Process and Results

The Twin Challenges of Performance Management

By Dennis E. Coates, Ph.D.

A large, exclusive retirement community began using performance appraisal several years ago. Although the completed appraisals are kept on file, their only practical use has been to determine the amount of an employee's salary increase. The problem is that managers are given quotas for the increases, so they award ratings more to justify the increases than to record an evaluation of performance. Consequently, many employees complain that their evaluations are inaccurate and unfair. Every year this process stirs feelings of stress, anger and distrust that linger for months.

Stories like this are common in the workplace. The evolution of performance evaluation practices during the past fifty years has been painfully slow. A variety of appraisal methods have been tried over the years, but most are considered by experts to be ineffective.* In all too many organizations, the performance management system is disliked by managers and employees alike. People say the important things aren't evaluated, and they feel the ratings are overly subjective. Performance appraisals are typically used as a basis for compensation or personnel action, but most people don't consider this a fair or reliable way to make these decisions.

Most performance management systems do little or nothing to improve employee performance. In the first place, leadership—not the performance management system—is the primary factor in employee performance.

Performance management tools and methods can support managers' efforts; but if managers don't lead effectively, these tools can't make up the deficit.

Second, most performance management systems rely on a single evaluation tool—performance appraisal. Over the years, it has been used to evaluate and set goals for two aspects of performance: (1) the "process" of performance—how people do their jobs, and (2) the "results" of performance—what people get done: the desired outcomes and achievements of their work. These two aspects are very different and no single evaluation tool has ever been able to serve both purposes successfully.

In this article I address these issues, with the goal of providing a working model for using the best practices and the most current technologies in the service of a successful program of performance management. Throughout, I stress two fundamental principles.

PRINCIPLE #1
To improve employee performance, leaders address four components.

The first step to creating the conditions for high levels of performance is to understand the factors that influence it. A basic fact of work life: employees don't have to do their best work to keep their jobs. Any performance standard you specify will fall short of what they can actually deliver. Some of the most important contributions are nearly impossible to measure: courage, integrity, persistence, extra effort, creativity, initiative, risk-taking, personal leadership, teamwork, positive attitude, commitment and concern for people. Managers can't demand these aspects of performance, and employees know this.

Nevertheless, people often perform at very high levels. Here's why:

- They can. They have the right **abilities**.
- They want to. They're **motivated**.
- They have what they need. They're **empowered**.
- They overcome challenges and adversity. They have strong **character**.

Leaders can do a lot to improve performance by addressing these four areas. Their routine interactions with the workforce have a powerful impact on performance and can far exceed any gains achieved through a performance management system. Keeping these four factors in mind gives a leader a framework for analyzing and resolving performance problems. Neglecting any area creates significant barriers to high performance.

Abilities

Are people capable of doing what's expected of them? A lot depends on their skills, knowledge, experience and physical condition. To develop abilities, a leader can demonstrate knowledge and skills, share experience, arrange for training and opportunities to practice, mentor talented professionals, and coach team members.

Motivation

People may be able to do what's expected, but do they want to? Motivation comes from within and has many sources: needs, goals, values, attitudes and personality. Are employees' needs aligned with the needs of the organization? What are the payoffs? If employees work harder and smarter, will this lead to satisfaction? To inspire motivation, a leader can express excitement about the future, build a climate of trust, provide support and encouragement, show confidence and appreciation, praise outstanding achievement, and counsel for improved performance.

Empowerment

People may have know-how and plenty of desire, but they may not have what they need to do their best work. To empower employees, leaders share responsibility and authority, address concerns and problems, and allow people the freedom to learn from mistakes. They create structure, set goals, clarify roles, develop teams and build relationships. They make sure employees have materials, facilities, information, communication, transportation, tools and other resources. All this "stuff" is expensive, and it's management's job to provide it.

Character

People may be competent, motivated and fully empowered, but work presents unpredictable challenges. Will they be frustrated by adverse conditions, or will they overcome them? Will they exercise honesty and integrity? With they persist? Will they show courage? It depends on who they are. To do the hard things, employees will have to call on these and other personal traits.

