PERFORMANCE MANAGEMENT THAT MAKES A DIFFERENCE: AN EVIDENCE-BASED APPROACH
The Society for Human Resource Management (SHRM) is the world’s largest HR professional society, representing 285,000 members in more than 165 countries. For nearly seven decades, the Society has been the leading provider of resources serving the needs of HR professionals and advancing the practice of human resource management. SHRM has more than 575 affiliated chapters within the United States and subsidiary offices in China, India and United Arab Emirates. Visit us at shrm.org.
Managing talent effectively is critical to achieving organizational business objectives regardless of industry, staff size or location. This common thread, however, does not extend to how organizations manage, provide feedback and motivate their talent. Although there is little consensus on the best way to manage employee performance, the use of performance reviews is pervasive, according to recent SHRM Research, and only 1% of organizations surveyed had plans to eliminate these reviews from their performance processes. Almost all organizations recognize that performance management is necessary to align an employee’s effort with the organization’s expectations. Yet, HR and people managers concede that evaluating employee performance is cumbersome and time-consuming, with few direct improvements toward employee engagement and, ultimately, performance.

Take these evidence-based nuggets from this report:

- Decades of academic research have attempted to improve the reliability and accuracy of performance ratings using the typical 3-, 5- or 7-point evaluation scales—with disappointing results.
- Accurately rating employee behavior is extremely difficult with scarce agreement among different raters on performance ratings.

These research findings bump up against the tenants of many performance management processes used today. An intention of this report is to debunk the traditional practices of performance management with what science has found works better.

This report will help you understand why performance management systems often fail yet why they still matter. You will acquire the know-how to design a practical performance management approach leveraging feedback and coaching. Then you will be guided on key areas for consideration when implementing performance management.

As part of SHRM’s new Science-to-Practice Series, this report is both evidence-based and applicable, providing actionable tips for HR practitioners to use in their organizations. This series showcases academic research findings compiled by subject matter experts. Each report is peer-reviewed by both practitioners and academics. The Science-to-Practice Series is a continuation of the SHRM Foundation’s Effective Practice Guidelines series, which has served as an educational resource for human resource practitioners and educators worldwide over the past 14 years.

Interestingly, the topic of the very first Effective Practice Guidelines report, published in 2004, was performance management. It is fitting that our first Science-to-Practice Series report is also on the same topic.

We look forward to hearing your thoughts on this report. Please share what you liked and areas for improvement at shrm.research@shrm.org.

Alexander Alonso, Ph.D., SHRM-SCP
Senior Vice President, Knowledge Development & Certification
Society for Human Resource Management
DAVID DORSEY, PH.D., has more than 20 years of experience as a human capital consultant, researcher and senior leader. Much of his work has focused on the fundamental issues involved in performance management. He currently serves as a senior executive in the U.S. government. Prior to working in the government sector, Dorsey was a vice president at Personnel Decisions Research Institutes (PDRI), now part of the Corporate Executive Board (CEB). Dorsey has conducted innovative research and development in the areas of understanding adaptive performance, using modeling and simulation technologies for training, understanding career paths, and data science. Dorsey has produced more than 70 book chapters, articles and presentations, and he is the recipient of two major research awards and an award for being a top leader in government. In 2017, Dorsey was elected a Fellow by the Society for Industrial and Organizational Psychology (Division 14 of the American Psychological Association). He also serves as an executive coach, having completed the Georgetown leadership coaching program.

ROSE MUELLER-HANSON, PH.D., has dedicated her career to helping improve individual and organizational performance through better talent management for 20 years. A strong advocate for creating more effective and engaging approaches to performance management, she is the co-author of several recent articles on the topic. She is also co-author of the book Developing Organizational Simulations: A Guide for Practitioners and Students. Mueller-Hanson is a co-recipient of the M. Scott Myers Award for Applied Research in the Workplace (with colleagues from PDRI), awarded by the Society for Industrial and Organizational Psychology (SIOP). In 2014, she was elected a Fellow in SIOP where she recently served as the chair of the Continuing Education Committee. She has presented her work at numerous national conferences and in a variety of publications. She is the past president of the Personnel Testing Council of Metropolitan Washington DC. She is currently the associate director/CFO of Community Interface Services, a nonprofit organization serving adults with developmental disabilities. Prior to joining Community Interface Services, Mueller-Hanson was a director of talent solutions at PDRI and served in the U.S. Air Force. She received her doctorate in industrial/organizational psychology from Colorado State University.
All reports in this series are reviewed by subject matter experts in both academia and HR practice. HR practitioners review the reports to ensure that the information provided is relevant to the HR profession. Academics review the report to establish that the recommendations are evidence-based and firmly grounded in the academic literature. SHRM would like to thank the following individuals for their contributions to the development of this report.

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INTRODUCTION
PERFORMANCE MANAGEMENT THAT MAKES A DIFFERENCE

ABOUT THIS REPORT

This report provides research-informed and practical guidance for designing and implementing effective performance management practices, with an emphasis on medium and small organizations that may lack the time and resources to implement “best practices” drawn from large organizations. It begins with a discussion about why performance management efforts often fail, describes why good performance management is important, and continues with evidence-based guidance for designing and implementing an effective approach. Finally, it offers lessons learned for sustainment and governance. Case studies are included throughout to illustrate examples of how organizations have implemented effective performance management practices.

THE LANDSCAPE OF PERFORMANCE MANAGEMENT HAS CHANGED

It seems as if everyone is talking about performance management, and especially performance reviews. What was once a predictable, if tedious, HR practice has become a major controversy and a hot topic in the news. Numerous high-profile organizations (e.g., Deloitte, Accenture, Gap, Adobe, Microsoft, GE) have gone public with stories about how they eliminated the much-reviled annual performance review and replaced it with a more dynamic and engaging process of ongoing feedback and coaching. Critics have suggested that organizations get rid of traditional performance management and “kill” their performance reviews.

To paraphrase Mark Twain, reports of the death of the performance review have been greatly exaggerated. Most organizations still have a formal performance management approach that includes yearly reviews, the results of which are tied to compensation or other talent decisions. While stories of performance management transformation are inspiring organizations to critically evaluate their own processes, they often result in more questions than answers. For example, many organizational leaders are intrigued by the idea of replacing cumbersome reviews with empowering conversations but wonder how to achieve this goal while still rewarding employees fairly. This challenge is especially acute for small and midsize organizations that may not have the resources to acquire costly technology or training programs to support massive changes.

Performance management is fundamentally about aligning individual effort to support organizational priorities. It includes setting individual expectations tied to organizational goals, providing coaching and feedback that helps employees improve, and measuring and evaluating employee performance to inform talent decisions. Much has been written about how to do performance management well, and research supports the value of many of these activities if they are done effectively. Too often performance management is not done well, resulting in a process that is perceived as time-consuming, burdensome and failing to deliver value. While some research is available to help organizations design effective performance management approaches, the research is often done in tightly controlled laboratory settings, and the results may be difficult to apply in organizations. Thus, performance management is a research-informed activity in the same way that medicine is. Unlike physics, which has immutable laws and precise measurement, finding what works involves trial and error because organizations, like people, are unique. No single intervention will work exactly the same way in two different organizations. Despite these limitations, performance management practices can and should be evidence-based—that is, grounded in research that supports their efficacy.

PERFORMANCE MANAGEMENT AND PERFORMANCE APPRAISAL

Although employees and managers often think of performance appraisal as synonymous with performance management, the two are not the same.

Performance management is the broad collection of activities designed to maximize individual and, by extension, organizational performance. It includes setting expectations, measuring employee behaviors and results, providing coaching and feedback, and evaluating performance over time to use in decision-making. The purpose is to align individual efforts to achieve organizational goals.

