



Workstream | Performance

The Good, The Bad, and The GREAT of
Performance Management



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Document Purpose

This white paper is intended to provide you with tools you can use as you consider starting or modifying your performance management initiative. It is divided into three general sections:

1. The World of HR Has Changed. This section will provide you with some new ways to think about your role in the company and the systematic requirements for a modern performance management system. This section is also very appropriate for your senior management team.
2. New Empirical Evidence. Various third party studies are mentioned that help describe the benefits companies are expecting and realizing from performance management systems. Also, highly appropriate for senior managers as well.
3. The Lessons. This section dives into the common pitfalls and hurdles that you may encounter.

The World of HR Has Changed

The chasm has been crossed. The world of HR will not go back to what it was. We see evidence of the change in many places: the drive to continuous learning; the publicized “War for Talent”; the recognition by business leaders that retaining key people is a critical business objective; and the importance of creative a learning culture.

In the old world of HR, employees were viewed as a necessary component of delivering the service or products. The goal was to get them to do their jobs as efficiently and effectively as possible, just as you would any other functioning element of a delivery system. In the old world, employees were a liability on the balance sheet, a cost to be contained and controlled.

In the new world, people are human capital, key assets to be developed and maximized, not liabilities to be controlled. Talent, processes, and information are some of the most important competitive advantages that an organization has to help it achieve its mission and objectives. People are not just elements of a process to help deliver products and services; they are partners and key stakeholders. We want our employees to act as owners and entrepreneurs, owning outcomes and evaluating risk and reward as they treat the organization as their own.

In the old world, HR was primarily an administrative function. Employees have to receive paychecks and benefits, new employees need to be processed and oriented, and so on. HR was viewed by the people running the business as a bureaucratic function who did not contribute to the firm in as important a way as the head of sales or manufacturing, for example.

In the new world of human capital, it is the job of HR to ensure that the right people are in the right seats doing the right things, in the best possible shape. Their role is critical to the success of the organization, and if they are not enabling and empowering every employee to be his or her best, they are not doing their job. Outsource the routine functions of payroll and benefits, they say. Our job is to focus on adding human capital value so that the business achieves its mission and objectives.

Old and New Perceptions of Performance Management

In the old world, “performance management” was primarily a euphemism for an end-of-year performance appraisal or review, and was mainly a pretext for a compensation discussion. It was the time where managers explain to employees the reasons for the amount of increase in salary and for the amount of the bonus (if any). It was generally a backward-looking discussion about what the employee did or did not accomplish during the year. Occasionally the discussion might include a mention of the relationship between the employee’s activities and the organization’s goals and results, but this was not typical.

Performance appraisals were conducted because that is what organizations do at the end of the year – an administrative annoyance and inconvenience to be completed as quickly and with as little pain and suffering as possible. *This is not performance management.* It is a bureaucratic performance appraisal, period.

Today’s Performance Management: Aspiring to Excellence

In contrast, the concept of performance management today is driven by the desire for excellence. It is an on-going process, shared by individuals at the organization, combining people, information, systems, and process knowledge. It combines strategic insight, understanding of the key value drivers for the business, an understanding of jobs, roles and responsibilities, communication at group and individual levels, and the goal setting process.

Direct results of the performance management process include the alignment of organization and individual goals; having the right people in the right seats with the right focus; and improved coaching, clarity, confidence, and success for individuals and teams. The ultimate result: *Sustained performance through organization excellence and individual fulfillment.* The promise of human capital is not in the completion of appraisal forms. *It is in the improvement of business results.*

Tools used in the performance management process such as automation are tools and nothing more. At Workstream we believe that performance management has two parallel objectives: **organization excellence** and **individual fulfillment**.

Performance Management Components in the New World of Human Capital – Content, Automation, and Process

In today’s world of performance management, best practice includes three key components: content, automation, and effective process. The absence of any one of these components significantly diminishes the benefits of performance management.

Content. The following content elements can help the performance management process contribute to business results:

- Organizational goals
- Key job responsibilities
- Behavioral and technical competencies
- Position deliverables
- Individual goals

At Workstream we have pioneered a new concept called the *Comprehensive Job Profile* (CJP). The CJP contains all the elements of a position that are used in any of the key human capital processes: hiring, learning & development, performance management, deployment & resourcing, and succession planning. For example, this can include key job responsibilities and roles, competencies, education and experience requirements, travel requirements, and so on.

