Current Issues and Emerging Practices in Performance Management

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Ed Lawler
Mike McDermott

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Dr. George Benson
CEO Affiliated Research Scientist
University of Texas, Arlington

Some of George’s focuses

• Training and development
• Human capital management
• Employee involvement
• Performance
Some of Ed’s focuses

- HR management
- Compensation
- Organization development
- Board effectiveness
- Talent

Recent books include

Management Reset: Organizing for Sustainable Effectiveness (2011);
Talent: Making People Your Competitive Advantage (2008) and the forthcoming
Dr. Michael T. McDermott
Principal
McDermott Sitzman & Associates, P.C

Some of Mike’s focuses

• Organizational effectiveness and talent development
• Strategic workforce management issues, corporate culture, and leadership development
• Works with Boards of Directors to improve their functioning and governance effectiveness
• Custom research on workforce dynamics and employee engagement
• Adjunct Professor in Executive Leadership Program at the McDonough School of Business at Georgetown University and Professorial Lecturer in the Graduate School of Education and Human Development at The George Washington University
Current Issues

• 100 Survey Responses
  – Changes 2002 - 2012

Emerging Practices

• 12 Companies
Emerging Practices
The State of the Art?

- Web-based custom systems – fully integrated

- Mix of business performance and behavioral goals
  - The “what” and the “how”
  - Performance goals tied to organization
  - Behavioral goals tied to competency models

- Fully integrated with talent management, development and compensation systems
The State of the Art?

• Calibration
  – Within the evaluation
  – Across managers and departments

• Tied to performance
  – Performance ratings correlated with employee surveys
  – Performance ratings correlated with unit outcomes
  – Performance ratings correlated with variable compensation
## Performance Management Effectiveness and Tie between Appraisal and Salary Increases

<table>
<thead>
<tr>
<th>Effectiveness</th>
<th>Extent of tie between appraisal results and salary increases$^1$</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No to Moderate Extent</td>
</tr>
<tr>
<td></td>
<td>N=32</td>
</tr>
<tr>
<td>Performance management effectiveness (Scale Score)$^2$</td>
<td>Mean</td>
</tr>
<tr>
<td></td>
<td>3.86</td>
</tr>
<tr>
<td>Overall performance management effectiveness$^3$</td>
<td>4.16</td>
</tr>
<tr>
<td>HR function performance$^4$</td>
<td>3.22</td>
</tr>
<tr>
<td>Organization’s performance$^4$</td>
<td>3.56</td>
</tr>
</tbody>
</table>

Note: * Significantly different at p<0.05 in the two-sided test of equality for column means.

1. Response scale: 1=no, 2=some, 3=moderate, 4=great, 5=very great.
2. Response scale: 1=not effective at all to 7 =very effective. Mean of all Effectiveness items. A factor analysis of the sixteen items failed to produce a meaningful factor structure as the outcomes were so highly correlated.
3. Response scale: 1=no not effective at all to 7 =very effective.
4. Response scale: 1=much below average, 2=somewhat below average, 3=about average, 4=somewhat above average, 5=much above average.
## Use of Goals

<table>
<thead>
<tr>
<th>Performance Management System</th>
<th>Mean(^1)</th>
<th>Correlation Coefficient</th>
<th>(r) (Overall Performance Management Effectiveness(^2))</th>
<th>(r) (Your Organization's HR function performance(^3))</th>
<th>(r) (Your Organization's performance(^3))</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preset performance goals for individuals</td>
<td>2.82</td>
<td></td>
<td>.187</td>
<td>.086</td>
<td>.096</td>
</tr>
<tr>
<td>Jointly set performance goals for individuals</td>
<td>3.72</td>
<td></td>
<td>.353***</td>
<td>.219*</td>
<td>.158</td>
</tr>
<tr>
<td>Performance goals that are driven by business strategy</td>
<td>3.89</td>
<td></td>
<td>.423***</td>
<td>.395***</td>
<td>.341***</td>
</tr>
</tbody>
</table>

Correlation is significant at the 0.001 level (2-tailed)
Correlation is significant at the 0.01 level (2-tailed)
Correlation is significant at the 0.05 level (2-tailed)

