

Chapter 7

Conducting Performance Reviews That Improve the Quality of Your Talent Base

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HIGH-PERFORMING ORGANIZATIONS KNOW THAT EFFECTIVE PERFORMANCE MANAGEMENT plays a critical role in the successful development of talent. The problem is that while performance management processes are critical to talent development, conducting a fundamental performance review is probably one of the most dreaded management tasks. In many organizations, the following comments are all too common:

- “Our performance review process does not work. It takes too long and I get very little value from it.”
- “What is the point of our performance review process? It’s just a check-the-box activity.”
- “Why should we do performance reviews anyway? They’re not linked to any decisions related to my pay or career advancement.”

Several recent articles in the HR press have suggested that performance reviews are “dead” and should be eliminated, yet once readers get past the catchy headlines, two things emerge. First, criticism is aimed at bad processes and the lack of integration with other talent management activities. Second is the need for employees, particularly high performers, to receive objective feedback, understand the organization’s career paths, and have a sense that the established performance management process

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or program truly differentiates the high performers from average to low performers and that the performance management process aims to improve talent at both the individual and the organizational level.

There are ways to improve and enhance performance management so that it not only improves the quality of the organization's talent base but also helps it achieve business success. This chapter is designed to provide direction and offer several key lessons:

- How to improve the execution of performance reviews through better conversations and calibration.
- The effective performance management framework and why performance management is a critical business process that leads to talent improvement.
- What leadership must do to promote a high-performance and a talent-development culture.
- What makes the performance management process work.

Improving Performance Reviews through Better Conversations

Conducting effective performance conversations is where the rubber meets the road. These conversations give employees the opportunity to learn about their development strengths, opportunities for improvement, and how their role links and aligns to the organization's goals. Without successful performance conversations, performance differentiation is not likely to occur, nor will development become a strong cultural characteristic. The organization's leaders and high performers will be left wondering what, if any, value performance management brings to the organization.

Sibson Consulting has developed the "Five Conversations" framework as content for basic management training. They provide a set of guidelines and a structure that managers and employees can use to

- Think about how to develop effective relationships.
- Promote meaningful dialogue and minimize ineffective one-way communication.

This framework will make it easier for managers to deliver performance messages, the most critical aspect of performance management.

The five conversations are as follows:

1. *Establishing the relationship.* The goal is to institute and reinforce the coaching and development relationship. Following are key steps:
 - Establish role accountabilities. Who is responsible for what in the relationship? How can each party show this commitment?
 - Discuss goals for the relationship. What are the goals and how can they be attained?
 - Agree on frequency of check-ins. How often will the manager and the employee meet or at least talk with each other? In what setting will that take place (e.g., scheduled monthly meetings, ad hoc, or on an as-needed basis)?
 - Identify potential challenges in the relationship and ways to overcome them.

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2. *Setting expectations.* The goal is to clarify and develop a mutual understanding of performance expectations based on requirements of the role, development, and business needs. Key steps are as follows:
 - Clarify departmental and organization objectives. How can individual goals and accountabilities link to these objectives?
 - Review current job accountabilities. Do they support expectations? How do they align to expectations?
 - Discuss desired results for the year. How will they link to goals and expectations?
 - Discuss resources and evidence of expectation fulfillment. What resources may be required to meet goals and expectations? How will the manager and employee know that expectations have been met?
3. *Coaching for improved performance and career development.* The goal is to exchange performance and development information more effectively and define shared actions that enable the employee, with the supervisor's support, to improve performance in his or her current role and plan for desired and appropriate career progression. Key steps are as follows:
 - Use the Feedback Framework (see Figure 7-1 below) to work through an effective coaching conversation.
 - Restate expectations (as discussed in Conversation 2).
 - Describe observations, the facts of what actually occurred.
 - Provide assessments, the interpretations or evaluations of the stated observations. It is important to remember that most people develop from strengths and that performance improvement can focus on areas of deficiency and missed expectations.
 - Discuss consequences (positive and negative) and the results of continued performance without improvement. Ultimate consequences should be linked to processes beyond just performance management.