In the performance management process, we generally find it beneficial to assess key job responsibilities, job goals, and behavioral competencies. Key job responsibilities and goals assess the “what” of the job, the results and outcomes obtained throughout the year. The behavioral competencies reflect the “how” of performance, the key behaviors that determine superior performance.

Automation should enable more and better communication between managers and employees. It should help align employee activity with organizational objectives. It should focus behavior and increase learning that improves results. It should increase the retention of valued employees, and bring attention to problems that need resolution.

Automation should also enable an evolving process that moves the organization year by year towards a high performance culture. The software should be configurable so that it can easily change each year as the organization changes and your needs change.

The largely untapped power of automation is to create business intelligence that can be used to change behavior and improve business results. Take, for example, the information that can be compiled from competencies assessments of employees. Based on aggregating competency assessments, you can:

- Determine the percentage of competencies that are at or above target levels, close to target levels, or with dangerous gaps.
- Identify those competencies with greatest gaps.
- Identify which employees have gaps at which important competencies.
- View the learning activities your organization offers to improve those competencies.

Without automation, gathering and using this information to improve the business would be impossible.

Process. An effective performance management process combines a number of disparate elements in the right order with the right people in the right way. These elements include the purpose and intentions of the people involved; the people themselves; their actions; measurement of activity and results; feedback; and goal setting.

To be effective, your process should empower people to focus on doing the things that improve business performance. If you remember this, you can powerfully contribute to the organization's success. Forget this and you may be typecast as an old world HR bureaucrat.

Empirical Evidence: Reasons to Implement a Performance Management Solution

The evidence to support the need for strategic performance management processes is plentiful. Recent research has built upon finding by Hewitt Associates in 1994 and Kotter and Heskett in 1992, who found that organizations with sound performance management processes received higher returns in revenue, stock price and net income growth and improved productivity. (Kotter & Heskett, Corporate Culture and Performance, 1992). In August 2004, Lynn Summers wrote about a study he completed evaluating performance management practices. He found that 55% of respondents believed their senior managers feel performance management is strategic to the business. However, Dr. Summers also found that only 14% say current practices support this “very well”. This demonstrates a gap between, on the one hand, the research and general understanding of the value of performance management, and, on the other hand, the ability to act on this research and its recommendations. This indicates a real need for more information on the “how to’s” which is what we provide through this white paper.

In 2004, The Cedar Group performed a statistical analysis on impact of use of technologies on critical financial measures including revenue growth and operating income. One of the findings mentioned in their report, the Cedar 2004 Workforce Technologies Survey, the 7th Annual Edition, was that the average operating income growth of organizations with and without three key applications differed significantly. The three key applications selected included: Reporting solutions, employee or manager based skills management/competency management solutions and training enrollment. “Through employee or manager based skills management/competency management, organizations can identify who has key skills, who needs such skills, and who can more effectively deploy these skills.” (pg 19) Cedar further reported, “The three year forecast indicates continued growth is expected for the use of applications that enable HR to provide the strategic services that attract, develop, and retain key talent. Within this category, two applications are statistically linked to operating income growth—training enrollment and competency management—and both are instrumental in support staff development and deployment, and thus in impacting organizational performance.” (pg 24)

Figure 8: Average Operating Income Growth of Organizations With and Without Three Key Applications – North America

	Average Operating Income Growth With the Application	Average Operating Income Growth without the Application
Reporting: simple management reports – headcount, salary, leave of absence lists	109%	-10%
Employee or manager-based skills management/competency management	182%	-3%
Training enrollment	90%	-16%

The benefits of moving towards recommended performance management practices include:

- Alignment around organizational objectives
- Clarity around expectations and career paths
- Consistency of standards
- A shared language throughout the organization
- Current performance management data
- Identifying top performers
- Measuring performance linked to business outcomes
- Providing continuous feedback and development opportunities
- Linking rewards to performance and strategic objectives
- Creating a culture that supports high performance

But How Do We Do it?

The key question is not whether my organizational should have an effective performance management process, but rather, “How do we do it?” The challenge is going from the abstract to the concrete, making it happen.

The implementation of performance management is not particularly difficult, but it does require planning and avoiding some common mistakes. The purpose of this white paper is to help make the job easy for you, and to give you the opportunity to learn from the successes and difficulties of others. Some of the examples we provide are from Workstream clients, and some are from other organizations.