\(^1\) Response scale: 1=no, 2=some, 3=moderate, 4=great, 5=very great.
\(^2\) Response scale: 1=not effective at all to 7=very effective.
\(^3\) Response scale: 1=much below average, 2=somewhat below average, 3=about average, 4=somewhat above average, 5=much above average.
## Employee Development

<table>
<thead>
<tr>
<th>Performance Management System</th>
<th>Mean(^1)</th>
<th>Correlation Coefficient</th>
<th>Correlation Coefficient</th>
<th>Correlation Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Overall Performance Management Effectiveness(^2)</td>
<td>Your Organization's HR function performance(^3)</td>
<td>Your Organization's performance(^3)</td>
</tr>
<tr>
<td>Development planning</td>
<td>3.36</td>
<td>.382***</td>
<td>.387***</td>
<td>.076</td>
</tr>
<tr>
<td>Competencies</td>
<td>3.51</td>
<td>.393***</td>
<td>.219*</td>
<td>.128</td>
</tr>
<tr>
<td>Competency models that are based on business strategy</td>
<td>3.05</td>
<td>.398***</td>
<td>.278**</td>
<td>.339***</td>
</tr>
<tr>
<td>Discussion of development held separately from appraisal</td>
<td>3.08</td>
<td>.369***</td>
<td>.189</td>
<td>.049</td>
</tr>
<tr>
<td>Measures of how individuals achieve their results</td>
<td>3.21</td>
<td>.500***</td>
<td>.342***</td>
<td>.217*</td>
</tr>
<tr>
<td>A 360° process that is used for development only</td>
<td>2.41</td>
<td>.235*</td>
<td>.098</td>
<td>.053</td>
</tr>
<tr>
<td>Training for managers doing appraisals</td>
<td>3.14</td>
<td>.541***</td>
<td>.370***</td>
<td>.168</td>
</tr>
<tr>
<td>Training for individuals being appraised</td>
<td>2.42</td>
<td>.376***</td>
<td>.334***</td>
<td>.137</td>
</tr>
</tbody>
</table>

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Managerial Behavior

<table>
<thead>
<tr>
<th>Performance Management System</th>
<th>Mean¹</th>
<th>Correlation Coefficient</th>
<th>Overall Performance Management Effectiveness²</th>
<th>Your Organization's HR function performance³</th>
<th>Your Organization's performance³</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership by senior management</td>
<td>3.31</td>
<td>.502***</td>
<td>.312**</td>
<td>.189</td>
<td></td>
</tr>
<tr>
<td>Ownership of performance management by line management</td>
<td>3.59</td>
<td>.541***</td>
<td>.371***</td>
<td>.049</td>
<td></td>
</tr>
<tr>
<td>Ownership of performance management by HR</td>
<td>3.17</td>
<td>.270**</td>
<td>.185</td>
<td>.179</td>
<td></td>
</tr>
<tr>
<td>Appraisal of how well managers do appraisals</td>
<td>1.79</td>
<td>.273**</td>
<td>.240*</td>
<td>.089</td>
<td></td>
</tr>
<tr>
<td>Calibration meetings that compare ratings by different managers</td>
<td>3.13</td>
<td>.329***</td>
<td>.255**</td>
<td>.123</td>
<td></td>
</tr>
<tr>
<td>Measures of the effectiveness of the system</td>
<td>2.40</td>
<td>.559***</td>
<td>.357***</td>
<td>.168</td>
<td></td>
</tr>
</tbody>
</table>

Correlation is significant at the 0.001 level (2-tailed)
Correlation is significant at the 0.01 level (2-tailed)
Correlation is significant at the 0.05 level (2-tailed)

¹ Response scale: 1=no, 2=some, 3=moderate, 4=great, 5=very great.
² Response scale: 1=not effective at all to 7=very effective.
³ Response scale: 1=much below average, 2=somewhat below average, 3=about average, 4=somewhat above average, 5=much above average.
## Web Appraisal Systems

<table>
<thead>
<tr>
<th>Performance Management System Effectiveness</th>
<th>Yes N=72</th>
<th>No N=30</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>Mean</td>
<td></td>
</tr>
<tr>
<td>Overall performance management effectiveness(^1)</td>
<td>4.77</td>
<td>4.37</td>
</tr>
<tr>
<td>HR function performance(^2)</td>
<td>3.72</td>
<td>3.53</td>
</tr>
<tr>
<td>Organization’s performance(^2)</td>
<td>3.85</td>
<td>3.97</td>
</tr>
</tbody>
</table>

Note: * Significantly different at p< 0.05 in the two-sided test of equality for column means.

