The Hard Truth about **Effective Performance Management**

Stop searching for alternatives to traditional performance management - **start executing the fundamentals that make this process successful.**

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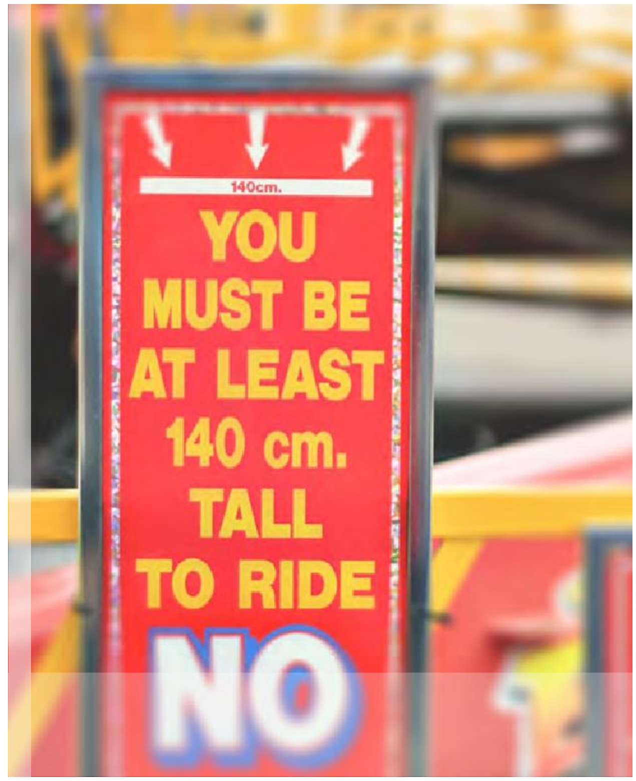

An experienced manager stops by your office and slumps into the chair across from you. "Something isn't working and I need your insights," he says with a deep sigh.

"We have a process in my group that has no clear objective, no direct link to improving business results, little quality control and that we've made difficult for our customer to use."

You nod. "Go on."

"There's also compelling evidence about how to make this process more effective and that information is free and easily available to us."

You lean forward. "OK, so how can I help?"

"Well," the manager says earnestly, "I'm struggling to understand why this process isn't working as designed and how I can fix it."

This isn't the prelude to a termination conversation, although perhaps it should be. It's effectively the conversation that happens in thousands of companies as they struggle to improve their performance management process.

HR and line leaders around the world dislike their performance management process and are convinced that a better solution exists. Spurred on by the latest book or benchmarking study, they say things like "throw out the performance review" or "only focus on development" or "eliminate ratings."

What they believe is a search for new alternatives is too often an attempt to dodge the tough realities of making performance management successful.

The Hard Truth

The hard truth about performance management is that its success – like most good things – requires challenging and sometimes unpleasant work.

When done well, the process asks managers to stretch their team's performance by setting big goals and giving regular, direct feedback. Managers naturally resist those activities since they conflict with our strong psychological desire to avoid conflict and get along well with others. It's one key reason that managers don't engage in apparently simple activities like coaching their direct reports.

In other cases, the process itself is the barrier. PM is an eye-rollingly bureaucratic and

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complex activity in far too many companies. All psychological barriers aside, simply engaging in the process at these companies is a decidedly unpleasant task.

Here's the good news: First, when done correctly, PM is the most powerful performance-driving process in your company. Setting big goals and delivering regular feedback incrementally increases individual performance – full stop. The scientific evidence is conclusive and compelling.

Second, It's possible to eliminate both the psychological and structural barriers to make the process far easier for managers to execute. The answers for how to do this are already well known and readily available.

Those answers don't eliminate the hard work from PM, but they allows you to focus that hard work on the most powerful levers of success.

The Three Big Levers

Effective PM is the result of an easy to use process, built to achieve a specific purpose, based on proven science and with clear accountability for execution. Your company will have that effective process if they complete three powerful steps:

1. Create the Foundation

It's helpful to remember that performance management has no independent right to exist. It's a solution created to solve a specific business problem. In too many companies, however, it's installed by default with either no clear goal, or every possible goal, in mind.

When we ask our clients to state the goal of their performance management process, we typically hear either nervous laughter or a list of three or four competing objectives. It should align individual's goals with the company's goals. It should develop employees. It should drive rewards. It should encourage coaching.

Similarly, when we ask about the corporate talent philosophy that should guide PM design, we hear a plethora of individual opinions or attempts to divine what the executive team might say if asked.

Without a clear goal and guiding philosophy, its highly unlikely that your PM process will deliver quality results.

