
Effective performance management practices: Ten ways to improve your results

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Conventional wisdom says organizations seem generally dissatisfied with their performance management systems. To better understand their perceptions and practices, Mercer surveyed over 300 North American companies. Nearly half of the companies (46%) operate in more than ten countries.

Enhanced performance management practices

Too many organizations erroneously think that they will have positive results by only concentrating on revising "the appraisal form" or copying the rating scheme used by a "best practice" company. In truth, the performance management practices that work for one organization may not create value in another, even within the same industry.

Mercer's research and experience clearly demonstrate that the effectiveness of any human resource practice depends most on its fit within the broader organizational system in which it operates. The most powerful human resource practices are firm-specific and respond to an organization's unique business and human capital context. Once the "right" performance management practices are in place, they can operate as a cohesive system and create a significant financial return that competitors will find difficult to replicate.

Ten ways to get better results

While there may be no "silver bullet" or quick fix for enhancing performance management, you can take specific steps to maximize its effectiveness. Mercer's research and its consulting experience with top performing companies indicate that the following ten design principles will lead to better results.

Ten ways to get better performance management results

1. **Reflect your company's performance values**
2. **Get commitment and active participation of executives**
3. **Focus on the "right" performance measures**
4. **Hold managers accountable for performance feedback and differentiation**
5. **Establish complementary roles and responsibilities**
6. **Integrate with other business and human resource processes**
7. **Minimize administrative burden**
8. **Provide necessary communication and training**
9. **Measure and track success**
10. **Engage in continuous improvement**

1. Reflect your company's performance values

- **Identify the underlying priorities that should guide decisions about performance.** What performance management principles do you want everyone to understand? Define your company's position on competing priorities, such as recognizing the team vs. the individual; achieving results vs. demonstrating valued behaviors; identifying "A players" vs. motivating and retaining "B players"; and encouraging management accountability vs. employee self-management.
 - **Find the right fit with your strategy, structure, and culture.** The performance management process should reinforce the messages that the organization wants to send about its business, talent, performance, rewards, advancement, and careers.
 - **Clearly communicate what kind of performance culture you are trying to create.** For your company values to become meaningful guidelines for your workforce, you need to communicate them clearly as well as have senior leaders model them in their daily actions.
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2. Get commitment and active participation of executives

- **Never underestimate the power of the words and behaviors of the executive team.** Executives can set an example and build commitment for effective performance management in leaders at all levels. Executives need to model desired behavior and tell stories that publicize examples consistent with the vision of the desired performance culture. Build the business case to assure the commitment of top management and key power groups. Make sure that executives understand the financial return that high performance management practices generate. Give them reasons to do performance management well.
 - **Involve executive champions continuously in the design and implementation of performance management.** One of the key enablers of a successful performance management process is the active engagement of executives. The more you can actively engage leaders at all levels in the process, the more successful performance management will be.
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3. Focus on the “right” performance measures

- **Identify the performance targets that drive value and determine their impact across the organization.** The key purpose of performance management is to focus people on doing the right things. Align your employee performance model with your company’s business model. Ensure individual and team performance expectations are aligned with organizational values, goals, and behaviors critical to the organization’s success.
 - **Keep performance criteria simple.** Focus on the “mission-critical” performance measures. In our demanding, fast-paced environments, people need help in prioritizing appropriately. A good individual performance plan should define the small set of results and behaviors that are critical to business success and are aligned to the company’s values. Make sure the performance criteria are simple enough for managers to use successfully and apply. The performance criteria should be supported by work evidence that can be easily collected through available sources of information on employee performance.
 - **Calibrate performance standards.** Spend time ensuring a common performance vocabulary and a calibrated sense of performance success among leaders at all levels. A lack of common performance standards invites employee confusion about expectations and undermines employee confidence in the fairness of the process. Although performance criteria must be legally compliant and culturally relevant across your different geographic locations and business units, managers should maintain consistently demanding performance standards within and across business units. Calibration ensures a consistent success profile and produces consistent results between raters.
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4. Hold managers accountable for performance feedback and differentiation

- **Require managers to seek, give, and obtain honest feedback.** People perform better when they have clear performance targets and receive regular performance feedback. Consequently, giving and receiving performance feedback should be a core capability of those who manage people. Managers should be selected, evaluated, rewarded, and developed based on the quality of their performance feedback skills.
 - **Equip managers to differentiate between high and low performers.** Provide managers with the guidelines, resources, and tools to distinguish levels of employee performance across their business units or departments. Prepare managers to reliably differentiate performance either in absolute terms (i.e., compared to established standards of performance) or in relative terms (i.e., relative contribution compared to others). Teach senior leaders, immediate managers, and HR specialists the requisite decision-making and process facilitation skills. When using forced ranking, employ reliable and valid methods for establishing comparator groups, as well as for comparing employees’ relative contributions and finalizing rankings.
 - **Motivate managers to conduct valid appraisals.** There are many forces working against managers conducting valid appraisals. Managers typically set unclear performance targets, receive little training and, in order to be liked, avoid tough conversations. Managers will be motivated to conduct valid appraisals when they are given the skills and tools to collect valid performance data and when they are held accountable, through appropriate measurement and feedback, for making valid performance decisions.
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5. Establish complementary roles and responsibilities

