Managing Employee Performance

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Scope—Managing employee performance deals with an organization's strategy, policy and practices with respect to establishing performance expectations for its employees, along with measuring and monitoring the results. A comprehensive performance management system can play a strategic role in attracting and retaining key employees. It can also help significantly improve a company's overall business performance. The article does not deal with disciplinary actions or termination for poor performance.

Overview

Performance management is the foundation of performance excellence. The process includes setting clear and specific performance expectations for each employee and providing periodic informal and formal feedback about employee performance relative to those stated goals. For most organizations in the United States, performance reviews are used to support decisions related to training and career development, compensation, transfers, promotions, and reductions-in-force or employment termination.

In addition to discussing some of the legal issues involved in performance management, this article covers the following topics:

- The business case for performance management.
- Elements of performance management.
- Common types of performance management systems. Common problems.
- Connections to other performance management processes.

See: ANSI/SHRM Performance Management Standard (/resourcesandtools/tools-and-samples/how-to-guides/documents/12-0794%20performance%20mngmt%20standard_interior_viewonlyfnl_rvsd10-4-13.pdf)

Business Case for Performance Management

Organizations rely heavily on their human resources to build value. Consequently, performance management at the individual employee level is essential. Research studies have consistently shown that employers with performance-enhancing cultures *significantly* outperformed those that did not focus on setting performance goals and holding employees accountable for meeting those objectives. *See* Building a High-Performance Culture (www.shrm.org/about/foundation/products/Documents/Perf%20Mgmt%20EPG-FINAL%20for%20web.pdf).

The performance management process is often criticized as overly time-consuming, but the payoff—in terms of increased performance, productivity, employee morale and quality of work, plus a reduction in both turnover and employee relations problems—is well worth the investment. *See* Prediction: Redesign of Performance Management. (/ResourcesAndTools/hr-topics/compensation/Pages/performance-management-redesigned.aspx)

HR's Role

The HR department is key to efficient administration of the performance management system. Having an educated HR team that is well prepared to train the organization's managers and to assist them when issues arise is critical.

Organizations can prevent or remedy the majority of performance problems by ensuring that two-way conversations occur between managers and employees, resulting in a complete understanding of what is required, when it is required and how everyone's contribution measures up. Everyone benefits:

- The employee knows exactly where he or she stands in relation to achieving goals and reaching performance milestones that contribute to career development, promotions and more.
- The manager gains insights into the motivations of the people working for him or her through the required conversations.
- The organization retains motivated employees who understand their role and the roles of others in contributing to the overall success of the organization.

See:

Does HR Hold the Key to Reshaping Performance Management? (www.shrm.org/ResourcesAndTools/hr-topics/organizational-and-employee-development/Pages/performance-management-trend.aspx)

Performance Management Training (www.shrm.org/resourcesandtools/tools-and-samples/presentations/pages/performancemanagementtraining.aspx)

Setting Goals and Objectives Training (www.shrm.org/resourcesandtools/tools-and-samples/presentations/pages/settinggoalsandobjectives.aspx)

Is It Time to Put the Performance Review on a PIP? (/hr-today/news/hr-magazine/Pages/0415-qualitative-performance-reviews.aspx)

Job Analysis-Based Performance Appraisal (/academicinitiatives/universities/TeachingResources/Pages/JobAnalysis-BasedPerformanceAppraisal.aspx)

Communication

Effective communication of performance expectations and feedback is foundational to performance management. Unfortunately, the best laid management systems often go awry in the relatively simple area of communications.

Legal Issues

Federal, state and local laws that prohibit discrimination in terms and conditions of employment all apply to a covered organization's performance management policies and practices. Accordingly, organizations should take all appropriate steps, based on advice from counsel, to ensure that both the design and the implementation of their performance management systems are in compliance with equal employment opportunity laws and regulations.

Elements of Performance Management

An effective performance management system should be designed to include the following three broad elements: goal setting, performance review and a performance improvement process. Employers may use a multitude of options in the execution of the performance management process, but an effective system will incorporate the three basic elements in some form. These elements, taken from the ANSI/SHRM Performance Management Standard (www.shrm.org/resourcesandtools/tools-and-samples/how-to-guides/documents/12-0794%20performance%20mngmt%20standard_interior_viewonlyfnl_rvsd10-4-13.pdf), are as follows:

Element one: goal setting

Goal setting is a process of establishing objectives to be achieved over a period of time. It is the performance criteria an employee will be evaluated against. Performance goals for individual employees should ideally align with organizational goals. Setting clear and specific performance criteria is critical to achieving effective performance results.