Performance appraisal, or performance evaluation, is the assessment of past performance within a given time frame. The purpose is to judge how well employees have performed relevant to expectations and to use this information to make a variety of talent and organizational decisions. A performance review generally refers to the component of performance appraisal that involves completing rating tools/forms and having a formal conversation between an employee and manager to discuss the evaluation results.
WHY PERFORMANCE MANAGEMENT OFTEN FAILS AND WHY IT STILL MATTERS
A BIG INVESTMENT WITH QUESTIONABLE RESULTS

Organizations invest significant time and money in their performance management systems, but the results are usually disappointing. For example, Deloitte analyzed its approach and discovered that it required two million staff hours to set performance goals, complete evaluation forms and conduct formal performance reviews each year. In addition to the cost in staff hours, the technology systems required to automate these processes and make performance data accessible can cost thousands of dollars a year. This expense might be justified if performance management activities helped improve employee engagement and performance; however, this is typically not the case. Common complaints include:

- **Employees** say their organization’s performance management system does not reward high performance, deal effectively with poor performers or motivate them to improve.
- **Managers** say that the process is too time-consuming and burdensome, taking them away from “real work.”
- **Executives** do not believe that performance ratings are accurate reflections of performance, making it difficult to use these ratings as the basis of talent decisions.

ROOT CAUSES OF PERFORMANCE MANAGEMENT FAILURE

Why does a process that requires so much effort yield so little return?

**IT TRIES TO SERVE TOO MANY PURPOSES**, such as providing the basis for talent decisions, fostering career development, enhancing relationships and communications, and providing documentation for legal challenges. Although these goals are important, they serve fundamentally different interests and often conflict with each other. Well-founded rules of good behavioral science measurement suggest that each of the purposes might require entirely different measures, assessments and systems, yet most performance management systems try to meet all purposes with a single approach.

**IT IS BASED ON A FOUNDATION OF MISTRUST**, for example, a belief that managers will play favorites in performance reviews and therefore need careful monitoring to ensure they do the right thing. This mistrust in turn leads to a tightly controlled and rigid process that requires too much written documentation, too many steps and too many layers of approvals, all of which add complications but not value.

**IT IS BASED ON FAULTY ASSUMPTIONS** about human behavior and motivation, such as the belief that candid performance ratings will motivate employees to improve their performance. In fact, most employees believe they are above-average performers, and they have no desire to hear otherwise. Moreover, even high performers can find the performance evaluation process demotivating.

**IT OFTEN EMPHASIZES RULES AND PROCESSES** at the expense of investing in good communication, feedback and relationships among employees and managers. Most performance management approaches focus on the steps to complete, the forms to fill out and the rules to follow. However, these factors have very little impact on actual performance. Elements that do have an impact are effective communication and relationships between managers and employees, though these are harder to achieve.

**IT IS OFTEN IMPLEMENTED POORLY**, resulting in a lack of buy-in from leaders and employees. Poor implementation may include rules and processes that undermine effective conversations and investment in development, inadequate training, and a lack of communications and visible support from senior leaders.

In addition to the cost in staff hours, the technology systems required to automate performance management processes and make performance data accessible can cost thousands of dollars a year.
WHY PERFORMANCE MANAGEMENT STILL MATTERS: OPPORTUNITIES AND RISKS

Despite the challenges with performance management, many organizations are hesitant to change their current approaches, fearing the disruption that change brings and the potential costs. Change is worth considering because, like Deloitte discovered, performance management may be costing the organization a great deal of money without delivering commensurate value. Moreover, the costs of poor morale and lack of engagement that result from a poorly executed process may be incalculable. Organizations are constantly seeking performance improvements, and lacking a solid performance management approach is a missed opportunity to help employees perform to their potential.

Improving performance at the organizational level is complex, and there is no guarantee that improved employee performance will lead to bottom-line improvements in organizational results. However, the value of many individual performance management practices is supported by research. These practices aid in aligning individual actions to organizational priorities, providing ongoing coaching and feedback to help employees perform at their best, and making good decisions about how to reward and retain talent.

Many organizations have these practices in place in some form already but find that poor implementation has undermined their effectiveness. For example, goal setting can increase performance in a variety of settings, and performance goals are a key component of many performance management approaches. However, when goal attainment is tied to rewards, employees are likely to avoid risk and set goals that are too easy and that fail to motivate high performance. Not only are the practices themselves important, but how they are implemented determines whether performance management efforts will succeed.

In some small and midsize organizations, performance management practices might be very rudimentary or even nonexistent. These organizations may be hesitant to implement new approaches due to concerns about costs and the need to make expensive technology investments. However, change does not need to be costly to have a positive impact. Effective performance management does not require expensive technology or training programs. The next section provides a commonsense approach to designing effective performance management solutions that organizations of any size can use.

FOUNDATIONS OF ORGANIZATIONAL TRUST

Behaviors that contribute to a climate of organizational trust are outlined below. Organizations with a trusting climate assume these behaviors will occur—they have a “trust first” mindset. Mistrust occurs when the assumption is that these behaviors will not occur without external consequences—a “trust if” mindset.

- **Reliability**: following through on commitments.
- **Honesty**: telling the truth and admitting mistakes.
- **Courage**: confronting difficult issues even in the face of resistance.
- **Competence**: demonstrating the knowledge and skills necessary to carry out important tasks.
- **Intention**: making decisions in the best interest of the organization; putting the welfare of others before individual interests.
- **Compassion**: being sensitive to others’ needs and giving them the benefit of the doubt.
Improving performance at the organizational level is complex, and there is no guarantee that improved employee performance will lead to bottom-line improvements in organizational results.
HOW TO DESIGN A SENSIBLE PERFORMANCE MANAGEMENT APPROACH
A sensible approach to performance management requires several shifts from traditional methods to new ways of thinking. These shifts emphasize simplicity, flexibility, relationships and communication and de-emphasize complexity, rigidity and blind adherence to policies and procedures. For example, rather than requiring extensive narrative documentation to justify ratings for every employee, organizations can provide checklists and other simple tools to make documentation easier. In addition, employers can require minimal or no written narratives to support ratings for employees who are meeting expectations and more documentation to support lower ratings or if the rating will lead to negative consequences for the employee. Figure 1 illustrates these major shifts, each of which will be described in more detail in the sections that follow.

**FIGURE 1**

**TYPICAL VERSUS RECOMMENDED ELEMENTS OF PERFORMANCE MANAGEMENT SYSTEMS**

<table>
<thead>
<tr>
<th>Typical Elements</th>
<th>Ideal Elements</th>
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<tbody>
<tr>
<td><strong>Complex system</strong> that serves multiple purposes: compensation and other talent decisions, career development, etc.</td>
<td><strong>Simplified systems</strong> with a singular focus on improving performance.</td>
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<tr>
<td><strong>Goals that cascade from the top</strong> of the organization down, resulting in individual SMART objectives set once a year.</td>
<td><strong>Flexible goal setting</strong> that allows for format and timing to be tailored to the work; alignment to organizational goals by linking up instead of cascading down.</td>
</tr>
<tr>
<td><strong>Midyear and end-of-year performance reviews,</strong> including ratings and supporting narratives, accompanied by formal performance conversations.</td>
<td><strong>Emphasis on performance measurement</strong> and streamlining administrative requirements and eliminating unnecessary documentation.</td>
</tr>
<tr>
<td><strong>Informal feedback</strong> encouraged throughout the year; managers receive training but have little to no real accountability for feedback.</td>
<td><strong>Major emphasis on coaching and feedback</strong>; managers and employees receive training and are accountable for quality conversations.</td>
</tr>
<tr>
<td><strong>Performance ratings used as the basis of all talent decisions,</strong> including compensation and promotion; calibration sessions conducted to ensure ratings are fair.</td>
<td><strong>Different criteria are used for different decisions</strong>; calibration done when needed to ensure fairness.</td>
</tr>
</tbody>
</table>
Many organizations begin their performance management change efforts by questioning whether they should retain performance reviews and ratings. However, a better question is, what business outcomes is the organization trying to achieve, and how can the performance management approach support these outcomes? Performance management can serve many purposes, as shown in Figure 2. However, a system that tries to serve too many purposes will serve none of them very well. The first step in designing a new performance management approach is to define what purpose it should achieve, how it should align with organizational goals, and what the guiding principles are for its implementation (e.g., fairness, transparency). A clear statement of purpose and guiding principles helps organizations evaluate any proposed interventions or processes. Moreover, also useful is stating the rationale for the new design (why it is happening) and problems the new system will help solve (e.g., reinforce new behaviors that are required for business success).