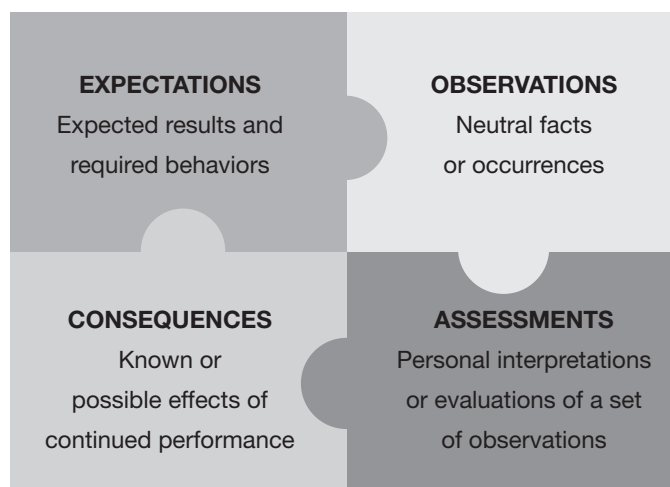


Figure 7-1 Feedback Framework

Source: Sibson Consulting

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4. *Intervening during a crisis.* The goal is for the manager to become involved proactively in situations where the employee may not demonstrate the expected performance expectations. Key steps are as follows:
 - Gain an understanding of the situation from the perspective of the employee and other parties involved.
 - Discuss the risks to quality, performance, customer and colleague relationships, team effectiveness, and individual well-being.
 - Develop a plan for action including what will occur, with what support, from whom, by whom, and by when.
5. *Realizing potential.* The goal is to plan for more effective career development that balances an employee's career aspirations with business needs and requirements. Key steps are as follows:
 - Gain an understanding of the employee's interests and goals.
 - Discuss the business trends or marketplace events that may impact career decisions.
 - Determine professional development and support available for use by the employee.

By following these key points, managers and employees will ensure that each conversation focuses on development and guidance. Although the primary direction of the conversation is from the manager to the employee, employees should be prepared to actively participate.

Making the conversations about expectations and exchange will help establish "what's in it for me" for the employees. While the managers will know and communicate business needs and the organization's performance criteria, the employees will know and should be encouraged to communicate what commitment they will make, what they need to accomplish results, and where they may need development. Experience and research show that when the performance criteria includes career development plans, employees show more interest in the feedback and accept more guidance from their manager.

The five conversations will establish a framework to help managers and employees create trusting relationships. The stronger the trust, the easier it is to communicate effectively.

Executing a Better Performance Review Process

Another important factor in executing better performance reviews is an organization's ability to calibrate performance messages and ratings across its various functional groups, departments, or employee types. Calibration of performance management works to make the process visible throughout the organization. By making the proposed ratings, messages, and actions visible among peer managers, calibration helps ensure that standards, actions, and message delivery are handled with consistency.

Figure 7-2 demonstrates how calibration can work. It moves an organization from the old assumption that the subject of performance management and pay is between a

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manager and an employee to a new and enhanced assumption that these decisions are too important to be made individually and without visibility. It opens the curtain and forces an organization's leaders to support decisions around pay and any other processes tied to performance management.

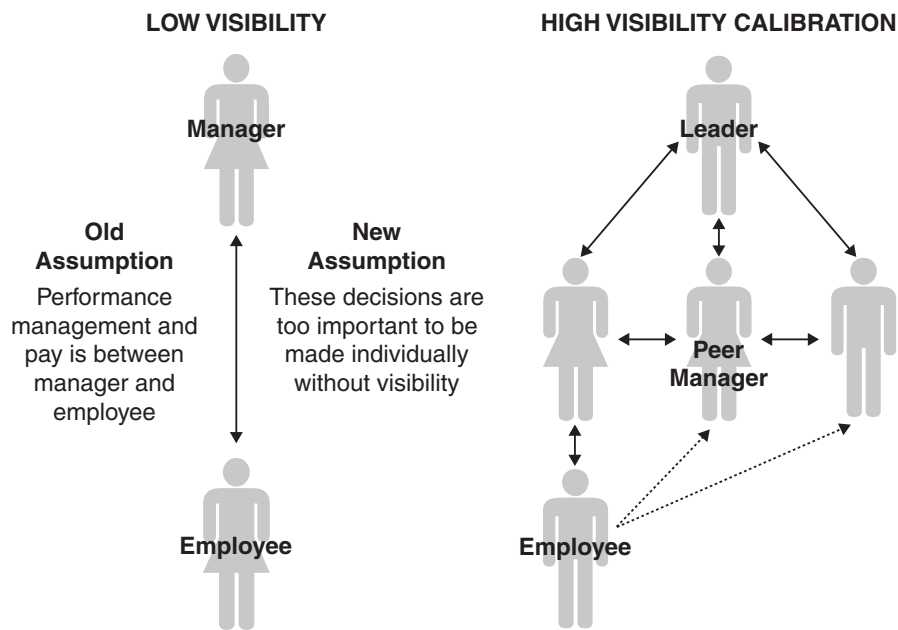


Figure 7-2 Performance Management Calibration

Source: Sibson Consulting

Integrating calibration into an organization's current performance review process can pose challenges, but there are ways to address them. Calibration can be done at various levels within an organization, from a specific department or function to across the entire organization. The calibration process can start with a small department and work its way up the organization by rolling up to the next level each time the process is used.