\(^1\) Response scale: 1=not effective at all to 7=very effective.

\(^2\) Response scale: 1=much below average, 2=somewhat below average, 3=about average, 4=somewhat above average, 5=much above average
## Web Appraisal Systems

<table>
<thead>
<tr>
<th>Performance Management Systems</th>
<th>Utilization</th>
<th>Effectiveness¹</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>%</td>
<td>%</td>
<td>Mean</td>
</tr>
<tr>
<td>Everything (paperless system)</td>
<td>43.7</td>
<td>56.3</td>
</tr>
<tr>
<td>Developing performance goals and measures</td>
<td>69.0</td>
<td>31.0</td>
</tr>
<tr>
<td>Providing information to participants</td>
<td>53.5</td>
<td>46.5</td>
</tr>
<tr>
<td>Training participants</td>
<td>29.6</td>
<td>70.4</td>
</tr>
<tr>
<td>Facilitating social networking about performance</td>
<td>7.0</td>
<td>93.0</td>
</tr>
<tr>
<td>Measuring performance</td>
<td>66.2</td>
<td>33.8</td>
</tr>
<tr>
<td>360° process</td>
<td>28.2</td>
<td>71.8</td>
</tr>
<tr>
<td>Providing feedback</td>
<td>59.2</td>
<td>40.8</td>
</tr>
<tr>
<td>As a substitute for a face to face meeting</td>
<td>1.4</td>
<td>98.6</td>
</tr>
<tr>
<td>Other</td>
<td>12.7</td>
<td>87.3</td>
</tr>
</tbody>
</table>

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¹ Response scale: 1=not effective at all to 7=very effective.
## Appraiser Decisions

<table>
<thead>
<tr>
<th>Performance Management System</th>
<th>Utilization</th>
<th>Effectiveness$^1$</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Whether they do appraisals</td>
<td>5.0%</td>
<td>95.0%</td>
</tr>
<tr>
<td>How often they do appraisals</td>
<td>13.9%</td>
<td>86.1%</td>
</tr>
<tr>
<td>Who among their reports is appraised</td>
<td>5.9%</td>
<td>94.1%</td>
</tr>
<tr>
<td>What appraisal form they use</td>
<td>3.0%</td>
<td>97.0%</td>
</tr>
<tr>
<td>What their reports are appraised on</td>
<td>48.5%</td>
<td>51.5%</td>
</tr>
<tr>
<td>Whether they have face to face appraisal meetings</td>
<td>22.8%</td>
<td>77.2%</td>
</tr>
</tbody>
</table>

Note: * Significantly different at p< 0.05 in the two-sided test of equality for column means.

1 Response scale: 1=not effective at all to 7=very effective.
Emerging Practices

Just because we can measure everything does not mean we should.

Capability vs. Complexity

• Simplifying the process
• Matching the process to the role
Emerging Practices

Setting goals to support strategy

• Setting goals across business units is hard
• Setting goals across the globe is harder
• Challenge of keeping goals current with business conditions
Emerging Practices

Getting managers to take responsibility

• Promoting on-going coaching
• Driving behavior change through feedback
• Reducing HR’s role in the process
Emerging Practices

Ensuring the validity of the system
• Preventing bias within the appraisal
• On-going training for managers
• Calibration within and across evaluations
Concerns about the effectiveness of PM continue to grow. (Pulakos & O’Leary, 2011)

• Is the amount of time and angst justified by the outcomes?

• Does our PM approach actually improve performance? (Individual or Collective)

• Are we clear on what we want PM to achieve & how?