Ultimately, the purpose of performance management should include a commitment to improving individual performance in a way that supports organizational priorities. A clear statement of purpose is helpful in evaluating proposed interventions. If the proposed activity, procedure or rule does not serve the purpose of helping improve performance, it should not be part of the performance management approach. Keeping this simple guideline in mind is extraordinarily helpful in designing the approach. For example, one organization fiercely debated the need to include a formal self-assessment in its process. Finally, one member of the design team questioned whether formal self-assessments led to better performance. This reframing changed the whole nature of the debate. The organization concluded that formal self-assessments were time-consuming, tended to set up unnecessary conflicts between employees and managers, and did not ultimately lead to better performance. Armed with these insights, the organization eliminated formal self-assessments and designed a more informal means of obtaining employee input on performance.

**FIGURE 2**

**TYPICAL PURPOSES OF PERFORMANCE MANAGEMENT**

**Administrative Purposes**
- Help make compensation decisions (e.g., pay increases, bonuses, incentives).
- Identify individuals who may be ready to take on new opportunities (e.g., promotions, assignments).
- Provide documentation to defend against legal challenges.
- Hold poor performers accountable for improving.
- Provide data for adverse impact analyses.

**Developmental Purposes**
- Identify training and development needs.
- Provide career guidance and developmental opportunities.
- Enhance communication and relationships among employees and managers.
- Ensure employees receive effective feedback.
- Increase employee engagement and empower employees to take greater ownership of their performance goals.
PERFORMANCE MANAGEMENT AND ACCOUNTABILITY

Performance management can be a means of holding employees accountable for results, though managers often complain that it fails to do so. Accountability stems from making initial expectations clear, monitoring progress, providing feedback, and following through on consequences, both positive and negative. While these elements together increase accountability, the follow-through on consequences (e.g., no raise for employees who fail to meet standards) is the most important but also the least likely to happen. Without follow-through, accountability cannot improve, even if the other elements of performance management are sound.

ESTABLISHING THE MEANS OF SETTING EFFECTIVE EXPECTATIONS

Organizations need to understand what “high performance” means in their context. Depending on organizational goals, different attributes may be important for success. For example, fast food restaurants typically seek to deliver good-tasting food quickly. Their competitive advantage is speed, low cost and predictability in terms of service and quality. Employees who can work efficiently and follow established procedures are effective performers. In contrast, a gourmet restaurant may have a competitive advantage of serving creative, new dishes with highly personalized service and commensurate higher prices. Efficiency and following procedures will be less important for success than creativity and customer engagement. Even within the same organization, different roles will have different levels of complexity and needs for autonomy and therefore different performance requirements, reinforcing the need for flexibility in how expectations are set in organizations.

DEFINE PERFORMANCE REQUIREMENTS

Defining performance requirements need not involve an extensive job or occupational analysis. However, at minimum the organization should identify:

- The critical job roles.
- The work activities performed by each.
- The standards to which these activities need to be performed to meet organizational goals.

For example, a critical job role in an organization might be “technology specialist,” an important work activity might be to respond to customer support requests, and specific performance requirements might include both objective standards (e.g., respond to each request within four hours) and behavioral standards (e.g., communicate professionally and courteously with customers).

For many roles, employers can establish performance requirements in advance that apply to all employees working in those roles. For example, customer service, maintenance, manufacturing and sales roles consist of work activities that may apply across all employees in those jobs. In these instances, performance requirements are likely to endure over time, and performance can be measured on an ongoing basis. For other roles in which work is more varied and priorities change, using individualized performance goals as the basis for establishing performance expectations may be more effective.

IMPROVE GOAL SETTING

Good goal-setting practices can lead to higher performance in a variety of settings. Goals work by improving focus and inspiring action and lead to better performance when they are specific, challenging, personally meaningful and within the individual’s control to achieve. However, the way many organizations handle goal setting can undermine these attributes. An overemphasis on setting annual SMART (specific, measurable, attainable, relevant and time-bound) objectives may result in goals that are too rigid to accommodate change, not challenging enough, and lacking in personal meaning to employees. While the tenets of SMART goals are generally sound, they leave out the notions of challenge, personal importance and control—each of which has been shown to be important for improving performance.

If the proposed activity, procedure or rule does not serve the purpose of helping improve performance, it should not be part of the performance management approach.
### FIGURE 3

**CHARACTERISTICS OF EFFECTIVE PERFORMANCE GOALS**

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Implications</th>
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<tbody>
<tr>
<td><strong>Importance:</strong> Goals must be personally meaningful to the individual, regardless of whether they are set by the employee or manager.</td>
<td>▪ Limit the number of goals to three to five so that each goal receives more attention and focus. ▪ Describe why goals are important and how they relate to higher-level organizational priorities. ▪ Connect goals to the employee’s interests and personal values; make goal setting a collaborative process between employees and managers.</td>
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<tr>
<td><strong>Challenge:</strong> Goals work best when they are moderately challenging; accomplishing the goal should take effort but not feel impossible.</td>
<td>▪ Encourage aspirational, yet attainable goals. ▪ Do not evaluate performance simply on goal attainment; goals used as the basis of performance evaluation are usually not challenging enough and may lead to unintended consequences (e.g., unethical behavior).</td>
</tr>
<tr>
<td><strong>Specificity:</strong> When employees know specifically what they are going to be held accountable for, they are more likely to succeed.</td>
<td>▪ Set goals with shorter rather than longer timelines; it is difficult for long-term goals to be specific enough. ▪ Include a measure as part of the goal; measures can be indicators of quality, quantity and/or timeliness.</td>
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<tr>
<td><strong>Control:</strong> Employees should believe that it is within their power to achieve the goal and that their efforts, not external factors, will determine success or failure.</td>
<td>▪ Ensure employees have the knowledge, tools and resources necessary to meet their goals. ▪ Check in regularly on progress and help employees remove barriers to success.</td>
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Another challenge with goal setting is that goal attainment is often tightly linked to rewards. Goals that link only to external motivators are unlikely to have long-term incentive effects versus goals that pull on internal motivators such as mastery, autonomy and purpose. Goals are more effective if they align with an individual’s personal interests and values, leading to greater ownership. Therefore, managers have a key role in helping employees understand how their work contributes to organizational goals and why their work matters. Figure 3 summarizes the characteristics of effective performance goals and their implications to provide goal-setting guidance to managers and employees.

To foster effective goal-setting and more general expectation-setting practices, organizations should take the following steps:

**TAILOR THE TYPE OF EXPECTATION TO THE ROLE.** For some jobs, individual performance objectives might be the best way to set expectations. For other jobs, metrics and standards may already exist that define successful performance. Organizations that implement a one-size-fits-all approach to performance goals for all jobs often find that goals must be “force fit” to certain roles, making them less relevant to the work and ineffective as drivers of performance. For example, specific goals are effective for straightforward tasks, but less specific goals are better for more complex tasks. When tasks require innovative or creative thinking, specific goals can result in a hyper focus on achieving specific outcomes that leads to a missed opportunity to explore new ideas and innovate.