Common types of goals include the following:

- **Job description goals.** Goals may be based on the achievement of a pre-established set of job duties from the description. These goals are expected to be accomplished continuously until the job description changes. Examples might be financial, customer oriented, or process- or system-oriented goals.
- **Project goals.** Goals may be based on achievement of a project objective. These goals may be set for a single year and changed as projects are completed. Job description and project goals are "what" needs to be accomplished.
- **Behavioral goals.** Goals may be based on certain behaviors. These goals are expected to be accomplished continuously. Behavioral goals are "how" things need to be accomplished.
- **Stretch goals.** Goals that are especially challenging to reach are sometimes referred to as stretch goals. Stretch goals are usually used to expand the knowledge, skills and abilities of high-potential employees.

In addition to focusing only on a few major goals during a single year, the goals should be SMART:

- **S**pecific, clear and understandable.
- **M**easurable, verifiable and result-oriented.
- **A**ttainable, yet sufficiently challenging.
- **R**elevant to the mission of the department or organization.
- **T**ime-bound with a schedule and specific milestones.

Finally, effective goals should be participative. Both manager and individual should be involved in the development of goals to ensure understanding and commitment. Goals should be documented. Whether documented in electronic or hard copy format, goals need to be stored accurately, be available for review, and be managed on a continuous basis and acknowledged. Goals should be flexible enough to account for changing conditions. *See* Employee-Crafted Goals Pay Off (www.shrm.org/hr-today/news/hr-magazine/Pages/0713-employees-setting-goals.aspx).

Examples of effective goals include statements such as these:

- Increase revenue by 10 percent during the first quarter.
- Reduce office expenses by 25 percent as compared with the prior year's actual costs.
- Decrease employee absences from three days to one day per quarter.

See:

ANSI/SHRM Performance Management Standard (/resourcesandtools/tools-and-samples/how-to-guides/documents/12-0794%20performance%20mngmt%20standard_interior_viewonlyfnl_rvsd10-4-13.pdf)

Building a High-Performance Culture: A Fresh Look at Setting Goals and Objectives Training (/resourcesandtools/tools-and-samples/toolkits/documents/perf%20mgmt%20epg-final%20for%20web.pdf)

Setting Goals and Objectives Training (/resourcesandtools/tools-and-samples/presentations/pages/settinggoalsandobjectives.aspx)

Element two: performance review

Performance review is the process of assessing an employee's progress toward goals. Strengths and weaknesses of all employees are recorded regularly so that the organization can make informed and accurate decisions regarding an employee's contribution, career development, training needs, promotional opportunities, pay increases and other topics. Performance review and evaluation involve the

objective and subjective consideration of how to measure and evaluate employee performance results.

Elements of the review process are applicable across industry sectors and organizations. However, the structure and tools used by each specific organization may vary. The performance review process focuses on how each review is implemented.

Minimum standards for an effective performance review process include:

- A feedback process that is continuous and timely throughout the review period so that employees know how they are doing and what is expected.

- A dialogue that includes performance feedback measured against clear and specific goals and expectations established at the outset of the performance management cycle.

- A process for acknowledging the outcomes of the performance review process that is documented between the manager and the employee.

- A two-way individual conversation between the manager and the employee (preferably face-to-face) at least once a year.

Regardless of the type or format of the selected method to review an employee's behavioral and work expectations, clear definitions of each level of performance must be provided. Raters should be provided with examples of behaviors, skills, measurements and other performance factors to assist them in making a decision.

Performance Management: Which performance rating scale is best, and what should an employer consider in adopting a performance rating scale? (/ResourcesAndTools/tools-and-samples/hr-qa/Pages/whattodowhendevelopingperfratescales.aspx)

'Weighty' Performance Appraisal Dilemmas (www.shrm.org/ResourcesAndTools/hr-topics/employee-relations/Pages/Weighting-Performance-Appraisals.aspx)

To Rate or Not to Rate? That Isn't the (Right) Question (/ResourcesAndTools/hr-topics/talent-acquisition/Pages/Performance-Rate-or-Not.aspx)

Trade Performance Ratings for Guidance; Link Goals to Strategy (www.shrm.org/ResourcesAndTools/hr-topics/talent-acquisition/Pages/Moulton-Sparks-2015-Talent-Management-Conference.aspx)

Element three: performance improvement plan standard

The uses of a performance improvement plan (PIP) may range from employees who may be new to a role or who are unclear on performance expectations to employees who are regularly not meeting performance expectations and whose performance may necessitate the beginning of a progressive discipline process regarding the performance level.