“Crew this the PM Captain, start using the 7 point scale bailing buckets!”

CONSEQUENCE: Responding to concerns HR seeks new fixes & systems.
PM needs to be grounded in a research based theory

Organization Behavior Management (OBM) Performance Improvement

Input
1. Clear view of Perf & Goals
2. Specs & Task support
MGR ORG

PERFORMER
Performer

Output
Performance impact & effectiveness
Performer MGR

Feedback
(Reinforcement)
Timely Accurate Specific
MGR RELEVANT Others

Consequences
Meaningful & Timely
(Rewards/Punishment)
MGR ORG

Source: Adapted from Mager & Pipe, 1997

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### Performance Improvement - Research Based Approach

5 necessary elements of an OBM theory based Performance Improvement system

<table>
<thead>
<tr>
<th>Performance Specifications</th>
<th>Task Support</th>
<th>Consequences</th>
<th>Feedback</th>
<th>Skills &amp; Knowledge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do specs exist?</td>
<td>Performer recognizes required action?</td>
<td>Consequences aligned &amp; support perf?</td>
<td>Receive feedback?</td>
<td>Do performers have needed S&amp;K?</td>
</tr>
<tr>
<td>Performers know the desired output stds.?</td>
<td>Task interferes with other tasks?</td>
<td>Consequences meaningful?</td>
<td>Relevant?</td>
<td>Do performers know what to improve?</td>
</tr>
<tr>
<td>Performers consider Stds attainable?</td>
<td>Job procedures and flow logical?</td>
<td>Consequences timely?</td>
<td>Timely?</td>
<td>Performers have a plan to improve</td>
</tr>
<tr>
<td>Manager describes vision &amp; detail</td>
<td>Task interdependencies coordinated?</td>
<td>Consequences clearly linked to perf?</td>
<td>Accurate?</td>
<td>3 Individual Capabilities?</td>
</tr>
<tr>
<td>Current Perf, Future Perf</td>
<td></td>
<td></td>
<td>Reinforcing?</td>
<td>Cognitive?</td>
</tr>
<tr>
<td>Interdependencies</td>
<td></td>
<td></td>
<td>Perf improvement or Consequence?</td>
<td>Physical?</td>
</tr>
</tbody>
</table>

#### 2012 PM survey data state of practice on each element

- **Green**: Elements in place and used widely
- **Yellow**: Elements used less frequently
- **Red**: Elements generally not in place

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Emerging Trends?

• Transparent feedback – Rypple & Small Improvements - AOL
• Reinforcement – ‘Praise’ buttons built into new systems – ‘gamification’ (fun?)
• More planning upfront – segmented goals, remove obstacles to progress, interdependencies
• Systemic /scientific approach to PM – PM scorecard for HR and Managers (measure fixes)
• Manager training on creating & setting actionable performance goals, reinforcement strategies (praise), building pride (intrinsic motivation/engagement)
Discussion

Based on what you have heard and the survey results discuss the changing patterns in PM practices over the past ten years.

• What is the significance to the HR function and the business?
• How are we doing improving and motivating performance?
To what extent are the following part of your PM system?

Significant* declines were reported on:

- Jointly set performance goals for individuals
- Performance goals that are driven by business strategy
- Automatic termination of the lowest rated individuals
- Leadership by senior management
- Close tie between appraisal results and stock/stock option grants
- An appeal process
- Integration with other HR systems

What are the drivers of these changes? Implications? Patterns?

(*.05)
To what extent are the following part of your PM system?

Six items trended up in 2012:

- Preset performance goals for individuals.
- Discussion of development held separately from appraisal
- Competency models that are based on business strategy
- Competencies
- Calibration meetings that compare ratings by different managers
- Ownership of performance management by line management

What are the drivers of these changes? Implications? Patterns?
How effective is your PM system in each area?

9 items trended down

- Overall
- Motivating performance
- Developing the skills and knowledge of individuals
- Identifying top talent
- Developing a performance culture
- Supporting business strategy
- Supporting company values
- Making good use of people’s time

What are the drivers of these changes? Implications? Patterns?