**ALLOW MORE FLEXIBILITY IN TIMELINES AND FORMATS.** Organizations should provide guidelines to employees and managers for how to set effective goals and expectations but allow them to choose the content, format and time frame that makes sense for the work. For example, employers should avoid requiring that all goals be set at the beginning of the calendar year since the start of a year is an arbitrary time frame that may not align with project timelines. Employees should have the freedom to set goals any time during the year and for any duration. This may also mean that goals do not need to be formally documented in an automated HR system if doing so would interfere with the ability to set frequent goals and change them as conditions change.

**ENCOURAGE CONSISTENCY IN GOAL SETTING** by allowing individuals doing the same work to have the same goals. Many organizations require goals to be unique for each individual, resulting in inconsistencies in evaluating results. Even if goals are not identical across employees, consistency can be improved by making goals more transparent and encouraging employees and managers to discuss their goals and align them with others who are doing similar work.

**BE CAUTIOUS ABOUT USING GOAL ATTAINMENT AS THE SOLE BASIS OF PERFORMANCE RATINGS** because this encourages setting goals that are too easy or even engaging in unethical behavior. If rewards are tied to goal attainment, goals should be consistent across employees doing similar work, and the link between the performance and the reward should be very clear. For example, basing performance bonuses on sales works well if employees can control how much they sell through their own efforts. However, if sales are more a function of external factors, such as the number of customers to whom sales reps have access, then performance-based rewards may be less effective.

**CREATING A CLIMATE THAT SUPPORTS FEEDBACK AND COACHING**

Providing effective feedback is one of the best ways to drive high performance. Unfortunately, feedback is not always effective. One comprehensive analysis of the link between feedback and performance showed that about a third of the time feedback led to increased performance, a third of the time it actually decreased performance, and a third of the time it had no impact. The difference between feedback that improves performance and feedback that does not depends on feedback content, how it is delivered, who delivers it and how it is received. The most effective feedback is honest, specific, strengths-oriented and focused on behaviors rather than on personal characteristics. It is delivered in a timely manner and is part of a two-way dialog. It comes from a credible source who knows the recipient’s work and can provide useful insights to help the individual improve.

One comprehensive analysis of the link between feedback and performance showed that about a third of the time feedback led to increased performance, a third of the time it actually decreased performance, and a third of the time it had no impact.
CASE STUDY

Alpha Company Transforms Its Goal-Setting Practices

Alpha Company* is a midsize, multinational manufacturing organization with approximately 3,500 employees. To support its high-performance culture, Alpha sought to align individual performance to organizational priorities through a rigorous goal-setting process that was directly tied to compensation. After the new goal-setting process had been in place for several years, Alpha undertook a study to evaluate its effectiveness. This study revealed that, although the approach had some strengths, there was also an opportunity to improve it. The figure below shows a summary of the study findings.

SUMMARY OF STUDY FINDINGS AND IMPLICATIONS FOR ALPHA COMPANY

CURRENT GOAL-SETTING PRACTICES

- Goals are set annually and cascade down from organizational and business unit goals; employees set individual goals based on guidance from higher levels in the organization.
- Goals are prohibited from focusing on an employee’s core work tasks (i.e., the goals must represent activities that are “above and beyond” day-to-day work).
- Goals are required to meet very specific and complex formatting rules. Goals are calibrated across managers to ensure consistency.
- Goals are rated at the end of the year, and ratings are multiplied by weights to arrive at a final score. Scores are calibrated across employees to ensure fairness. Final calibrated ratings are then used to determine compensation.

ANALYSIS

- The cascading process helps ensure that goals align with organizational priorities; however, the top-down approach takes up to three months, during which time employees have no goals.
- Many employees set goals to accomplish “extra duties” that take away from important responsibilities. Employees are frustrated because they are not rewarded for doing their core jobs well.
- Goals are difficult and time-consuming to write, and the calibration process takes weeks of time.
- Organizational budgets are stronger determinants of rewards than individual performance. Many employees say they do not see a clear link between performance and rewards and are unsure of how rewards are distributed.

RECOMMENDED CHANGES

- Stop waiting to cascade goals down. Instead train managers to help employees connect their work to organizational priorities.
- Change goal-setting guidance so that goals are focused on the most important responsibilities for each employee’s role.
- Streamline goal format by providing a simple template. Stop calibrating goals.
- Improve communications and feedback skills of managers to help them do a better job of explaining performance ratings and rewards to employees; be transparent about the impact of organizational budgets on rewards.

* Alpha Company is a pseudonym.
Alpha Company implemented these recommendations by changing guidance for goal setting and conducting in-person and web-based training for all managers and employees. The organization used an iterative implementation process, making small changes with pilot groups, getting feedback and implementing broader changes based on lessons learned from the pilot groups. The changes were highly successful.

The goal-setting process took less time, and employees appreciated having a better understanding of how their work fit with organizational priorities. Employees believed that their goals were better aligned with their work, and reward decisions were easier to communicate. Alpha Company credited its success to a thoughtful and deliberate implementation process and comprehensive training.

WHAT TO REMEMBER

• Despite good intentions, problems with implementation (e.g., goal-setting practices that are too rigid and do not reflect real work) can undermine the effectiveness of goals.

• Organizations should allow flexibility in how goals are set and in what format so that goals can be more tailored to the work and therefore more meaningful to employees.

• Using an iterative approach to change is the recommended strategy. Organizations should pilot new processes with small groups and make improvements based on lessons learned before implementing with larger groups.
### DOES YOUR ORGANIZATION HAVE A CULTURE THAT SUPPORTS FEEDBACK AND COACHING?

Answer each of the following with “agree,” “neutral” or “disagree” to assess your feedback and coaching culture. The more questions are answered with “agree,” the stronger the feedback culture. Questions answered with “neutral” or “disagree” present opportunities to strengthen the culture and make it more conducive to providing effective feedback.

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<thead>
<tr>
<th>AGREE</th>
<th>NEUTRAL</th>
<th>DISAGREE</th>
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<tbody>
<tr>
<td>Managers tend to address performance concerns right away rather than wait until formal performance reviews.</td>
<td><img src="image" alt="Circle" /></td>
<td><img src="image" alt="Circle" /></td>
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<td>Employees feel comfortable telling their managers what they think and how managers can support them better.</td>
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<tr>
<td>We have a regular means of getting feedback and opinions from all employees, and we share the results with everyone.</td>
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<td>It is more important to be honest with others than to keep quiet to spare people’s feelings.</td>
<td><img src="image" alt="Circle" /></td>
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<td>We routinely review recent events to discuss what went well and what could be improved in the future.</td>
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<tr>
<td>Employees at every level feel comfortable raising questions and concerns.</td>
<td><img src="image" alt="Circle" /></td>
<td><img src="image" alt="Circle" /></td>
</tr>
<tr>
<td>Managers see their role as “coaches” more than “judges” of employee performance.</td>
<td><img src="image" alt="Circle" /></td>
<td><img src="image" alt="Circle" /></td>
</tr>
<tr>
<td>We have a means of ensuring employees can get feedback from peers and others at least once a year (e.g., 360-degree feedback program).</td>
<td><img src="image" alt="Circle" /></td>
<td><img src="image" alt="Circle" /></td>
</tr>
<tr>
<td>Employees asking for feedback are likely to receive an honest answer.</td>
<td><img src="image" alt="Circle" /></td>
<td><img src="image" alt="Circle" /></td>
</tr>
<tr>
<td>Managers and employees are trained in giving and receiving feedback.</td>
<td><img src="image" alt="Circle" /></td>
<td><img src="image" alt="Circle" /></td>
</tr>
</tbody>
</table>
Feedback is more acceptable when recipients believe the feedback is fair and accurate. Perceived fairness can be increased if others are held to similar standards, the feedback is based more on objective results than on subjective judgments, and the feedback includes both strengths and needs for improvement. Although positive feedback is more readily accepted than negative feedback, employees will be more receptive to constructive criticism if they believe the process used to arrive at it was fair. Feedback providers cannot control how feedback is received, but they can increase the probability of acceptance by basing it on concrete observations and objective results, delivering it in a sensitive manner, and providing it in the spirit of helping the individual improve rather than simply passing judgment.