Leaders can expect employees to use character strength, but their character is already well formed, and building on it is largely an individual responsibility. So it's important for a leader to be a good judge of character and look for these traits when selecting an employee. Beyond that, leaders can set a good example, provide challenging opportunities, express clear expectations of behavior, and encourage employees when the going gets tough.

PRINCIPLE #2
Manage the "process" and "results" aspects of performance separately.

In the past, personnel managers have traditionally relied on performance appraisal to evaluate both the process and results aspects of performance. However, many managers don't understand that the two aspects of performance—"process" and "results"—are very different and must be managed differently. The failure to distinguish between the two aspects and to manage them separately has caused enormous problems.

A performance management system works by defining, measuring and improving aspects of performance. A properly designed performance system can improve both ability and motivation—two of the four pieces of the performance puzzle.

To improve abilities, one system will focus on the "process" of performance, diagnosing current skill levels, analyzing the needs for improvement, and developing work-related abilities.

Another system will focus on the "results" of performance, improving motivation by measuring results, holding people accountable and rewarding them for achieving the desired outcomes of work.

Managing the "process" aspect of performance

The first step is to define the abilities desired of individual employees—competencies, knowledge, skills, tasks and behaviors. This is the function of job and task analysis, a well-established technique that outlines the behavioral components of work. Job and task analysis involves a painstaking research effort and may require specialists to accomplish it. Furthermore, in an environment of change, these analyses require continuous updating. The descriptions of work process become the basis for evaluating levels of competence, which can identify specific needs for training and development programs.

The difficult task of assessing how well people are doing their jobs has traditionally fallen to supervisors, even though this person is usually not in the best position to observe employee performance on a regular basis. Peers, direct reports and customers have better perspectives on what employees actually do. However, consolidating evaluations from many sources can be an administratively daunting task.

360-degree (multi-rater) feedback technology makes this kind of assessment feasible, efficient and economical. It uses computers to collect, aggregate and report the ratings of self, superiors, peers and direct reports for a thorough, multi-dimensional evaluation of performance. These services can be out-sourced, or they can be administered in-house, using onsite software or web services. Without 360-degree feedback, managers would find it very difficult to evaluate abilities for developmental purposes separately from the evaluation of results for motivational purposes.

Managing the “results” aspect of performance

There is a logical connection between the process of performance and results of performance. If people improve how they go about doing their work, the end results of their work may improve. But on the other hand, they may not. Other powerful variables also impact on results, such as organizational leadership, goals, strategy, structure, resources, incentives, and staffing levels. Results matter, above all. So in this context, rewarding individuals for the way they do their work rather than the results of their work is misguided, because doing so is expensive and may have little impact on results.

The most productive way to motivate employees to achieve organizational goals and objectives is to link incentives to the their accomplishment. The classic example is the sales bonus. Sales performance has several easily defined and measurable outcomes that are critical to the success of the organization. Sales representatives earn rewards for achieving these goals. This system is so effective that for many sales teams, bonuses are the only means of compensation.

Creating a well-designed system of accountability, measurement and rewards that motivates individuals to do the right things isn’t easy. The challenge is to define outcomes that, when accomplished, actually help an organization achieve its long-range business goals. One typical mistake is to define the wrong performance objectives. Another is to identify a myriad of short-term or interim objectives, so that the desired end result gets lost in the minutia. Yet another mistake is to identify high-level outcomes or goals set so far in the future that it’s hard to relate an individual employee’s efforts to eventual goal achievement. Many organizations focus on individual objectives, when in truth a coordinated effort is needed for success and a team objective would be more appropriate. Others emphasize a myriad of financial objectives, not appreciating that if they don’t emphasize outcomes crucial to the business, the desired financial objectives are not likely to follow.

