

# WhitePaper:

## Creating a Better Performance Management System

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## Introduction

Managing performance is one of the more difficult and complex activities within organizations. It is also one of the most important activities to undertake. The potential impact of the performance management process cannot be underestimated. The right performance management system will nourish and unleash human potential, while an inadequate one will have a negative effect on productivity.

Good performance management cannot be reduced to a “magical form,” but instead is a **process** that provides feedback, accountability, and documentation for performance outcomes. It also helps employees to channel their talents toward organizational goals. Investing the right amount of time, effort, and resources in performance management can yield untold returns.

## Getting Started

The impetus for creating a better performance management system is the recognition that the current system or process has not met organizational objectives. Human resource professionals should start the process by reviewing current practice to ask key questions, the answers to which will determine how to proceed in developing a system that works for the organization. The next step is to involve the entire organization in the transformation. The third is to design a solution that specifically meets the needs of the organization at this point and time. The final step is to remove barriers to effective performance management, or put another way, ‘make it easy’ to use. Therefore, the steps to create a better performance management system are as follows:

1. Review current practice
2. Engage the entire organization
3. Design a tailored solution
4. Eliminate barriers to participation

## Review Current Practice

### Key Considerations:

- Interview key constituents
- Critique current practice
- Define business objectives

Before implementing any new performance management system, HR professionals should determine the goals of the new system. Most often the primary objective is productivity improvement. At minimum, the system must help supervisors better manage the contributions of individual employees. Yet, oftentimes there are other organizational ends that can be addressed in such systems like guiding the growth and professional development of employees, establishing core competencies across departments, or providing a framework for future succession planning efforts. Effective performance management systems provide useful tools to help manage the people enterprise in a number of ways.

The review process is nothing short of the traditional gap analysis. What is the current state of performance in our organization? How well is our current performance management system regarded? How and where does current practice fall short of our expectations? Therefore, what intervention should we consider to meet our objectives? A system better aligned with organizational needs can elevate the collective performance across an organization.

The review process involves gathering and analyzing information from a variety of sources: senior leadership, managers, employees, and HR professionals. It also involves a thorough critique of the current system, being careful to identify the advantages and disadvantages of using it and where past practice was less than desirable. Before introducing a new way of doing business, the business objectives that will be met using the new system must be defined. Implementing a better performance management process can save employees and managers considerable time and effort, but it is a major change management evolution. So clearly defined business objectives, such as improved productivity or reduced labor costs, must be linked to the process in order to create the business imperative to move the organization forward.

### Engage The Entire Organization (The Village)

#### Key Considerations:

- Senior Leader Commitment
- HR Leadership
- Supervisor Engagement
- Employee Involvement

In addition to having the support of senior leadership, the entire organization must be engaged in the performance management process for it to succeed. There is an old African proverb that states, **it takes a village to raise a child**. The same idea can be adapted for the performance management process; **it takes an entire organization to manage individual performance**. The culture of an organization affects how performance is managed. For example, in some organizations overtime is an exception and in another it is an expectation. In some organizations cutting corners is acceptable—in others going the extra step to exceed customer needs is the standard operating procedure. Simply defined, culture is “the way we do business around here;” or the personality of the organization. Therefore, engaging the entire organization is necessary in the performance management process.

Human resource professionals demonstrate their strategic value to their organizations by linking HR programs to business objectives. An important way to affect the bottom line is to be a champion of high performance. Good HR leaders who have their fingers on the pulse of their organizations will intuitively know what areas of performance must be addressed, and they will be sure to incorporate these leverage points into the performance management process. A good example of HR's insight into productivity is including goal management as a part of system design when an organization has many objective and time specific work processes.

Even the best performance management system will not work if supervisors do not use the system. Supervisors must be held accountable for their participation in the performance management process. One way to gain their support is to get them involved in designing the system they will eventually use. HR leaders will also ensure managers are 1) trained on basic supervision skills, 2) trained in coaching and giving performance feedback, and finally 3) trained to use the performance management system once designed. The solution must be designed with supervisors in mind as they are the primary customers of any management system.