**GOOD FEEDBACK IS ESSENTIAL TO EFFECTIVE COACHING.** By itself, feedback may be unidirectional. One-way, evaluative feedback often does little to spur personal growth, other than changes driven by fear and uncertainty. In contrast, feedback delivered in a coaching context is two-way and involves working collaboratively to understand barriers to success and to develop strategies to overcome them. At the heart of coaching is empowering the recipient to solve his or her own problems. Feedback helps raise awareness but is not the end goal of the conversation. The goal is to help the coaching recipient develop new awareness and skills that lead to improved performance. Feedback is thus the means rather than the end.

**IMPROVING COACHING AND FEEDBACK STARTS WITH TRAINING MANAGERS.** Many organizations already provide extensive training, which can be particularly valuable for new managers who lack experience leading others. Training managers is only the first step, however. Employees must also be trained to provide, ask for and receive feedback, and part of this training should emphasize the responsibility of everyone, regardless of level, for contributing to a positive climate of open communication. Figure 4 provides a checklist for effective feedback with concepts that organizations should include in both manager and employee training.

**TRAINING BY ITSELF IS UNLIKELY TO LEAD TO LASTING BEHAVIOR CHANGE.** Managers often have strong disincentives to provide candid feedback to employees. They fear negative reactions, which could lead to decreased morale and performance and damaged future relationships. Cultural and organizational factors also work against effective feedback. Some cultures are simply “too nice,” or at least appear too nice on the surface, resulting in lack of direct feedback but plenty of indirect, passive-aggressive behavior. In contrast, some organizations have openly aggressive and competitive cultures, making feedback overly harsh and not helpful for development. Another barrier to feedback is that in many organizations, managers do not work closely with direct reports and do not have first-hand knowledge of their work. These challenges are difficult to overcome with training. Therefore, feedback must come from multiple sources and not rely just on the manager to be the sole provider of feedback.

**SELF-FEEDBACK THAT COMES FROM REVIEWING ESTABLISHED PERFORMANCE DATA IS AN OFTEN OVERLOOKED SOURCE.** For example, call center employees may have numerous metrics that are automatically tracked, such as call volume, call duration and number of callbacks. These metrics are often available on a daily or weekly basis and provide valuable information about how employees are doing in comparison with established standards. This feedback is a type of self-feedback because employees receive information about their own performance without relying on managers or others to provide it. While self-feedback is easier to obtain for some jobs than others, indicators of success can be identified in any arena, even if these indicators are more qualitative in nature (e.g., the timeliness and accuracy of completed documents). The next section provides more details on how to measure performance in a variety of settings.

**360-DEGREE, OR MULTISOURCE, FEEDBACK IS ANOTHER POTENTIAL SOURCE.** This type of feedback may include input from peers, direct reports, customers and others in addition to the manager’s feedback. Although multisource feedback is often time-consuming to collect and process, it can yield valuable insights about how employees are perceived by different groups. Crowdsourced feedback, which is a more continuous means of collecting feedback using technology, has recently become more popular, and recent research illustrates that it can be a valuable source of information for improving performance.
Case Study: Real-Time Performance Measurement and Feedback

The Beta Group* is a small, U.S.-based nonprofit organization with approximately 250 employees; it provides services to people with disabilities. The organization has a strong performance culture and for many years used a traditional performance management approach. Each employee received a 90-day evaluation and an annual evaluation around his or her anniversary date. The evaluation tool was straightforward—employees were rated on a 5-point scale, ranging from 1 (unacceptable) to 5 (outstanding) on a variety of job-relevant performance factors, such as providing effective services to clients and completing documentation on time.

The legacy approach was successful in many ways. Employees said that they thought reviews were fair and that they received regular feedback. Evaluation forms were simple, and ratings did not suffer from the inflation that plagued so many other organizations; most employees received a rating of 3, poorly performing employees received ratings below a 3, and highly performing employees received ratings above a 4.

Despite these strengths, organizational leaders recognized there was room for improvement. Managers struggled to complete their reviews on time—as many as 50% of employee evaluations were overdue by 30 days or more. A major cause of this delay was that managers disliked the evaluation forms, and they struggled in giving employees negative feedback. Some of the rating criteria were ambiguous, and managers had difficulty linking the criteria to behaviors they were observing. Because evaluations for the nearly 250 employees were completed on paper forms, the process of collecting, reviewing, and analyzing data was a Herculean task. Lastly, there was little budget to provide merit increases, which made it difficult to make meaningful distinctions among employees in rewards. There were long debates about minor distinctions in ratings, which turned out to be unimportant without any link to rewards.

After a review of relevant research and effective practices, Beta transformed its process to de-emphasize annual reviews and focus more on ongoing performance measurement and feedback. The annual evaluation form was replaced by a monthly data collection form. Supervisors had previously been required to complete monthly performance notes for their direct reports, so they were already in the habit of documenting performance each month. The new monthly performance notes were automated with a simple Excel workbook to allow for easier collection and review of data. Supervisors answered a series of questions to indicate if they had observed each of several critical behaviors that month (e.g., “turned in documentation on time”; “spoke respectfully about clients”; “health and safety rules were followed.”). Additionally, they measured employees on several objective criteria such as the number of client hours delivered for the month. Qualitative comments could be added to the form as well. Supervisors and staff members met each month to discuss performance, and staff members received real-time feedback based on the performance indicators identified for their role.

Ninety-day and annual reviews were replaced with a summary of data collected to date. Instead of a performance rating on a 5-point scale, performance summaries showed the frequency that each behavior was observed. Behaviors observed less than 90% of the time were opportunities for improvement; those observed less than 80% of the time were considered serious performance concerns, as were any behaviors that indicated a health, safety or ethics violation (e.g., a failure to report suspected abuse). Calculating the summaries was easy with the automated tool—simply clicking a button produced a report that supervisors could share with their employees and included space for comments and individualized performance objectives. Because employees were receiving more regular feedback, annual conversations became more forward-looking and career-oriented.

The new continuous measurement and feedback approach was a major success. Supervisors felt the process was easier, and employees received more meaningful and targeted feedback. Employees appreciated the career-oriented conversations during annual reviews. Moreover, organizational leaders received better data to use in decision-making, and over 90% of summaries were completed on time.

* Beta Group is a pseudonym.
WHAT TO REMEMBER

- A single performance rating may be inadequate for making different types of talent decisions.
- Decisions will be better aligned to business goals when decision criteria are distinct (e.g., different criteria are useful when making promotion decisions versus compensation decisions).
- Distinct decision criteria can help employees better understand the reasons for the decisions and be more accepting of them.

FIGURE 4
CHECKLIST FOR EFFECTIVE FEEDBACK

**Giving Feedback**
- Focus on behaviors and not personal characteristics; focus on what the other person can control.
- Include specific examples of what the individual did or said.
- Provide feedback as soon as possible after an event.
- Provide feedback on a regular basis.
- Ensure feedback is accurate, fair, honest and straightforward; be compassionate, but do not sugarcoat major concerns.
- Seek to provide more praise than criticism; focus on strengths rather than dwell on weaknesses.

