

For Immediate Release

The Truth about Performance Management: Four Insights on Making *Your* System Work

A new study by OnPoint Consulting reveals that managers and HR professionals alike are disenchanted with their performance management systems—and suggests some guidelines for changing this reality.

New York, NY (April 2007)—Joe the Manager is pondering his to-do list and feeling a bit overwhelmed. *Let's see*, he thinks, *this quarter's sales numbers must be presented to the CEO. I have to meet with marketing about the new ad campaign. I have to prepare for that outsourcing feasibility meeting, and what else? Oh yes, that's right: I need to complete performance evaluations for my direct reports and submit them to HR.* Joe realizes that he has been putting off scheduling meetings with his direct reports, but there are so many other more important issues that require his attention. Joe decides he'll fill in a sentence or two, check off some ratings, then ask each direct report to look over the forms and sign them. This will save time and enable him to send the completed forms to HR reasonably close to deadline.

If you can relate to the above scenario, you're not alone. Many professionals see performance management as a dreaded chore that yields little obvious payoff. In fact, a recent survey done by OnPoint Consulting involving 115 HR professionals and 441 line managers found that more than half of the respondents have a negative view of their companies' performance management systems.

“We found that only 44 percent of the line managers and 45 percent of the HR professionals believe their companies' current performance management systems deliver value to the business,” says Jennifer Forgie, managing partner at OnPoint. “Furthermore, only 43 percent of line managers and a surprising 46 percent of HR professionals believe the time spent on their performance management systems is worth the investment. And only a paltry 30 percent of respondents say their systems achieve their intended objective to a ‘great’ or ‘very great’ extent.”

All this dissatisfaction drives many organizations to tinker endlessly with the details of their performance management systems: revising the rating scales, moving from paper-based to software-enabled, adding or revising competencies, and so forth. In fact, 60 percent of study

participants report that their performance management systems have been changed *in at least one way in the past three years*.

But these changes don't necessarily translate to success: "Only 24 percent of respondents believe that reported changes actually improved their organizations' performance management systems," Forgie relates. "Furthermore, more than half of the respondents with the *worst* performance systems report they have made changes to their systems in the past three years."

So what *is* the answer? If you're dissatisfied with your performance management system, what else *can* you do but change to a new one? While OnPoint's survey doesn't yield any one-size-fits-all solutions—probably because such solutions don't exist—it does suggest some helpful insights:

- **Resist the temptation to keep tinkering with the evaluation process. Almost any system will work if you get managers committed to using it.** As mentioned earlier, organizations like to fiddle with performance evaluations by, say, changing from a four-point rating scale to a seven-point one, shortening the evaluation form, or by ditching their old paper-based system for a more high-tech computerized one. But these organizations are missing the forest for the trees, says Forgie. They don't seem to notice there's a serious disconnect between improvement efforts, success factors, and obstacles.

She points out: "The system components that people seem to change most frequently do not directly address the primary obstacles we discovered in our survey: lack of clarity between pay and performance, inconsistent application of the system, lack of commitment to developing people, and lack of managerial skills. Generally, it's a user problem, *not* a system problem. Pick a system, commit to it, and make sure everyone is on the same page."

- **Ensure that your performance management system has the six critical factors that impart fairness, accuracy, and value to the business.** Seventy-five percent of OnPoint's survey respondents say they do believe it's possible to develop a system that fairly and accurately measures employee contributions to business results (though only 40 percent believe their current systems fit that description). Three factors tend to earn a system the "fairness & accuracy label":

1. The system helps employees build their skills and competencies.
2. The system is applied consistently across the company (e.g., managers set goals with employees, there is a shared picture of the criteria used to evaluate performance, etc.).
3. The rating scale enables managers to accurately differentiate levels of performance during the annual reviews.

There are three additional factors that not only impact the perception of fairness and accuracy but also impact the perception of overall business value, leading employees to believe the system is worth the time invested:

4. It helps to build a high-performance culture.

5. It provides useful data that is used for succession planning.
6. It provides useful data that drives leadership development initiatives.

“Basically, people know what a good system looks like, but most don’t believe these six criteria are in place in *their* systems,” adds Forgie. “We found that 45 percent or fewer respondents rated these factors favorably.”

• **Train managers in all four elements of performance management: goal setting, coaching, development planning, and performance evaluation.** “Manager skill in these four areas is absolutely essential for the success of any performance management system,” says Forgie. “Without these fundamental skills in place, no form, rating scale, or technology will make the system work.

“Organizations seem to recognize the importance of skill training, but the focus appears to be on the annual evaluation meeting,” she notes. The majority of companies in OnPoint’s study, 62 percent, provide managers with training to conduct effective performance evaluations. Yet fewer organizations—only 53 percent—provide the skill training related to setting goals and coaching and feedback. “This appears to be at the core of the problem,” says Forgie. “If you don’t have clear, measurable goals in place and provide ongoing coaching and feedback, it’s almost impossible to have an end-of-the-year appraisal that employees see as fair and accurate, no matter how well the manager conducts the meeting.”

In addition, the study found that only 46 percent of companies surveyed provide training in development planning.

“This is surprising,” says Forgie, “because we know that solid development planning has a positive effect on retention. We found that in 2006 voluntary turnover was much lower in the companies with the best performance management systems. Twenty-six percent of the companies with the best performance management systems experienced turnover of less than 5 percent, compared with only 9 percent of the companies with the worst performance management systems.”

It appears that the skills many companies neglect get to the heart of good management itself. “When companies ensure that managers can do these things well,” says Forgie, “it becomes easier to identify and recognize top performers and help those who aren’t achieving expectations improve their performance.”

• **Hold periodic review meetings with employees.** OnPoint found that the best performance management systems either require, or encourage, quarterly or periodic review meetings—not including the annual performance evaluation. Given the importance of ongoing feedback and coaching, Forgie says she is surprised that 42 percent of respondents in the study report that periodic reviews are *not* a formalized part of their performance management systems.

“By setting the expectation that periodic performance ‘check-in’ meetings are a standard component of their systems, managers provide more effective coaching and feedback,” she says. “In those companies where periodic meetings are not a formal part of their systems, only 43 percent provide positive ratings on the statement ‘managers provide effective coaching and

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feedback,’ compared to 71 percent where they are required, and 62 percent where they are encouraged. In addition, we found that requiring managers to conduct regular ‘check-ins’ ties directly to higher positive ratings for ‘the system helps employees build their skills and competencies’—one of the key factors that impacts the perception that a system is fair, accurate, and delivers value to the business.”

Here’s the bottom line, says Forgie: You must help your leaders understand the purpose of your system and why it’s an important part of their jobs. Ultimately, until they understand why performance management matters, they’ll act like our hypothetical Joe the Manager—treating it as busy work they must get through in order to move on to their real jobs.

“When your managers understand how performance management is linked to your company’s larger goals—how it drives the business and adds value to the company—they’ll quit seeing it as an administrative task,” says Forgie. “That buy-in is everything. Get it and you’ll see a whole new attitude toward performance management . . . which can transform the entire culture of your company.”

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About OnPoint Consulting:

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OnPoint combines practical, research-based tools and models, state-of-the-art business simulations, action learning, and in-depth experience across industries to deliver high-quality and high-impact leadership and organizational development initiatives. OnPoint’s solutions are designed to reflect each client’s organizational culture and business environment.

OnPoint’s individual and organizational assessments provide practical, actionable data to help drive execution and enhance organizational performance. The firm provides value-added analysis and interpretation, along with customized approaches to help its clients translate issues into action.

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