

CAHRS Working Group—Performance Management

April 13, 2016 — Foster City, CA

Overview

The meeting focused on topics related to challenges, best practices and new directions in performance management (PM). The meeting began with introductions and identification of topics of interest to the group.

Key topics that were identified included:

- issues or concerns that are leading companies to change their performance management system and practices,
- key capabilities for managers/leaders to drive better performance discussions,
- key capabilities for employees to drive better performance discussions,
- how to effectively balance the competing demands on performance management tools (e.g., connection to pay, succession, development),
- how to effectively collect performance data from sources other than an employee's manager,
- impact of performance management system on engaging Millennial employees,
- how to effectively use tools tied to corporate Human Resource Information System (HRIS),
- how to effectively drive change in the performance management system, and
- how to measure the impact of changes to the performance management system.

While the discussion touched on most of these topics in some way, the bulk of the conversation was focused on the topics below to which we provide a bit more detailed description of the discussion.

What Wasn't Working That Led You to Change or Want to Change Your Performance Management System?

Not surprisingly given the diversity of companies in the room, participants identified a wide range of reasons for the change. Our discussion around these reasons also suggested that the reason for the change has a strong influence on the direction of the change. In other words, the underlying philosophy or strategic reason for the change seemed to shape the aspects of the performance management system that were the target for change and the ways in which they were modified. The underlying purpose for the change also seemed to shape the process for how companies pursued the change. Several examples include:

1. **Responding to employee complaints and concerns.** A number of companies identified that the changes they are rolling out to their performance management system were driven by overwhelming employee feedback that the most disliked HR practice within the organization was performance management and ratings systems. Across these organizations the most frequent employee complaints included the timing, frequency, and quality of performance discussions with their manager, dislike of the labels in ratings scales, and concerns that ratings didn't accurately match their individual contribution. While not universal, companies that fell in this category seemed to follow a process that included employee involvement early in the identification of key design changes and may have continued to use this employee group as change agents during the rollout phase of the new system. Companies that fell into this category also seemed more likely to be engaged in a full-scale redesign of the system rather than

On April 13, 2016, CAHRS Professors Chris Collins and Brad Bell from Cornell University facilitated a Performance Management Working Group (WG), hosted by Visa in Foster City, CA. The WG was attended by 23 individuals from 14 CAHRS partner and guest companies. These included Amgen, Aon Hewitt, Apple, E&J Gallo Winery, General Electric, Google, The Hershey Co., Hewlett Packard Enterprises, HP Inc., Mastercard, McKesson, Microsoft, TIAA, Visa, and the Cornell ILR School.

incremental change.

2. **Key driver of company culture.** Other participants noted that their organization saw performance management as a key driver of the organization's culture and that changes to the performance management system were being put in place to drive new behaviors among employees and managers. Changes for these companies may include the aspects of work that are included in performance discussions (e.g., include the "how" with performance, increase the frequency of conversations to create a culture of coaching, create a greater sense of accountability, broaden discussions to focus on new behaviors). These companies frequently noted that performance management is one of the most important drivers of cultural change in the organization and has an important influence on how employees experience the organization. Some companies within this category noted that the cultural shift may be connected to strategy or market changes that require new behaviors from employees.
3. **Process not motivating people.** A few other companies noted that they made changes or were working toward changes because they believed that their current system was not effectively motivating and inspiring employees to do their best. Among these companies, there was a sense that the process does not value the people; only the company. Some noted that the issues may be tied to ratings systems that inherently tell most of their employees that they are average, create competition among employees in an unhealthy way, or simply are not providing employees with the quality and frequency of feedback required to provide better guidance and motivation for performing at their best. While these organizations may have included some degree of employee involvement in the change process, they seemed to stray more toward a process of centralized design by topic experts. As with the first category of companies, these companies tended to stray toward a complete overhaul of the performance management system rather than incremental changes.
4. **All of the above.** For some of the participants, each of the three above topics resonated as key reasons for the change and seemed to be also focused on a full review/evaluation and complete overhaul of the performance management system.