The document used to guide the process is a critical tool as it helps facilitate performance discussions, records areas of concern and ways to correct them, and serves as legal and decision-making documentation. The format of the PIP will vary by employer and should include the following components:

- Employee information.
- Relevant dates.
- Description of performance discrepancy/gap.
- Description of expected performance.
- Description of actual performance.
- Description of consequences.
- Plan of action.
- Signatures of the manager and the employee.

- Evaluation of plan of action and overall performance improvement plan.

Two dates must be included on the PIP: the date on which the PIP is initiated and the duration of the PIP. The plan should also note the dates or frequency of progress reviews during the duration of the plan—such as once a day or once a week.

The PIP should identify the specific facts about performance results or behavioral issues that describe and demonstrate the performance discrepancy. The information should be specific and factual (i.e., not hearsay, opinions, generalized or vague references).

A statement regarding expectations for sustained or consistent performance should be included to ensure that true performance improvement has been attained. This documentation may also prove helpful in protecting the employer should performance fail to meet expectations and further disciplinary action needs to be taken. If the PIP is part of a progressive discipline process that may eventually lead to termination of employment, language in the document should specify that termination is a possible consequence of failure to meet expectations and that it may occur with or without the employee's signature on the PIP. The employee should clearly understand the consequences of not meeting the goals outlined in the PIP. *See* How to Establish a Performance Improvement Plan. (www.shrm.org/ResourcesAndTools/tools-and-samples/how-to-guides/Pages/performanceimprovementplan.aspx)

Auditing and Evaluating the Performance Management Systems

As with any program, audits and evaluation of the process is critical to ensure its usefulness. Performance management measurements and key performance indicators (KPIs) provide an indication of the efficiency and effectiveness of the organization's performance management processes, the level of achievement of organizational goals and objectives, and the material risks related to performance management issues.

Per the ANSI/SHRM Performance Management Standard (/resourcesandtools/tools-and-samples/how-to-guides/documents/12-0794%20performance%20mngmt%20standard_interior_viewonlyfnl_rvsd10-4-13.pdf), the performance management system contains the following categories of evaluations: efficiency, effectiveness and risk.

An example of efficiency-related performance management measurements include such items as the percentage of employees receiving their regular performance reviews (this can be segmented into the percentage of employees in protected categories receiving scheduled performance reviews and the percentage of top performers and key employees receiving scheduled performance reviews).

Additional efficiency measurements may include:

- Percentage of managers that complete their performance reviews properly and timely.
- Cycle time (i.e., the duration of time spent by the organization on conducting performance reviews).
- Total cost of the performance management system.

Examples of effectiveness measurements include:

- Percentage of performance reviews with clear goals and effectively written performance reviews.
- Percentage of managers satisfied with the performance review process.
- Percentage of employees satisfied with the performance review process.
- Percentage of top performers and key employees satisfied with the performance review process.
- Percentage of employees who improve their performance and productivity after the performance review.
- Percentage increase in organizational performance after the performance review cycle.
- The impact of performance reviews in helping the organization defend against charges of discrimination, compensation inequity and wrongful termination.
- The impact of performance reviews on the achievement of the organization's business objectives.

Examples of risk measurements include the identification and assessment of the risks related to the organization's performance management processes, such as losses from poor customer service and lower productivity, the departure of critical talent, and increased vulnerability to discrimination.

Auditing the System

An organization's leaders may believe that their performance management system is functioning as it should. However, as with any system of business practices, employees' perceptions and experiences with it may be very different.

Accordingly, HR must continuously evaluate the system to determine if it is effective and to identify opportunities for improving it. Perception is reality when it comes to employee and managerial acceptance of a performance management process.

A good way to determine whether the system is being used consistently and administered fairly is to conduct an independent audit of the way the appraisal system affects various groups of employees. Adverse impact on a protected class raises legal concerns, but adverse impact on any group should raise equity concerns. HR must take the responsibility for monitoring the system outcomes to make certain that all employees are being treated in a consistent and fair manner.