In the 21st century, the most valuable currency is knowledge capital. Employees are smart enough to know what they need to do, so the role of supervisor is best defined as that of a coach. Managers are best positioned to help these capable workers perform at their peak. A performance management process would not be complete without some sort of self-assessment process. A best practice method of harnessing human potential is to involve employees in the design of the performance management process. After all, they know what it takes to produce good performance and will have great ideas about how to construct a system that would help to manage and regulate it.

A final component in engaging the entire village into the process of managing performance is the use of multi-rater feedback. In this process, peers, subordinates, customers and others provide feedback and information that is useful for describing performance in its full context. This 360-degree view ensures that all performance parameters are known, providing the manager with insights and information that he or she may not have gained first-hand. When everyone is involved it creates an environment and culture that support performance and drive up productivity.

### Design A Tailored Solution

#### Key Considerations:

- Tailor a solution to organization-specific factors
- Link system to strategic goals
- Consider alternative strategies

There are dozens of performance management systems and literally thousands of different performance appraisal forms used by organizations all over the world. What works in one company will not necessarily work in another. Therefore, the best solution is one that meets your organizational objectives and fits with your culture.

The business goals defined in the review process noted above will help determine whether competencies or traits will be tracked or whether a second level review is necessary in your performance management process. The 'magic' in performance management is not in the form, but in the process. Ensure your process is designed with your managers, employees and culture in mind. Additionally, the process should help managers and employees interact better. In the end, there must be a certain degree of performance feedback given and received for performance to improve.

When tailoring a solution for your organization, you should also consider alternative performance management approaches. Instead of the typical two page form with 7-10 performance dimensions on a Likert scale ranging from below average to outstanding, consider a system that is individualized and that links performance goals to each incumbent's job description. Some organizations use systems that are built solely around goal management and others use coaching and individual development plan models. Either way, HR managers must create systems with their organization's nuances in mind.

## Eliminate Barriers to Participation

### Key Considerations:

- Keep it Simple
- Make it Easy
- Remove obstacles

One of the major obstacles to good performance management is the time it takes to properly supervise, manage, and document performance. The difficulty is usually a product of the necessity to give frequent, qualitative feedback, the complexity of the process, and the length of the forms being used. Organizations are cautioned not to create systems that attempt to do too much or require employees and managers to complete dozens of pages each review period. A process with long forms that are too difficult to navigate is unlikely to be used effectively or often.

There is no substitute for good supervision and timely feedback. Supervisors should be encouraged to give feedback and track performance in real time, over time. Using performance journals is valuable and indispensable. The information gathered can then be used as the basis for making a number of decisions about performance. Journals also facilitate the integration of supervision and performance management activities, thereby simplifying the overall performance management process.

Just as the 21st century has caused us to look at management differently, it also challenges us to use technology effectively to simplify our lives. Managers and employees should only do tasks that add value. Regardless of the performance management process used, it would only make sense to automate the process to reduce routine administrative tasks. Current performance management software systems eliminate some of the paperwork necessary and help managers focus on giving feedback, holding employees accountable, and documenting performance.

A final advantage of using technology is that automation can also become a catalyst for organizational change. Current performance management software systems unknowingly coax managers and employees into using expert models of managing performance. State-of-the-art processes are built into these systems, thereby eliminating the need for organizations to reinvent the wheel. Software can make designing performance management instruments easy, provide useful tools for writing narratives, create workflow tools that streamline efforts, provide reminders that ensure the process is followed in a timely fashion, and produce reports to enhance accountability. Technology makes performance management easier.