- **Encourage employee involvement.** Take steps to ensure employees and managers share accountability for performance management. Require employee participation in goal setting as well as in tracking and monitoring performance. Encourage employees to regularly assess their performance progress. Don't allow employees and managers to adopt the roles of "victims and victimizers."
 - **Expect managers to "own" the outcomes and HR to "own" the process.** Performance management is a core business process; it helps an organization effectively manage its workforce by planning work and developing and motivating performance. The role of the human resource function should be to provide the workforce with the necessary performance, development, training, and reward tools to effectively implement performance management.
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6. Integrate with other business and human resource processes

- **Align enterprise and individual performance planning.** Synchronize business and individual performance management cycles. Align business planning with goal setting for individuals and teams.
 - **Create integrated talent management processes.** Talent acquisition, talent development, performance management, and rewards systems should be aligned and integrated. In order to maximize performance and encourage employees at all levels to "pull in the same direction," talent management processes should reinforce the same messages about performance excellence. If talent management processes are not well integrated, they will not operate as a cohesive system and they will not achieve the high performance desired.
 - **Clearly define the link between performance and pay.** Define and clearly communicate the "rules of the game." Make sure managers and employees understand what aspects of performance determine pay decisions (e.g., incentive awards based only on financial results but salary increases based on overall performance ratings). Also, clearly establish and openly communicate whether employees' relative contributions or absolute performance against standards will determine pay decisions.
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7. Minimize administrative burden

- **Automate administration.** Leveraging available technology can minimize administrative burden and maximize participation and support. Today's new web-based software makes it easy for managers and employees to cascade and calibrate goals, access online performance documents, and gather multi-source comments and approvals. Integrated talent management software systems, such as Mercer's HRSuite™, are also available. These systems allow companies to align and integrate their selection, development, performance management, and rewards systems.
 - **Streamline process steps.** Don't just automate an overly complicated process. Look for opportunities to streamline your process steps and simplify administrative requirements.
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8. Provide necessary communication and training

- **Enhance performance management “skill” and “will.”** Training should enhance the range of required performance management skills, including performance planning, feedback, evaluation, and development. However, since many managers resist accepting the full range of their performance management responsibilities, they will also need to be taught the reasons to do performance management well. Make sure that managers understand the financial return that high performance management practices generate.
 - **Teach all stakeholders the necessary skills.** Performance management training is not just for supervisors. To effectively manage workforce performance, companies need to address the training needs of all process stakeholders, including employees, participants in the process, managers who facilitate the process for others, leaders who review the performance management decisions of other managers, and HR specialists who support the process.
 - **Support the process through ongoing communication.** Effective performance management is an ongoing process that requires a complex set of skills from both managers and employees. Provide all stakeholders with ongoing or refresher training and communication on performance management.
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9. Measure and track success

- **Track your success in implementation.** The right metrics will allow you to track the success of your implemented performance management practices. You can assess implementation success by asking questions such as: Is the performance management process actually being followed as designed? Are stakeholders satisfied with the quality of delivery? Are performance reviews being done on time? Are performance appraisal practices differentiating performance levels, as expected? Do reward and development decisions appropriately reflect performance?
 - **Measure the business impact.** An assessment of the business impact can help to prioritize performance management activities. Impact can be determined by asking questions such as: What performance measures optimize business performance? How do we maximize business performance by adjusting performance management practices? Are the capabilities and contributions of those identified as high performers in line with future business requirements? What is the impact of development programs on performance?
 - **Analyze what people say, but also what they do.** A combination of qualitative and quantitative diagnostic tools can identify optimal performance management practices that will engage employees and create economic value. Perceptions (what people say) can be identified through executive interviews and employee sensing. Behavior and organizational practices (what people do) can be observed through statistical modeling of workforce dynamics and statistical modeling of links between performance management practices and business outcomes. Comparing and contrasting objective measures – actual performance management practices and their impact – with a perceptual assessment of these measures, provides important insights. The “true” performance management system can be considerably different than the system perceived to be in place.
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10. Engage in continuous improvement

- **Change with the business.** Performance management is an ongoing process that should reflect the current and emerging business challenges, as well as the company’s values about performance and careers. As the business and workforce change, modify the performance management process. Ensure that the performance management process and tools remain congruent with organizational values and priorities.
 - **Implement prioritized, targeted interventions.** Constantly assess and improve as needed, but resist the temptation to change everything every year.
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[Contact the authors](#) of this article for more information about improving performance management.