**Receiving Feedback**
- Instead of waiting for feedback, ask for advice in advance for how to perform more effectively; “feedforward” is easier to give than feedback.
- Ask for feedback frequently and always thank the feedback provider, regardless of whether you agree; look for what is useful or right about the feedback, even if you think some aspects are wrong.
- Recognize when you are receiving feedback; ask clarifying questions if needed to better understand what the feedback provider is trying to communicate.
- Separate the message from the messenger; don’t dismiss feedback just because you don’t like or respect the source.
- Be honest about your reaction to the feedback; keep it in perspective and seek support if needed.
MEASURING AND EVALUATING PERFORMANCE

Most organizations rely on annual performance evaluations or performance reviews as the primary means of measuring performance, with some organizations conducting semiannual reviews. Performance evaluations typically entail rating performance on one or more dimensions, using a 3-, 5- or 7-point scale (see example in Figure 5). Decades of research have attempted to improve the reliability and accuracy of these ratings with disappointing results. Regardless of how scales are constructed, who is providing the ratings and how raters are trained, ratings are largely unrelated to external measures of performance, and different raters rarely agree on performance ratings, even when they observe the same behaviors. Accurately rating behavior is extremely difficult, and even if managers could do it well, an extensive body of research demonstrates that they have little incentive to do so. Ratings more often reflect rater goals, organizational norms and political realities. For example, managers may provide high ratings to their employees for a variety of reasons that have little to do with how employees are actually performing, such as:

- Belief that providing low or average ratings will reflect poorly on them as leaders.
- Concern of angering or demotivating employees by providing low or average ratings.
- Organizational norms for providing higher ratings.
- Desire to be liked by direct reports and therefore seeking to provide higher ratings to make them happy.
- Desire to obtain the highest possible rewards for direct reports to prevent turnover.

These challenges, along with research that suggests evaluations are demotivating, have led to a fierce debate about whether performance ratings should be abandoned. Proponents of performance ratings argue that performance is always evaluated, regardless of whether it is done explicitly or implicitly. Moreover, without ratings it is difficult to substantiate differential rewards. While ratings themselves may not positively affect performance, they do serve as a forcing function to ensure that employees receive feedback at least periodically, and they provide the basis for some level of consistency in distributing rewards.

THE RATINGS DEBATE: SHOULD YOUR ORGANIZATION ELIMINATE PERFORMANCE RATINGS?

The question of whether to rate performance is complex and depends on how the ratings will be used in the organization. When deciding whether to have ratings, organizations should consider the following questions:

- What assumptions are we making about ratings (e.g., that ratings are important in motivating poor performers to improve)? Are these assumptions supported by evidence (e.g., do poor performers receive lower ratings, and if so, do these ratings lead to performance improvements?)
- How have ratings been used historically in our organization? What would be gained or lost if we eliminated them?
- What is the cost of our current rating system? How much time do managers and employees spend completing the rating process, and how much value do they get out of it?
- What is the link between performance and rewards? Do we have the means to provide differential rewards, and do ratings help us make these decisions?
- Are there external pressures that make it advantageous to keep ratings (e.g., regulations, accreditation guidelines, consent decrees)?
- If we eliminated ratings, would we be willing to commit resources needed to develop a stronger culture of coaching and feedback? Do we have the means to make effective talent decisions without ratings?

The answers to these questions can help organizations assess their needs, culture and risk tolerance, which are all important considerations for eliminating or retaining ratings. Organizations that decide to try a no-ratings approach will need to determine what will replace ratings: how decisions will be made and how employees will receive clear feedback on how they are doing. Organizations that decide to retain ratings can improve the process by following the guidelines in Figure 6.
## FIGURE 5

### SAMPLE PERFORMANCE EVALUATION TOOL EXCERPT

<table>
<thead>
<tr>
<th>Performance Standards</th>
<th>Ratings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Communication:</strong> Communicates in a clear, concise and appropriate manner that is tailored to the needs of the audience.</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td><strong>Collaboration:</strong> Develops and maintains effective professional relationships with others, shares information and contributes to a positive team climate.</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td><strong>Integrity and ethics:</strong> Acts in accordance with company values, follows the code of ethics, and admits mistakes and uses them as an opportunity to learn.</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td><strong>Customer service:</strong> Responds to customer needs and questions in a timely manner; communicates professionally and respectfully with customers.</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td><strong>Achieves results:</strong> Produces expected quality and quantity of work within agreed-on timelines and with minimal errors and need for rework.</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td><strong>Total (add circled numbers above and divide by 5 to calculate final score)</strong></td>
<td>☐ ☐ ☐ ☐ ☐ ☐</td>
</tr>
</tbody>
</table>

### Performance Rating Scale Definition

1 = **UNSUCCESSFUL** ➔ Performance falls short of expectations, even when extensive guidance, coaching and feedback are provided.

2 = **MINIMALLY SUCCESSFUL** ➔ Performance meets expectations with additional guidance and coaching.

3 = **FULLY SUCCESSFUL** ➔ Performance fully meets expectations.

4 = **EXCELLENT** ➔ Performance exceeds expectations.

5 = **ROLE MODEL** ➔ Performance far exceeds expectations and provides a model for others to follow.
FIGURE 6
PRINCIPLES FOR EFFECTIVE PERFORMANCE MEASUREMENT AND EVALUATION

Performance Measurement: Ongoing collection and analysis of information—used to improve performance

- Measure performance as directly as possible; use direct observations of behavior (e.g., note presence or absence of key behaviors) rather than rating behaviors on a scale.
- Use clear behavioral standards for measuring performance where needed and make the language as concrete as possible (e.g., greets each customer by smiling and saying “hello”; asks how he or she can assist).
- Use multiple means of measuring performance beyond manager observations, such as customer or peer feedback, crowdsourced feedback and objective outcomes.
- Ensure measurement is feasible and sustainable. Use measures that are already embedded in work processes and automate them where possible (e.g., web analytics).
- Acknowledge the potential for error and keep the focus of measurement on performance improvement rather than on performance evaluation.

Performance Evaluation: Judgments about the adequacy of performance—used to inform talent decisions

- Keep the performance rating process simple; require only the number of ratings and narrative justifications needed to support decisions that are based on the ratings.
- Use clear and descriptive language for rating scales and ensure that each level is distinct from the others.
- Tailor rating labels and descriptions to the organization’s culture (e.g., do not insist most employees be rated “meets expectations” if historically everyone has been rated above average).
- Ensure ratings fit the purpose for which they will be used. For example, if ratings are primarily for compensation decisions, ensure there is a clear link between the rating and the decision and ensure that this link can be explained to employees. Consider using different rating approaches for different decisions (e.g., bonuses are based on singular achievements, whereas pay increases are based on sustained performance; promotions are based on performance plus demonstrated ability to perform effectively at the next level).
Lost in the ratings debate is the importance of performance measurement, which is distinct from performance evaluation. Performance measurement is the ongoing collection and analysis of information about employee actions relative to expectations. Its purpose is to assess progress and provide information needed to adjust and improve future performance. In contrast, performance evaluation is a judgment about the adequacy of performance that organizations use to inform talent decisions, but it often comes too late to affect performance. Although both measurement and evaluation have their place in performance management, they serve different purposes, and one should not be substituted for the other. Figure 6 provides tips for doing each well.