Before your first discussion about revising your process, complete these two foundation-building activities:

Define Your Purpose: Ask your executive team (not HR) what should be an easy question: What problem should performance management be solving in your company?

You'll need to facilitate, cajole or force them to agree on one primary purpose. Their answer should guide how you design and operationalize PM, and what you hold leaders accountable for in the process.

Strongly resist the easy answer that the goal of PM is to "align and develop and coach and engage and reward." Each of those outcomes might be important, but a process that's intended to achieve everything will likely achieve nothing while frustrating everyone.

With the core purpose set, audit every element of your current PM process to test how well it supports that purpose. Identify every activity in the process that can't be directly linked to that goal and question why those elements shouldn't be removed.

Create your Talent Philosophy: How important is performance in your organization? At what threshold (good or bad) do you really care about

someone's behaviors? How much do you want to differentiate between average performers and high performers?

Answers to these and similar questions form your company's talent philosophy. That philosophy – established by your executives – provides the boundaries within which you should design performance management.

Each of us has a personal talent philosophy – our individual answers to the questions above. In few companies, however, has the senior team agreed on a collective talent philosophy.

Without a talent philosophy, you have no foundation on which to build performance management. You don't know how much to differentiate, how much behaviors matter, how much accountability will be placed on managers, etc.

Establishing a talent philosophy provides HR with boundaries within which to design performance management and your employees with clarity about how your company makes talent decisions. Most importantly, without one, your executives will send employees conflicting messages about the standards and consequences of performance and behaviors.

You can read more about how to design and implement a talent philosophy in our INSIGHTS article What's Your Talent Philosophy?

2. Flawlessly Execute What Matters Most

The volume and voracity of complaints about performance management would suggest that little is known about how to successfully build and execute this process.

In reality, there's abundant scientific research that answers almost every PM issue that vexes line and HR managers. When you combine this conclusive science with an OPTM[1] mindset, it becomes clear that your process should emphasize setting a few, big goals and ensuring regular coaching.

Set a few, big focused goals: Frustrations with performance management typically stem from the Year-end components – ratings distributions, links to compensation, the relative fairness of the process, etc.

If we flawlessly execute goal setting, a surprising number of those issues fade away.

- **Set bigger goals:** The scientific research is extremely clear

1 *One Page Talent Management: Eliminating Complexity, Adding Value*, by Marc Effron and Miriam Ort, Harvard Business Press, 2010

that the larger the challenge, the more effort we'll apply to achieve it.[2] If your employees' goals are not set at the maximum achievable level, you're leaving performance on the table.

An easy way to stretch goals is to simply ask what 20% higher performance would look like against last year's goals. That might require more aggressive management of their team, more creative approaches, better work prioritization or all of the above.

Bigger goals naturally shift the Year-end performance distribution downward as fewer employees exceed all or most of their goals.

- **Set four or fewer goals:** Drive higher performance by limiting the number of goals to four or fewer. This means that those goals must capture the largest, most important deliverables that person has for this performance cycle. Not only is this common sense, it's also a scientific fact.[3]

  Setting a few big focused goals isn't asking employees to do more work; it's asking them for higher results. Most employees are already stretched to capacity but their time isn't efficiently used. This approach ensures that they're giving their best in the areas that matter most.

Implement 2+2 Coaching: Your managers may already believe they're good coaches or the mention of coaching may strike fear into their hearts. Either way, there's a simple solution that guarantees consistently effective coaching conversations across your organization.

A concept we call 2+2 Coaching has proven remarkably helpful in increasing the frequency and quality of coaching. 2+2 Coaching provides just enough structure and direction for effective coaching while taking the least possible amount of managerial time.

2+2 Coaching

1. Have a conversation with each direct report each quarter
2. Duration of about 15 minutes
3. Make two comments on progress against their current goals
4. Make two comments about what to do more of/less of in the future

In 2+2 Coaching, each manager is responsible to have a 15minute conversation with each direct report every quarter. In that conversation the manager must make two comments about the employee's progress against their goals and make two suggestions for what the employee should do more of or less of in the future. That's it – 2+2.

Even if a manager has 20 direct reports, you're only asking that she coach five hours a quarter. If a manager won't do that, it's time for an altogether different discussion.

You can watch a short video on 2+2 Coaching here.

3. Establish Broad Accountability

You can encourage execution by making the process easy to execute, but you'll need to add accountability to guarantee success. By spreading accountability across managers, employees and HR, you can leverage the entire organization to make PM effective.

Four powerful ways to drive accountability in this process are:

Calibrate goals: Year-end rating calibration is far more challenging if the goals themselves weren't calibrated when the process began. The purpose of goal calibration is to ensure that goals are set at a relatively consistent level of challenge within a group.