We will focus on 13 lessons that we have learned about implementing performance management:

1. “But they completed the forms . . .” - What matters is behavior and results
2. “I never thought you’d ask . . .” - The 5 Questions you have to be prepared for
3. “I thought they would love it . . .” - Don’t expect comfort
4. “Picked the wrong battle . . .” - Start with some easy wins
5. “I thought we could change . . .” - Create a plan that fits your culture
6. “It seemed like a good idea . . .” - Evolution, not revolution
7. “Know-it-alls . . .” - Use experts who know what they are doing
8. “We can make it up . . .” - Use the best fitting process and content
9. “Let’s invent everything . . .” - Use the best available content and tools
10. “Any old rating scale will do . . .” - Think carefully about how you measure
11. “Think what through?” - The devil is in the details
12. “I’ll force it down their throats . . .” - Turn objectors into coaches
13. “Can I perform in performance management?” - Establish the elements for a successful implementation

1. “But They Completed the Forms . . .” What Matters is Behavior and Results

Always remember that the purpose of performance management is to improve organization results. This is accomplished through increasing meaningful communication between managers and employees, changing employee behavior, increasing goal alignment between employees and organization goals, and improving individual fulfillment and competency.

Performance management will be perceived as a bureaucratic, peripheral burden to the degree that it is *not* perceived as a direct contributor to business success. The question to ask is, “How is our performance management process contributing to business success?”

One example is Workstream client William Blair & Company, one of the top investment banks headquartered in Chicago. The CEO and the executive committee have consistently seen it as a critical business function to have meaningful discussions between employees and their managers. Using Workstream Performance, the percentage of employees having those discussions went from 20% to 93%.

2. “I Never Thought You’d Ask” – Five Questions to be Prepared for

The internal selling process is critical to the successful implementation of any human capital process. When selling internally, it is critical to answer five key questions:

1. Why do we need this?
2. Why now?
3. Do we need that much?
4. What about alternatives?
5. How can we be sure we are going to get the value we need?

If you cannot answer these questions to the satisfaction of your decision makers, your initiative might very well not be funded. One example: the VP of HR of a 5,000 employee firm and his staff got excited about the benefits an automated performance management system would provide the company. However, his team did not adequately prepare an answer to the question, “Why now?” As a result, the initiative was postponed indefinitely, replaced by “more pressing” – and less impactful – HR activities.

3. “I Thought They Would Love It . . .” Don’t Expect Comfort

A fact of life for effective performance management is that it sheds light on performance – both good performance and poor performance. It also requires thoughtful analysis and meaningful discussions that will be upsetting to poor performers. It is any surprise that performance management is often an uncomfortable process? Expect discomfort. Plan for it. Train people to deal with it.

We live in a “look good” culture. In many organizations, if you tell the truth about your mistakes and take responsibility for your contribution to problems and failures, you will make less money and reduce the probability of promotion. When you apply for a new job, the only acceptable answer to the question, “Tell me about your weaknesses,” is the universal, “I spend too much time at work focusing on being successful.” This “look good” culture has the opposite traits of a learning culture, in which we want employees and managers to shine a light on weaknesses and difficulties, so that they can be improved.

The bottom line is that you can’t please all the people all the time and have sustained performance. One example: a major communications firm grew rapidly through acquisitions. HR tried to keep each business unit happy by allowing each business unit to keep their own process for awhile, while trying to automate the whole company on performance management. The result was a quagmire of confusion, software that was overly complicated, a delayed implementation, and a PR failure for HR.

4. “Picked the Wrong Battle . . .” Start with Easy Wins

This lesson sounds obvious once stated, but it is tempting for organizations to start the performance management implementation with a part of the organization that “needs it most”. Unfortunately, that part of the organization is also most likely to sabotage the initiative’s success.

Start with parts of the organization whose leaders are naturally supportive of the endeavor, and where success is a high likelihood. Success breeds success and builds momentum. Publicize the early success and create buzz and positive PR.

As an example, one investment banking client, began with a competency assessment of their partners the first year, and built on that success by rolling it out to all employees the second year. They then added goal setting for partners the third year, to everyone the fourth year, and so on. They built on the previous year’s success each year.