Handling Poor Performance

Although one purpose of performance management is to handle poor performance, documentation is rarely adequate to do so (e.g., poor performers frequently have a history of satisfactory performance reviews, making it difficult to defend against legal challenges). Instead of requiring extensive documentation for all performance reviews, organizations should require additional documentation for any employee not performing to standard. At minimum, this documentation should include specific examples of why the employee is not performing satisfactorily and what feedback, coaching and training the manager has offered to help the employee improve. This documentation should begin as soon as significant performance problems are observed, rather than waiting for the annual review. Another good practice is to develop a performance improvement plan (PIP) that specifies what the employee must do and in what time frame to perform at a successful level.

Performance measurement can come from many sources and include both objective and subjective data. Objective measures could include number of items produced or sold, number of errors, speed of accomplishing specific tasks, or volume of items processed. Subjective measures could include frequency of key behaviors observed or customer ratings collected on an ongoing basis. For example, a health care professional’s performance could be measured by objective criteria, such as infection rates, adherence to care procedures and protocols, and number of patients treated each day. Subjective measures could include patient and family satisfaction and feedback from others such as peers, supervisors and direct reports. These multisource, or 360-degree, ratings can be used for both development and evaluation, though they are generally more honest when organizations use them for development rather than for performance evaluation.

Performance evaluation is often used as the basis of decisions about pay, promotions and other outcomes. Organizations frequently struggle with getting enough differentiation in ratings to make meaningful distinctions in rewards because ratings tend to be inflated, with most employees being rated above average. This challenge is especially acute when organizations rate against a common standard (criterion-referenced ratings) rather than rating employees against their peers (normative ratings). Many organizations attempt to combat this problem by implementing forced rankings—usually by forcing a normal distribution, with most people being rated “average” and roughly equal numbers of low and high ratings. However, recent research demonstrated that performance is often not normally distributed. Performance is frequently skewed, with most employees clustering tightly together at the low end, with about 20% of the population outperforming their peers by several orders of magnitude. Therefore, rather than attempt to force a normal distribution, organizations may be better served making fewer rather than more distinctions with ratings, identifying the following categories of employees:

- Employees who are clearly not meeting standards and need immediate improvement.
- The vast majority of employees who are doing an adequate job and should receive rewards.
- The top performers who should receive the highest rewards.

Many organizations have switched to a 3-point rating scale for this very reason, though the adjustment can be challenging for employees who were used to being rated a 4 and subsequently rated a 2, even when rewards remain unchanged. Related to the principle of loss aversion, employees are more likely to resist a change that feels like a loss, even if there is a potential for gain (e.g., simplicity). As illustrated in the case study on page 28, these transitions can be easier when organizations tailor evaluation scales to the decisions that need to be made.

Performance is frequently skewed, with most employees clustering tightly together at the low end, with about 20% of the population outperforming their peers by several orders of magnitude.
CASE STUDY

Refining Decision Criteria

A midsize government agency focused on national security had a traditional performance management system. Like many other federal government systems, it included setting individual annual objectives and conducting end-of-year performance reviews that included ratings on each objective and on several behavioral performance criteria (e.g., communication, collaboration). Performance reviews comprised an employee self-assessment and a supervisor assessment, and completing the forms was time-consuming and tedious for all involved. Each employee received a single summary rating that was used to determine a variety of rewards: eligibility for promotion, merit increases and two different types of performance bonuses.

Like in many other organizations, agency leaders were frustrated with the current performance management approach—it took too much time, yielded too little differentiation among employees and was ultimately not useful for making effective talent decisions. A key insight from HR leaders at the agency was that a single rating was inadequate for different purposes. For example, one of the performance bonuses was intended to reward near-term accomplishments while the other was intended for sustained high performance over several years. Likewise, promotion decisions involved a review of not just current performance but demonstrated ability to perform the responsibilities required at the next level. These nuances were difficult to capture in a single rating.

Given this insight, the agency decided to create different processes and criteria for different decisions (promotion, merit increase, bonus). However, agency leaders did not want to add more time and complexity to the overall process. They addressed this challenge by dramatically simplifying the performance review process. Regulations required that employees receive a rating of record, so ratings were changed from a traditional five-level rating scale to “pass or fail”—a pass meant the employee was meeting or exceeding expectations, while a rating of fail was an indication that immediate action was needed to help the employee improve performance. Managers could further recommend merit increases and bonuses, using criteria specifically tailored to each decision. These recommendations were supported with short narratives. Employees could self-nominate for promotion by providing a narrative statement about their performance and qualifications. Managers could add their own endorsement to the employee’s statement, but a manager recommendation was not required for consideration. Promotion decisions were then made by a panel of leaders who considered all available information related to specific requirements for each position.

The results were overwhelmingly positive. The entire process was easier and faster than the old system. It yielded better information with which to make different decisions. In addition, employees had a more direct voice in the process by writing their own promotion statements, and manager narratives could focus specifically on the reasons for each decision rather than attempt to describe everything about an employee’s performance. Agency leaders believed their decisions were higher quality and better justified. Moreover, employees were more accepting of decisions because they received clearer feedback on the reasons for each decision that affected them. The organization’s culture was also a factor in the receptivity to the new system. Employees tended to be well educated, and they valued data-driven decision-making. Therefore, they appreciated the clearer decision criteria and could readily appreciate how these criteria supported specific business goals.

WHAT TO REMEMBER

- A single performance rating may be inadequate for making different types of talent decisions.
- Decisions will be better aligned to business goals when decision criteria are distinct (e.g., different criteria are useful when making promotion decisions versus compensation decisions).
- Distinct decision criteria can help employees better understand the reasons for the decisions and be more accepting of them.
EVIDENCE-BASED INSIGHTS

- Goals work by improving focus and inspiring action\(^{24}\) and lead to better performance when they are specific, challenging, personally meaningful and within the individual’s control to achieve.\(^{35}\)

- While the tenets of SMART goals are generally sound, they leave out the notions of challenge, personal importance and control—each of which has been shown to be important for improving performance.

- Goals that link only to external motivators are unlikely to have long-term incentive effects versus goals that pull on internal motivators such as mastery, autonomy and purpose. Goals are more effective if they align with an individual’s personal interests and values, leading to greater ownership.\(^{36}\)

- The most effective feedback is honest, specific, strengths-oriented and focused on behaviors rather than on personal characteristics. It is delivered in a timely manner and is part of a two-way dialog. It comes from a credible source who knows the recipient’s work and can provide useful insights to help the individual improve.\(^{37}\)

- Performance evaluations typically entail rating performance on one or more dimensions, using a 3-, 5- or 7-point scale. Decades of research have attempted to improve the reliability and accuracy of these ratings with disappointing results.\(^{38}\)

- Regardless of how scales are constructed, who is providing the ratings and how raters are trained, ratings are largely unrelated to external measures of performance, and different raters rarely agree on performance ratings, even when they observe the same behaviors. Accurately rating behavior is extremely difficult, and even if managers could do it well, an extensive body of research demonstrates that they have little incentive to do so.
HOW TO IMPLEMENT
PERFORMANCE MANAGEMENT
While a sound performance management design provides an effective foundation for performance management, success ultimately rests on the strength of implementation and sustainment efforts. Any poorly implemented system will fail to deliver results, despite the best of design intentions. The basic elements of performance management implementation have been covered extensively elsewhere; therefore, this section highlights emerging practices in implementation and some of the elements of implementation typically given insufficient attention.

Of the elements illustrated in Figure 7, communication often goes underutilized, despite years of admonitions in professional practice to attend to it. In his classic *Harvard Business Review* article on why many large-scale change efforts fail, John Kotter explained that change leaders often under-communicate the change vision by a factor of 10. Recent research on cutting-edge performance management practices (some of the same as those advocated above) support this contention—demonstrating not only that constant and consistent messaging is important but that senior leaders of the business must play a role as the communicators of this messaging. Business unit or line leaders will need to clearly communicate how performance management will contribute to the business and why it is an essential part of how work gets done to avoid the perception that performance management is “just another HR-owned initiative.” HR leaders have a different communication role: to help employees understand how the process will work and what supports are available.