Connection of PM to Other Parts of the HR System

The best analogy we heard throughout the day was comparing performance management to a Swiss Army knife, noting that the performance management process and its outcomes impact pay and bonus decisions, development plans, succession and HR planning, learning and leadership development, overall employee engagement, etc. It was clear that although being able to use performance management to help fairly guide pay decisions is critical, this connection shouldn't trump the need to design performance management in a way that effectively filters information to other parts of the HR system. Indeed, multiple participants noted that they have started to decouple performance management tools and discussions from pay decisions and conversations in order to more effectively drive other outcomes tied to performance management, including discussions about development, performance challenges and barriers, growth opportunities and careers, etc. These companies noted changes such as dropping ratings and putting pay decisions in the hands of managers without forcing distribution based on rating scales, increasing the number of performance conversations, intentionally directing the topic of performance discussions that happen at different points during the year, and providing managers more guidance on performance discussions. Other companies in the room were focusing on how to ensure connection to compensation while ensuring a strong connection to growth and development, careers, progression, opportunities, etc.

Capabilities of Leaders—Coaching/Conversation/Discussions

Almost across the board, participants in the room noted that they were looking to increase the positive impact of performance management by enhancing the role of managers in the process. Most of these companies noted that they were pushing for managers to have more frequent conversations, higher quality conversations, more courageous conversations regarding performance issues, and more developmentally oriented performance discussions. No matter if companies are trying to drive one or all of these enhancements, all of the participants noted that this will impact the required managerial capabilities. Key capabilities, behaviors, and actions include:

- Courage to have difficult performance conversation with employees
- Ability to set clear goals and objectives, assess against goals and objectives, and provide feedback on progress against goals
- Coaching orientation in which the manager needs to increase employee participation and ownership in goal setting, identification of barriers and performance challenges, and identification of go-forward plans to improve performance or take on new challenges. Basically, the move towards a coaching approach requires less manager-led direction and more co-creation and discussion between managers and their reports.
- Strategies and methods for delivering constructive feedback. Multiple participants noted that they are looking to help managers here by providing them simple frameworks for discussions – where are we, where do we want to be, and how do we get there?
- The push to make systems more agile and a fit to individual employee needs also requires managers to determine the frequency that they need to have conversations with each of their direct reports as this may change based on newness to role, change in project or role scope, and prior experience.
- For companies increasing the frequency of conversations and/or decoupling from pay, it is also important to help managers understand what they should be covering with employees during these performance discussions. Many companies were addressing this issue by providing managers messages from HR on specific points that they should be talking to their employees about at specific points in time throughout the year. Similarly a number of companies were providing managers tools/guides to support specific conversations.

Capabilities of Employees

While changes to the performance management system impact managers, it also impacts the capabilities, behaviors, and actions required of employees as well.

- Create expectations among employees that they need to seek out feedback and engage their managers in conversations around performance.
- Encourage and help them to understand how to have performance conversation with a broader range of key constituencies.
- Help employees understand how to effectively set their own goals and provide them a line of sight to connect these goals to higher-level organizational priorities.
- Increase willingness to seek out insights and feedback from peers and other key constituencies (e.g., internal and external customers).
- Increase capabilities to provide feedback to others in the organization including peers, internal customers, and managers.

How to Measure Success of Change in PM

As companies roll out changes to their performance management system, it is important to assess the impact of these changes. In our discussion of measurement, it is clear that companies can leverage both quantitative data (actual changes in performance, survey data) and qualitative or anecdotal evidence (comments and feedback). Overall it is important to track both the directionality of change (e.g., are employees more positive, are more quality conversations occurring) and impact of change (e.g., increased engagement, greater frequency of behaviors or desired outcomes). Our discussion also suggested that measurement of change and impact could be both assessed at the company-level or could be assessed at individual manager level of analysis.

At company or unit level: Add a component to the annual survey to assess managers on performance conversations (for all managers with more than three direct reports). This survey data can be useful to assess whether the changes have led managers to have conversations, deliver constructive feedback, etc. Survey data and focus groups can also be used to measure changes in employee perceptions of the performance-management process, as can more spontaneous feedback (e.g., emails and conversations) provided by employees. Finally, changes in performance management can be tied to performance gains or behavioral changes across the organization. A few companies have run pilot studies across different units to better isolate the effects of changes (e.g., ratings vs. no ratings) in the performance management process.

At the individual manager level: Employee survey feedback can be used to help a manager understand his/her reputation as a leader and whether he/she has helped others achieve their goals, develop, etc. Many companies not only provide managers with their individual results but also average scores so they can see how they compare to their peers.

This Summary Report was prepared by Chris Collins and Brad Bell for use by participants of the Performance Management Working Group.

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