For example, if a baseball team owner sets up a special performance bonus for home runs, players’ motivation will be affected every time they’re at bat. The problem is that the real team goal is to win games, which does not always require a player to hit a home run. Often, hitting a bunt or sacrifice out to advance a player already on base is the key to victory. With a home-run incentive system, a player will swing for the fence instead—a tactic that has a much lower percentage of advancing runners.

Focusing on the wrong results objectives can cost an organization dearly. One major insurance company had experienced disturbingly high turnover rates among its sales force. Therefore, it established a special bonus for sales managers who reduced turnover below a certain threshold. Predictably, turnover rates came down. But so did the average quarterly sales figures. The real cause of the turnover had to do with the system for managing the sales representatives, which was unaffected by the effort to retain sales personnel.

Performance results objectives must be linked to organizational goals. Therefore, it’s important that an organization has a clear vision and a viable strategic plan for achieving the vision. Once team and individual objectives are defined, a system for tracking and reporting the results can be implemented and individuals can be held accountable.

Dozens of measurable, work-related results objectives may be specified. Some examples: missions accomplished, goals achieved, deadlines met, quality improved, products developed, customers delighted, standards exceeded, projects finished, tasks completed, productivity increased, waste reduced, contracts closed—the list goes on. The key is to know which outcomes will contribute directly to the organization’s goals and to specify end outcomes rather than in-process objectives.

The bottom line

It's clear that "process" and "results" are two totally different things, but too many organizations confuse them. Both aspects of performance require evaluation. While performance appraisal is a traditional method for performance evaluation, using it to measure both process and results is one of the most common and costly mistakes an organization can make.

Linking the measurement of abilities to personnel action and other reward systems makes it insurmountably difficult for people to give honest evaluations. It typically leads an organization to use process evaluations to award bonuses, salary increases, promotions and other personnel selection actions. When a system rewards the process of work rather than the results of work, it sets up strong motivations for people to do things that may not have the desired impact on results.

The most visible example of this error is government service. Millions of public employees receive periodic performance appraisals. The evaluations are highly subjective. They typically focus on process aspects and are rarely used to hold people accountable for results. The appraisals are used to award performance bonuses and merit increases, so billions of taxpayer dollars are spent each year for incentives that have little or no impact on improved performance.

Implications for action

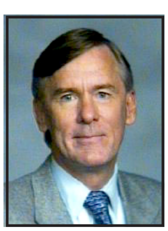
Once the four-piece puzzle is assembled, it's clear that improving performance means much more than traditional views of performance appraisal or performance management. Competent leadership at all levels is the primary agent to influence all four components of performance. Performance management tools address only two.

Also, organizations need to shift their performance appraisal paradigm. Assessment of ability should be linked to development planning. This kind of measurement should be separated from the appraisal process and disconnected from rewards or personnel selection. State-of-the-art 360-degree feedback programs make the assessment of abilities a simple and economical process.

The appropriate role of performance appraisal is to focus on results. Most results can be measured directly, so gathering opinions with 360-degree feedback isn't appropriate. Results are usually observable, so the approach is to define them and monitor them. Ideally, performance appraisal will focus on desired results, and achievement will be linked to rewards and personnel selection.

This perspective poses some logical questions for every organization. Are high levels of performance necessary for success in your business? How does your organization manage performance? Are any ill-advised paradigms still in place? Do your managers need to reconsider the concepts and tools they use to manage performance?

*For critiques of traditional performance management practices, see *The Balanced Scorecard*, R. S. Kaplan and D. P. Norton (Harvard Business School, 1996); *Keeping Score*, M. G. Brown (Productivity, 1996); *Maximum Performance Management*, 2nd ed., J. H. Boyette and H. P. Conn (Glenbridge, 1993); *How to Do a Superior Performance Appraisal*, W. S. Swan (Wiley, 1991); *Performance Appraisal*, G. N. McLean, et al, eds. (ASTD, 1990); *Performance Evaluation*, C. S. Becker, ed. (ICMA, 1988); and *Performance Appraisal on the Line*, D. L. DeVries, et al. (Wiley, 1981).



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