In contrast, a large organization decided first to tackle the most resistant part of the organization, their IT group. This group effectively sabotaged the implementation delaying it for at least two years.

5. “I Thought We Could Change . . .” Create a Plan that Fits Your Culture

Given the functions and features of today’s automated performance management solutions, it is easy to get carried away with the possibilities. One major bank, for example, put together a new performance management process that included sixteen distinct steps in the process. Needless to say, the process sank under the weight of the complication and confused that ensued.

However wonderful the functionality of the software, base your implementation on your current corporate culture. How comfortable are your people with automation? Are managers and employees currently having discussions about employee performance? To what degree is accountability a part of your culture? To what extent do employees currently set and keep track of goals? The answers to these questions should help define the nature of your implementation plan.

Here are some simple guidelines:

- *Do what will work.* If it won't work in your organization, it is not a good idea for you.
- *Communicate.* I have never seen too much communication when it comes to performance management. Communicate the purpose, the process, frequently asked questions, hints, help desk information, and so on. Get your CEO to talk about it. The more it is perceived as important, the easier it will be to get employees and managers to use performance management to improve performance and results.
- *Include lots of people.* People are more likely to buy in to a new process if they feel included. A warning, however: get their opinions and input, but do not necessarily involve them in decision-making. It could delay decisions indefinitely.

One example of successful use of this lesson was a client whose head of HR met with every department head every year after the performance management process was finished, and discussed what worked, what didn't, and how they could make the process more effective for the business next year. Not only did the process keep improving, it also kept it aligned with the business leaders.

6. “It Seemed Like a Good Idea . . .” Evolution, Not Revolution

Avoid trying to go too far too fast. Take the next right step from where you are right now. Take a long-term perspective. If you attempt too much change in too short a period of time, you risk alienating your client base and creating resistance and sabotage. An effective performance management implementation is evolutionary, not revolutionary.

One successful client began simply by evaluating goal achievement and accomplishments at the end of the year. The second year they introduced voluntary goal setting. The third year they required goal setting. This kind of “one step at a time” approach tends to be the more reliably successful approach.

7. “Know-it-alls . . .” Use Experts Who Know What They Are Doing

In our experience, a successful performance management implementation involves expertise in process, content, and software. Using experts who are knowledgeable in all of these elements helps ensure success.

One large manufacturer was implementing a new performance management system for their top 3000 managers. They had successful experience with an HR consulting firm with HR process expertise, and they were persuaded that this firm could automate their new process. The experience was a disaster. The software did not work, and they spent over \$200,000 trying to fix the problems, which were never adequately fixed. Not only did the project fail, HR's reputation was significantly damaged.

Another firm hired a local HR consultant whom they knew who had no competency modeling expertise to help them create competency profiles. One year later and \$150,000 poorer, they had completed competency profiles for a small fraction of the organization, and the project was abandoned. Had they used a good competency dictionary and experienced consultants, they could have completed the entire project for the resources expended.

8. “We Got Carried Away . . .” Use the Best Fitting Process and Content

As with software, it is use to get carried away with the wonderful content and process that is now available. For example, one company put together competency profiles for their IT professionals that included over 80 technical competencies. While they could justify the need for each competency, they created a structure and set of content that was unworkable.

In contrast, a large accounting firm limiting key job responsibilities to six per employee – a workable number. People might complain that they needed one or two more, but the organization had created a process that would work for the vast majority of employees, thereby moving the organization forward in its goal of aligning individual behavior with organizational objectives.

9. “Let’s Reinvent Everything . . .” Use the Best Available Content and Tools

Just because you had strong mechanical aptitude, you would not decide to build a car from scratch – it would take too much time and effort. Similarly, it makes little sense to build competency profiles from scratch. For example, one CIO council put a plan into effect to develop competency profiles for IT positions, developing them from scratch. Without a competency dictionary, they created 97 Type-2 competencies (including names and definitions with no key behaviors), and it took them one year to develop just 12 positions.

In contrast, a major computer manufacturer, using the Workstream Competency Dictionary, developed competency profiles for 105 positions using Type-3 competency definitions (including key behaviors at an expert level). And it **was completed in less than 30 business days of activity – ten times the results at a much higher quality**. Workstream consultants played a significant role in helping to get this project completed on time and on budget, by the way.

With software tools, make sure that the software has the flexibility and configurability to grow with you as you change your process from year to year. And your process will change as your people learn and get comfortable your new systems and procedures.