How a calibration session is conducted is also important. The goal is to make the process and information visible at appropriate levels to facilitate open and honest evaluation and developmental planning. Doing something as simple as projecting group or department ratings onto a screen can help lift the curtain on areas where ratings are applied more evenly and those where they are skewed in one direction or another. The example shown in Figure 7-3 would make these two departments visible to each other and force peer managers to discuss performance standards and messaging. The idea is to understand the standards used by managers to rate performance and to create norms around what is expected within an organization.

As an organization adopts calibration sessions, it may take a while for managers and leaders to become comfortable with the openness, but they will quickly begin to

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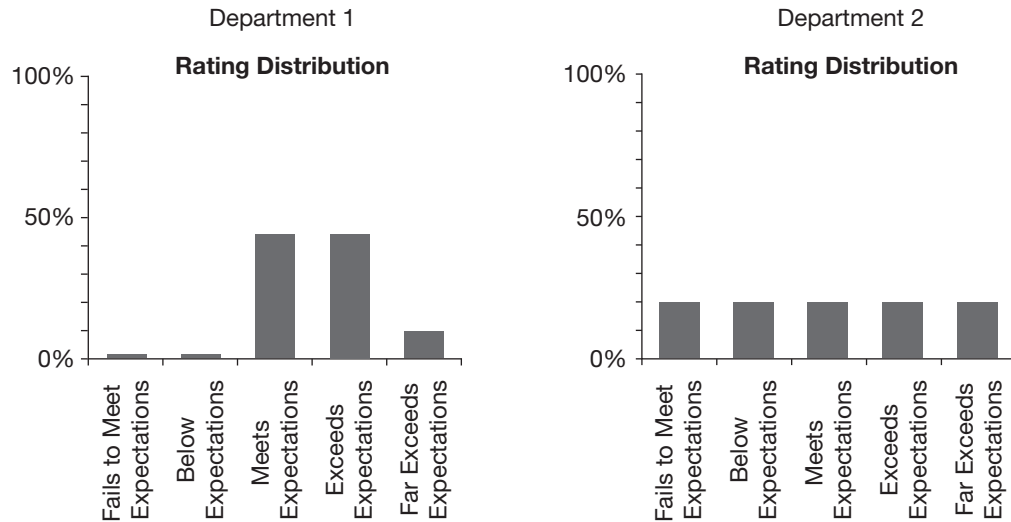


Figure 7-3 A Calibration Session Snapshot

Source: Sibson Consulting

appreciate the outcomes. By the second or third time, the process should become ingrained as a critical part of making performance management work.

Effective Performance Management

So far, this chapter has discussed ways to improve performance reviews to focus on talent development through better individual conversations and organization calibration. As an integrated business process, conducting performance reviews should be part of an overall effective performance management (EPM) model that encompasses leadership, program design and program execution. (See Figure 7-4.) Each element

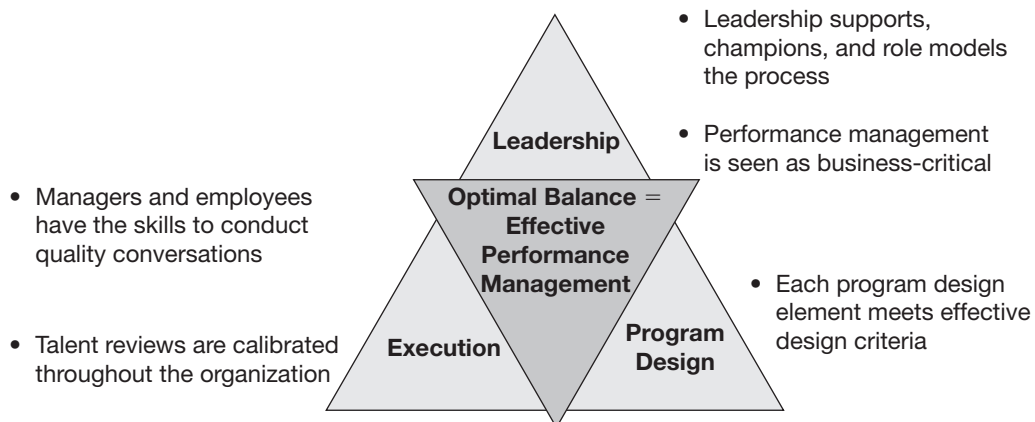


Figure 7-4 The EPM Model

Source: Sibson Consulting

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plays a critical role in making performance reviews and performance management an effective business process for improving an organization's talent base. All three need to be in balance to create EPM.

