvement you expect and how much time the employee has to make corrective actions. For example, rather than telling Tim that he needs to be more careful or pay more attention, the supervisor could say that she will monitor Tim's work for the 30 days and that there should be no mistakes—all estimates must be correctly calculated, all volume discounts must be accurately applied, and the bids must be submitted on time. The supervisor has made the expectations clear and defined them so that both she and Tim will know if they have been met.

Identify consequences, both positive and negative. Employees take action to achieve results. In some cases, they want to gain something (praise, promotions, or a trip to a conference). In other cases, they want to avoid something (termination, embarrassment, or attention). It is important that employees understand what they have to gain or lose by meeting or not meeting your expectations. Tim needs to understand that if he completes his work for 30 days without any errors, he won't have to have someone check his work (positive). If he makes another error, he will receive a written warning that will go in his personnel file as part of the corporate disciplinary process (negative). Subsequent mistakes could result in his termination. By making these consequences explicit, you put Tim in control of his situation and allow him to make decisions accordingly.

Develop an action plan with input from the employee. While you are responsible for setting the goals and expectations, employees need to participate in developing their action plans for how to achieve those goals. By gaining their support and buy-in, you greatly increase the chances that they will reach those goals. If they aren't given an opportunity to participate in deciding how to do their work, employees are often resentful and may sabotage the project, either willfully or by doing exactly what you say and no more.

Schedule follow-up meetings. Use these meetings to evaluate the employee's progress on his or her action plan. Identify areas where you can offer assistance or support to help the employee continue to progress. If you do not follow up on the action plan, the likelihood of its being completed is greatly reduced.

After the Meeting

Performance management is a continuous, ongoing process; it is important to provide additional coaching, which entails three steps:

Monitor performance. Monitoring can occur at follow-up meetings or by observing the employee on the job. You can also solicit feedback from the employee's customers, supervisor, or peers, as appropriate. If you do not follow through on this step, the employee will soon recognize that you are not serious about making the behavioral change and will slip back into his or her previous patterns.

Provide feedback. Acknowledge positive behavior when you see it or hear about it and take immediate corrective action when you see or hear about negative behavior. Don't assume that your employee "knows" how s/he is doing.

Offer support. Support can take many forms: training classes, mentoring, extra resources (money, staffing, equipment), or recognition as milestones are reached. The key is to let the employees know that you are willing to help them succeed.

Key points to remember when designing and implementing your performance management program:

- Performance management is a continuous process, not an event.
- Communicate the purpose, intentions, and process of the new PM program.
- Establish goals that are:
 - ◆ Specific, not vague
 - ◆ Directly linked to the corporate strategy
 - ◆ Observable
 - ◆ Measurable
 - ◆ Linked to specific time frames
 - ◆ Tied to consequences
- Feedback (positive and negative) is most effective when it immediately follows the behavior.
- Be specific in your documentation and during the meeting. Give concrete examples of behaviors. Avoid judgmental terms.
- Provide constructive feedback that includes suggestions for improvement.
- Seek and consider input from the employee regarding action plans.
- Use a format that is easy to use and makes sense to the users.
- Coaching will help employees make their desired behavioral changes.

CONCLUSION

By taking the time to consider the preparation, implementation, and follow-up phases of your PM program, you can increase the effectiveness and acceptance of the program. As you shift from appraisal events to continuous performance management, you will see significant changes in the organization. Once the process is communicated and understood by the organization, there will be less stress associated with appraisals. Employees will see the relationships between their performance and organizational success. High-performers will be reinforced for their efforts and low-performers will know how they can reap the same benefits. Management will then be in a position to reward behaviors that enable the business to thrive.