10. “Any old rating scale will do . . .” Think Carefully About How You Measure

At first glance it may seem as though the details of a rating scale are not particularly important – how many rating levels, what they are named, whether each proficiency level has a number associated with it, etc. It turns out that these details are important, and need to be thought through carefully. Some common characteristics of human behavior play a role, as does the corporate culture.

For example, you can take it as a rule that giving an employee the lowest possible rating on an important competency (or any other important factor) is interpreted by many employees as to telling them to begin a job search. Most managers know this, and will never give an employee the lowest rating unless they want the employee to quit or be terminated. Therefore, if you have a five-point rating scale and the middle rating is supposed to be “Meets Expectations” or “Proficient”, every employee who is rated below proficient will receive the same rating, the proficiency level immediately below proficient. You can see the problem this causes: The trainee with four months of experience will receive the same rating as the fifteen-year employee whose performance is slightly sub par. Analyzing these kinds of issues in advance will help prevent difficulties later.

Another example of a rating subtlety: It is better to use different words to describe rating levels for behavioral and technical competencies. For technical competencies, for example, technical mastery is possible and is useful as a concept in describing proficiency levels. With behavioral competencies, in contrast, the concept of mastery is more confusing than helpful.

11. “Think What Through? . . .” The Devil is in the Details

Developing a well thought through implementation plan is critical to success. Do not rely on anyone’s verbal assurances that something will work as you expect it to. Ask lots of questions, and make sure that the answers you receive are accurate. If the questions involve software, take a test drive to get a feel for the solution.

The senior vice president of a global manufacturing firm, for example, spent a full day at an accelerated walkthrough of their new performance management system, going through the entire year’s cycle in one day. They worked through many details, and the process was significantly improved as a result.

12. “We’ll Force it on Them . . .” Turn Objectors into Coaches

When dealing with managers and employees who resist a new performance management process, you have a number of options available to you. One of the best approaches is to invite “resisters” into the process - invite their feedback, ask them for their advice, etc. One VP of HR put together an “advisory committee” that consisted of resisters in Different departments. He met with the committee, asked for all their comments about the software and the process and asked for their advice and suggestions on how to improve the process. Not only did he get some good ideas, the employees felt a part of the process and became cooperators more than saboteurs.

13. “Can I Perform in Performance Management?” Establish the Elements for a Successful Implementation

We have learned from countless implementations that success is usually the result of establishing and following tried and true project management practices. Some of the most important are:

- *Define roles and responsibilities.* There are several roles that are important to establish: project manager, administrative, lead, HR sponsor, line champion, etc. By identifying the roles and obtaining agreement from the respective parties, the likelihood of success is enhanced.
- *Establish business objectives.* Put the goals in writing and get agreement around them. Make sure that they are realistic and attainable within the time frame. By doing so and establishing what is in scope and out of scope, creating a perceived success is more likely.
- *Create communication plan.* This includes appropriate and varied channels, different communicators, and use of a variety of methods and modalities.
- *Create & manage a project plan.* The more that is defined and written down, the higher the probability that problems will be identified and addressed. *Define issues and potential roadblocks.* By identifying potential difficulties upfront, you will be better prepared to handle these issues (and others) when they actually arise.

Aspire to be Great! Combine Business and Individual Excellence

The purpose of performance management is to create sustained performance through building organizational excellence and individual fulfillment. If your organization produces results but does not provide individual fulfillment, you will have short-term success, but sustaining that performance will be suspect. If you have individual fulfillment without strong organizational performance, you will have a “club” culture that will not attract or retain the kind of performers that deliver results. Only by focusing on both delivering results and satisfying and developing your employees will you create the kind of organization that will deliver sustained performance over the long term.



An effective performance management process is a key tool to help create and maintain this high performance culture. We at Workstream are here to help you achieve that culture. Please contact us at info@Workstreaminc.com or 1-866-470-WORK to help you any way we can.

About Workstream

Workstream provides enterprise workforce management solutions and services that help companies manage the entire employee lifecycle – from recruitment to retirement. Our solutions are offered on a monthly subscription basis, under an applications service delivery model that help companies cost-effectively maximize workforce productivity, engagement, and satisfaction by applying business discipline to key people processes. For more information visit www.workstreaminc.com or call toll free 1-866-470-WORK.



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