The "Five Conversations" coaching model, described previously, enables managers to address the critical process steps. EPM design should include these objectives:

1. Aligning goals between and among organizations and individuals
2. Setting individual performance expectations so job requirements, goals and objectives, performance improvement, and career development plans can be met to increase individual and organizational capability
3. Providing feedback through ongoing coaching opportunities to continually improve and develop employees; setting a schedule to summarize the performance evaluation, document conclusions, and establish plans for the next period
4. Planning a career path with employees to further support their goals, improvement, and development
5. Defining how pay and other reward opportunities, such as position and promotional opportunities, will align with and reinforce performance

EPM is a critical business process that aligns expectations between organizations and individuals, ensures there are regular discussions to guide behavior and performance, and identifies changes in performance or expectations based on results and changes in business conditions. EPM includes both formal and informal performance reviews. The periodic formal reviews, which include evaluation and feedback that drives talent development, must be supported and reinforced with informal reviews for ongoing coaching and career planning.

If the objectives described above are addressed, an EPM process will achieve the following:

For the business:

- Align strategic, operational, and individual priorities and goals.
- Identify opportunities for improving business unit, group, and individual performance.
- Develop organizational capability and the talent of employees.
- Allow for determining future talent needs.
- Establish performance results as the basis for pay and rewards.
- Use performance to determine other critical talent management and development aspects such as promotions and advancements.

For the individual:

- Ensure efforts and capabilities are focused on business needs.
- Allow career interests and developmental needs to be considered in meeting future talent requirements.
- Define where resources and support are needed to improve results.
- Increase career and job satisfaction.

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- Demonstrate commitment from an organization to individuals, particularly high performers and critical talent.

Further evidence that EPM is a critical business process can be seen in Figure 7-5, which compares the results of a poorly executed performance management program with those of an EPM.

A poorly executed performance management program results in:	EPM results in:
<ul style="list-style-type: none"> • Lack of direction and weak mobilization of resources 	<ul style="list-style-type: none"> • Clear direction and strong, agile mobilization capability
<ul style="list-style-type: none"> • Lack of integration and alignment across the company 	<ul style="list-style-type: none"> • Full integration and support by management
<ul style="list-style-type: none"> • Reduced motivation and retention 	<ul style="list-style-type: none"> • Motivated employees who thrive in a culture of excellence
<ul style="list-style-type: none"> • Disincentives for teamwork or collaboration 	<ul style="list-style-type: none"> • Rewards that recognize and encourage desired behaviors
<ul style="list-style-type: none"> • Perceived/actual inconsistent and unfair treatment of employees 	<ul style="list-style-type: none"> • Consistent and fair treatment of employees relative to their role
<ul style="list-style-type: none"> • Political vs. fact based decisions regarding individuals 	<ul style="list-style-type: none"> • A clear understanding of and connection to the strategic, long-term vision of the organization
<ul style="list-style-type: none"> • A dissatisfied and untrusting workforce 	<ul style="list-style-type: none"> • Open and honest multi-way communication
<p>Sub-optimized organizational results and talent</p>	<p>Improved productivity, talent development, and organizational success</p>

Figure 7-5 Comparison of a Poorly Executed Performance Management Program with EPM

Source: Sibson Consulting

Leadership Support

An organization's leadership and its support of performance management and performance reviews are critical to the success of an EPM program. The role of leadership is to set and constantly reinforce the desired performance culture. CEOs and other executives are under great pressure to perform, and boards of directors are being strongly encouraged to manage, evaluate, and reward executives accordingly. This reinforces executives' desire for strong performance management and reviews

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throughout the organization. Research has shown that communicating expectations, providing regular and constructive feedback, and coaching employees toward their career aspirations will increase the level of engagement within the organization. This, in turn, improves performance and develops talent. For example, Sibson Consulting's *Rewards of Work Study* shows that employees who have a favorable view of their employer's performance management program are more engaged and satisfied with their work.

One example of a high-performing organization with a performance culture that is embraced by leadership is one of the most successful, multi-facility, casual-dining companies in the United States. The CEO and founder has inscribed a simple message that appears on the start-up screens of all employees' computers: "Do something today that adds value to our company." Periodic training programs emphasize the importance of questioning activities that do not add value. While this may not be part of the performance management process, this simple message instills a fundamental performance expectation.