Common Types of Performance Evaluation Systems

A number of types of performance management systems are in common use. Each system has its benefits and drawbacks.

Ranking

Ranking systems list all employees in a designated group from highest to lowest in order of performance. The primary drawback is that quantifying the differences in individual performance is difficult and may involve drawing very narrow—if not meaningless—distinctions.

Forced distribution

The ratings of employees in a particular group are disbursed along a bell curve, with the supervisor allocating a certain percentage of the ratings within the group to each performance level on the scale. The actual distribution of employee performance may not resemble a bell curve, so supervisors may be forced to include some employees at either end of the scale when they would otherwise place them somewhere in the middle.

360-degree feedback

This process collects information from the employee's supervisor, colleagues and subordinates about an individual's work-related behavior and its impact. Other names for this approach include multirater feedback, multisource feedback or group review. This form of appraisal is widely favored for employee development purposes.

See:

Assess Pros and Cons of 360-Degree Performance Appraisal (www.shrm.org/ResourcesAndTools/hr-topics/employee-relations/Pages/360DegreePerformance.aspx)

Inviting the Masses to Rate Employee Performance (www.shrm.org/resourcesandtools/hr-topics/employee-relations/pages/rateemployeeperformance.aspx)

Competency-based

This type of system focuses on performance as measured against specified competencies (as opposed to specific tasks or behaviors) that are identified for each position.

Management by objectives

Management by objectives (MBO) is a process through which goals are set collaboratively for the organization as a whole, various departments and each individual member. Employees are evaluated annually based on how well they have achieved the results specified by the goals. MBO is particularly applicable to nonroutine jobs, such as those of managers, project leaders and individual contributors. *See* How Is Management by Objectives Different from Standard Performance Appraisals? (www.shrm.org/ResourcesAndTools/tools-and-samples/hr-qa/Pages/managementbyobjectives.aspx)

Graphic rating scales

Graphic rating scale (GRS) appraisals list a number of factors, including general behaviors and characteristics (e.g., attendance, dependability, quality of work, quantity of work and relationships with people) on which a supervisor rates an employee. The rating is usually based on a scale of three to five gradations (e.g., unsatisfactory, marginal, satisfactory, highly satisfactory and outstanding). This type of system allows the rater to determine the performance of an employee along a continuum. Because of its simplicity, GRS tends to be one of the most frequently used forms of performance appraisal.

Behaviorally anchored rating scales

Behaviorally anchored rating scales (BARS) attempt to assess employee behavior rather than specific characteristics. The appraisal tool generally contains a set of specific behaviors that represent gradations of performance and are used as common reference points, called "anchors," for rating employees on various job dimensions. Developing a BARS assessment tool is time-consuming and expensive because it is based on extensive job analysis and the collection of critical incidents for each specific job.

Common Problems

Many of the problems commonly associated with performance management systems are similar to those that beset any other organizational initiative, but with potentially much greater consequences.

Lack of top management support

If senior management does not send a message to managers and supervisors that the process of rating employee performance is a valuable use of their time, they are likely either to fail to commit the time or simply to fill out the forms but not engage in the important discussions with their employees. Unless senior management actively participates in the process and takes primary responsibility for it, managers and employees will remain unsure of its value.

Perception of the process as time-consuming "busywork"

Without an organizational commitment to the process and a clear understanding of how it contributes strategically to the organization's successful performance, managers will view it as "busywork" of little value and a waste of time. *See* Taking the Dread out of Performance Reviews (www.shrm.org/resourcesandtools/hr-topics/employee-relations/pages/annual-performance-reviews-.aspx).

Failure to complete on time

One of the most common problems is the failure of managers to return the completed forms by the stated deadline, resulting in a great deal of wasted time by the HR team in follow-up.

Failure to communicate clear and specific goals and expectations

A manager's specific expectations must be clear for an employee to be able to implement an agreed-on goal. Human behavior is fundamentally goal-directed. Goals direct attention, increase persistence and motivate the development of strategies or plans to attain those goals. Clarifying and discussing the performance goals for the coming year is a valuable use of a manager's time and will help avoid miscommunication and surprises. Follow-up communications (e.g., memos by e-mail, employee bulletin board postings) can be used to reinforce specific goals and to serve as reminders to employees about their progress.