## A Better Way

The performance management process is one of the most important systems in any organization. It is the mechanism by which performance is tracked, regulated, and managed. It is a wise investment of time, effort, and resources to design a system that will have a daily effect on productivity. Designing a successful process can be achieved by following certain key steps. Identifying the goals of the performance management system, linking the process to key business objectives, involving key constituents, tailoring a solution to your company, and making a system easy to use are all necessary ingredients for success. After all, a system that does not address key business objectives, that is not linked to business outcomes, or that is difficult to use will not have the intended effect—better performance outcomes.

## Ingredients for Success

Is your current performance management system supported by senior leaders and the managers who use it? Are ratings based upon memories or a repository of data collected over the year? Is your system past oriented or focused upon future goal completion? Do managers complain about complicated forms? As you begin to answer these questions, you will uncover the ideas necessary to design a better performance management system. Given all of the above considerations, here is a final checklist of items that can be useful as you review and improve your current system.

**Commitment** – Ensure that your performance management system's goals are clear, that they meet important business objectives, and they are supported by senior management.

**Involvement** - Engage your entire organization in managing performance and improving productivity. A good amount of involvement can be designed into the System by using these helpful tools:

- 1) Performance Journals – Individuals and their managers track performance.
- 2) Self-assessment – Require employees to use this best practice employee involvement process.
- 3) Multi-rater feedback – Harness the observations of peers, coworkers, and customers to provide a complete picture of performance.
- 4) Second Level Supervisory Review – Get the leaders involved and hold managers accountable at the same time for on-time, accurate, and thorough reviews.
- 5) HR – HR leads the way and also becomes the final step in the quality assurance process by defining, implementing, and monitoring the performance management process.

**Performance Feedback** - If ever there was a silver bullet for successful performance management, it is frequent feedback. Managers should periodically meet with employees to discuss three major issues:

- 1) What is going well with the aim to recognize it, reinforce it, and replicate it!
- 2) What is not going well so that it can be stopped before it is repeated or it mushrooms into larger issues.
- 3) What are possible areas for improvement?

The feedback shared during the year can be documented in performance journals which provide content for annual performance conversations.

**Goal Management** – Individual performance should be integrated with departmental and organizational goals to ensure that efforts are channeled in the right direction. During each performance conversation, the individual and their manager track and discuss the progress being made toward completing goals.

**Technology** – Using technology can have a multiplicative affect on an organization's ability to manage performance. When used properly, technology helps managers and employees track, regulate, and manage performance better, smarter, and faster.

With a commitment to improve your system and with your organization in mind, using the right elements in the performance management process virtually ensures that the process will be a success.

## The Bottom Line

The indispensable focus of the future for Human Resource Managers is to make contributions to their organizations' bottom line. Human Resource Managers are poised to have a significant strategic impact when they champion high performance and provide their organizations with a tool that drives it. A good performance management system improves productivity, and increased productivity leads to increased profits.

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## About Halogen Software

With nearly 1000 customers worldwide, Halogen Software Inc. has established itself as the leading provider of employee performance and talent management solutions. Halogen offers powerful, easy-to-use, and affordable Web-based software that dramatically improves HR and line-manager productivity.

The company's award winning suite provides organizations with everything they need to develop and retain a high performance workforce: Halogen eAppraisal™, makes it quick and simple to deliver professional employee appraisals that align with organization goals and help drive bottom line success. Halogen eCompensation™ automates the entire compensation adjustment process including budget distribution and approval. Halogen eSuccession™ makes it simple and affordable to get a best practices succession planning program underway - right away. And Halogen e360™ automates and simplifies formal 360-degree feedback procedures and offers sophisticated performance reporting.

Industry specific suites are provided for Healthcare and Financial Services. Halogen eAppraisal Healthcare™, exclusively endorsed by the American Hospital Association, helps healthcare organizations produce meaningful appraisals on time and allows them to always be in a "ready state" for accreditation surveyors from JCAHO®, OSHA, ACHA, and others. Halogen eAppraisal for Financial Services™ helps financial services organizations reduce the risk of non-compliance and ships with a comprehensive library of industry specific competencies and authoring aids.

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