Another successful tactic is to make "high performance" an operating principle, embedded in every aspect of the company's management and business process. The experience of successful companies (those with higher-than-average financial results over a specific time period) supports the idea that employees at most levels respond better to leadership than to management. Leaders who provide clear vision, values, and business objectives are far more likely to have highly engaged employees than are those who direct activities in a prescriptive manner.

In setting these operating principles, leadership must define the purpose and objectives that underlie the performance process. They must then align performance and business processes. Although this may sound simple, leaders should ask themselves whether business planning (creating annual revenue and budget plans) at their organization is a collaborative effort or a negotiation between top-down and bottom-up management styles. Building a trusting relationship is critical to setting realizable expectations.

Too many organizations align performance planning and evaluation around pay cycles rather than the business cycle. While this may be acceptable at the nonexempt level, it is not effective for establishing a high-performance culture among professionals and management.

Answering these questions within the organization will clarify and align processes:

- How do leaders model and support performance management and reviews?
- What tools and resources could they use to better espouse EPM principles?
- Is the performance review cycle linked to the business planning cycle?

Sometimes a fix as simple as changing the start date of the performance-management cycle can have a significant effect in making the process business-critical and help it lead talent management and development.

Making the EPM Process Work

This chapter has provided critical steps and program design objectives to improve performance reviews and talent development. Following these seven criteria can help make changes and process redesign work:

- *Criteria 1.* Process is clear and responsibility is understood by leaders, managers, and employees.
- *Criteria 2.* Goal alignment is clear and links the company, the organization, and the individual.
- *Criteria 3.* Performance management consequences help differentiate compensation actions; pay and performance are linked.
- *Criteria 4.* Performance management is linked to other HR and talent management processes, such as organization talent assessment and succession, and not just compensation.
- *Criteria 5.* Performance management and other business-critical process calendars are aligned.
- *Criteria 6.* The performance management system is user-friendly and technology-enabled with intuitive forms that are easy to use.
- *Criteria 7.* Rating scale is clear and applied appropriately by managers with calibration across appropriate organizations.

Testing for these criteria will allow an organization to determine whether its performance management program is working appropriately and set priorities for design improvements that will yield measurable results.

When considering the design of an organization's performance management program, remember that different roles and job levels have different performance expectations that require different performance management processes. These processes may also vary by type of industry. A basic model depicts the organization as a set of concentric circles, with performance expectations increasing in complexity, breadth, and depth the closer they are to the center (see Figure 7-6).

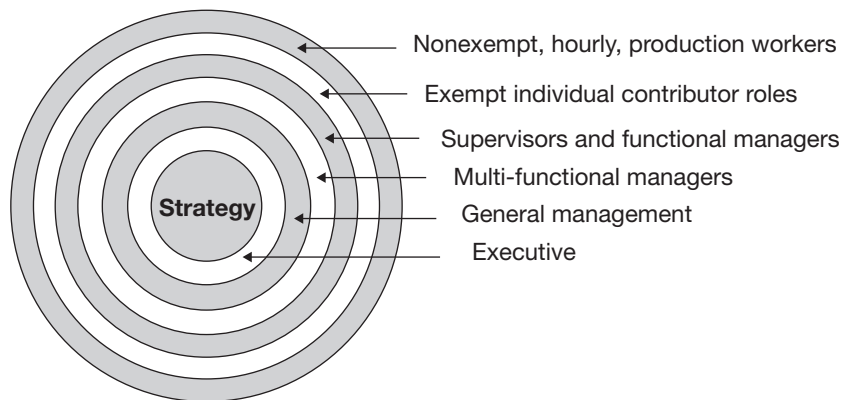
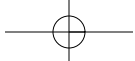


Figure 7-6 Performance Expectations Increase as They Near the Center of the Circle

Source: Sibson Consulting



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To be most effective and ensure the organization is developing its talent correctly, differences in performance criteria, methods for measurement, frequency of direct feedback, and emphasis on direct communication should be tailored to each level during program design.

Using Performance Reviews and EPM Effectively

EPM and its imbedded performance review process should be the cornerstone of an overall effort to improve and engage an organization's talent base. EPM must not stand alone as a separate HR process but must be integrated into how the organization makes all talent and performance decisions.

It is important that EPM is linked to other key processes—including compensation differentiation, promotions and advancements, transfers, succession planning, and organizational goal setting—providing the input organizational and HR leaders need to make decisions. Without this linkage, EPM will become just another “check-the-box” activity without the weight of real decisions and results.