Goal calibration sessions should be a fast and easy way to share goals among those in a similar

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2 Edwin Locke and Gary Latham, *A Theory of Goal Setting and Task Performance* (Englewood Cliffs, NJ: Prentice Hall, 1990)

3 Lisa Ordoñez, Maurice Scheitzer, Adam Galinsky, and Max Bazerman, "Goals Gone Wild: TheSystematic Side Effects of Overprescribing Goal Setting," *Academy of Management Perspectives* 23, no. 1 (February 2009): 6–16.

department (i.e., all Operations employees at a specific level).

In a regularly scheduled meeting during goal setting season, set aside five minutes per person for a fast recitation of their goals and metrics. Limit each person to one sheet of paper with one sentence per goal.

Peers should be listening for areas of overlap or areas where they need to coordinate. The manager should be listening for any meaningful differences in the challenge level or value add of the various goals.

Either in the meeting or after it, the manager should follow up to adjust goals to an even level of challenge across their group.

HR Audits Goals: It's a task almost universally hated by HR generalists that also happens to be one of the most valuable activities they can perform. No matter how much training or support you give managers around goal setting, they aren't going to improve without feedback on their performance.

HR should audit at least 20% of the goals at each organization level. They should assess for goal quality, measurability and stretch. They should provide feedback to every manager whose goals are audited, with specific advice for managers who need improvement.

This requires, of course, that the HR leader understand their group's business well enough to intelligently comment on the goals.

It would be wonderful if training and "how to" guides alone could make managers effective at this task. They can't. If you're serious about having great individual goals, audit.

It would be wonderful if training and "how to" guides alone could make managers effective at setting goals. They can't. If you're serious about having great individual goals, audit them.

Use cultural accountability: It's easier to dodge a difficult task if only you and your manager know about it. It's far more difficult when the entire company is looking at you.

At the beginning of the goal setting process and before the 2+2 rounds, your CEO should send a brief message to everyone who participates in the process. That message should include:

- A short overview of the upcoming process
- A description of managers' responsibilities in the process and due dates
- Clarity on employees' options if their manager doesn't execute the process.

This action creates empowered employees and tremendous cultural accountability for managers to complete the process. Managers are driven by the strong cultural expectations set and ultimately by the fear of embarrassment before their peers and direct reports if they don't follow through.

Conduct the One Question Survey: Tracking whether data was entered into an HRIS is a grossly incomplete measure of PM execution. A far simpler, more accurate and more powerful metric is the One Question Survey.

The One Question Survey assesses employees' views about whether a process was completed. It works hand-in-hand with the cultural accountability described above, since it requires employees to understand their manager's accountability in the process.

A One Question Survey example for 2+2 coaching is: “Did your manager have a 2+2 conversation with you this quarter?” with the only answer choices being Yes or No. You don’t need to worry about assessing quality since 2+2 conversations add value if executed.

You can deliver the One Question Survey on a tool as basic as Survey Monkey or on your HRIS system (if and only if it would take less than two minutes for the entire process). If surveying every employee feels like too much, survey ¼ of your employees each quarter.

What about Technology?

You may notice that we didn’t mention technology as a powerful force to improve performance management. In theory, HR technology should help enable this process. In reality, many companies find that their HR technology adds extra steps and unnecessary work flow while adding no additional value.

There’s no better way to undermine a simple process than by asking managers to spend five minutes navigating to the starting point in your HR system.

Going forward

A Fortune 250 CEO recently told me that his company’s performance management process was costing them $50M to $100M a year in wasted effort. His suggestion – “blow it up.”

That’s an understandable reaction but far from necessary. Great performance management means flawlessly executing the few most powerful activities that actually increase performance.

It’s smart to investigate ideas that could drive higher performance in your company. But do that only after implementing the simple processes and clear accountability that are the proven heart of effective performance management.

Performance Management Mini-Audit

How do your company’s practices compare to those that drive effective performance management?

If you can’t answer “yes” to the questions below, focus your attention on these activities before looking for alternative approaches to performance management.

NOTE: *Yes means yes*. “Working on it,” “In our plans,” “Almost there,” and similar responses indicate effort but not results. Keep up the good work but wait until you have results to give yourself credit.

Action	Yes	No
Create The Foundation We have a clearly defined goal for performance management and a process optimized to achieve it		
Flawlessly Execute What Matters Most Individual employees’ goals are set to the maximum achievable stretch		
Establish Broad Accountability We audit at least 20% of the goals set and provide feedback to our managers about goal quality		

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