Given the uneven record of performance management systems in general, it is helpful to reconsider the typical implementation approach. For example, in the world of information technology, a revolution has taken place regarding “agile” methods of development. This approach has focused on pushing development teams to remove wasted time in development cycles and optimizing the time-to-market. Such agile approaches are defined by speed, efficiency and flexibility.

Leading management consultants have subsequently asked whether these same agile methods can be applied to human resource activities, including systems like performance management.43

- **Transparent communications.** An agile development team provides visibility into implementation details, plans and progress at every level of an organization.
- **Ongoing evaluation.** Many performance management systems are designed in a back room and then rolled out only once every design detail is determined. In the agile world, components of the system are launched as early as possible, and ongoing testing, evaluation and customer feedback shape and reshape the offering.
- **Rapid training and adaptation.** Like a focus on quick deployment and reevaluation, training in an agile approach is light, just in time and ongoing. Moreover, training plans and offerings are reshaped as user expectations and needs change.
- **Features that add obvious value.** In general, a minimalist approach to start is best. Thus, a performance management system rollout should include the bare minimum of rules and processes needed to achieve the desired result and add only new rules or processes that have a demonstrable positive return on investment (ROI).45

![FIGURE 7](image.png)

**FIGURE 7**

**BASIC ELEMENTS OF PERFORMANCE MANAGEMENT IMPLEMENTATION**

<table>
<thead>
<tr>
<th>Communication</th>
<th>Piloting or Prototyping</th>
<th>Automating</th>
<th>Training</th>
<th>Change Management</th>
<th>Implementation Governance</th>
<th>Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="communication.png" alt="communication" /></td>
<td><img src="piloting-or-prototyping.png" alt="piloting or prototyping" /></td>
<td><img src="automating.png" alt="automating" /></td>
<td><img src="training.png" alt="training" /></td>
<td><img src="change-management.png" alt="change management" /></td>
<td><img src="implementation-governance.png" alt="implementation governance" /></td>
<td><img src="evaluation.png" alt="evaluation" /></td>
</tr>
</tbody>
</table>
**TECHNOLOGY PITFALLS TO AVOID**

Although technology is the typical delivery platform for all modern HR interventions, including performance management, endless amounts of time, money and effort have been wasted on complicated automated systems that do little to meet the end goals of the envisioned system. Here is a list of frequent pitfalls to avoid in IT development and implementation:

- **Having too many needs.** As argued above, good modern performance management implementation focuses on a specific set of features and needs that derive value for employees and the organization. Complicated IT systems that are expected to address everything are doomed to overpromise and underdeliver.

- **Being swayed by bells and whistles.** HR technology is currently at a high point of hype, marketing and fad adoption. IT vendors are presenting a dizzying host of engagement apps, analytics tools and feedback portals. While it is tempting to be swayed by these intriguing features, related to the first point above, it is better to focus on clearly value-added features.

- **Underestimating the people change issues.** IT change issues ultimately turn into people change issues. Effective IT can be implemented only when user engagement, involvement, training and feedback are core parts of the IT build. Moreover, technology, people, data, budget and process governance must be woven together to deliver clear value propositions for all stakeholders involved.

- **Getting the right team and skills.** Each of the bullets above suggests that IT implementation must be driven by a sophisticated, interdisciplinary team of professionals with skills across an array of domains, including marketing, branding, learning, IT development, evaluation and IT market savvy. Such skills are often in short supply in today’s organizations; therefore, organizations should conduct a cogent assessment of their readiness for IT change and delivery early on in their planning cycle.

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**GOVERNANCE**

Role clarity and understanding who is making what decisions can be the sources of either great corporate governance or unending organizational dysfunction. In this regard, performance management is no exception. Once an organization implements new practices, it needs a strong governance structure to monitor the process overall and make decisions about proposed changes. A strong statement of purpose and guiding principles (including a charter) can help a governance body ensure that the system continues to meet its intended purpose. One of the best places to start with good governance is to clearly describe the responsibilities of each of the relevant parties in the performance management system, such as the employee, supervisor, reviewer or review board, and oversight governance board.

For example, if managers at any level in a chain of command are used as “reviewers” in performance appraisal efforts, the expectations of these reviewers should be made explicit (e.g., review compliance with standards, ensure that documentation matches performance management outcomes). As a case in point, we have seen real-world situations in which reviewers overturned appraisal results to the extent that the reviewers in essence became the actual appraisers. In this case, this role stood in contrast to the stated role of reviewers in the performance management system design, which was to confirm adherence to standards and ensure proper documentation. Similarly, if boards or managers at higher levels are used to review performance management results, a good governance model must ensure that oversight is in balance with line of sight and that first-line supervisors still feel as if their decisions actually matter.

At the top levels of an organization, governance must also be in place to keep in check two primary performance management pitfalls that frequently occur, namely opportunistic behavior and misallocation of resources. For example, too often we have seen systems that fail to align allocation of performance-based rewards and recognition to the actual goals and strategic objectives in the organization. Moreover, opportunistic behavior occurs, often driven by short-term thinking, whereby managers or other key decision-makers act to implement a solution in one area of the business at the sacrifice of long-term strategic coherence.

Role clarity and understanding who is making what decisions can be the sources of either great corporate governance or unending organizational dysfunction.
A Minimalist Approach to Performance Management

Smith & Sons* is a small, family-owned and family-run home repair and construction business. The company had recently grown from five construction teams to almost 10 teams, doubling in size. The owners began wondering if they needed to replace their somewhat informal performance management system with something more formal. The owners did not want to spend a lot of money, but they wanted to ensure that the system would be legally defensible and easy to use for employees and supervisors with varying degrees of education. After meeting with a local management consultant, the organization decided on a system that included the following minimal elements:

- **Team objectives.** Each construction team set annual goals or “objectives” and devised a way that the teams could track their progress against these goals in an ongoing manner. In addition, clear role descriptions were given to all team members describing their day-to-day job requirements and how their role fit into meeting the team objectives.

- **Light continuous feedback.** Each team supervisor received a basic training course on providing a minimum of continuous feedback. The owners of the company decided to check in quarterly with each team supervisor to see how things were going and to ensure that continuous feedback was occurring in the teams.

- **Customer feedback.** Using an open-source online review portal, customers were encouraged by the teams to send in written reviews and feedback to the supervisors.

- **Performance reviews.** The consultant helped the organization construct a basic review form with a simple successful/unsuccessful scoring system and a recommendation box for a pay increase and/or promotion. A simple template was also generated to guide conversations on how employees might advance (via promotion) to one day run a team of their own.

**WHAT TO REMEMBER**

- Even small organizations with limited HR budgets can still have an effective performance management approach by following a few key guidelines.

- The most important elements to include are a consistent method of setting expectations, training managers to provide ongoing feedback and a basic review process that allows organizations to assess performance consistently and use this information for talent decisions.

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* Smith & Sons is a pseudonym.
PAY FOR PERFORMANCE

Given the pace of changes in the HR landscape and predictions for even greater changes, one can question how many or what types of linkages between performance management systems and other systems are needed or even valued. Among the most prominent topics regarding such linkages is how modern performance management systems can be linked to pay or “pay for performance,” particularly in cases in which simplified or “ratingless” systems are used. Pay for performance works best when organizations can isolate, measure and clearly link employee effort to outcomes (e.g., individualized sales or production roles). However, pay for performance often does not work as well as intended for the following reasons:

- The links between extrinsic rewards and employee motivation are not always direct. External rewards can sometimes decrease internal motivation, creativity and performance.
- Annual raises are typically on the scale of 2% to 5%, thus providing little opportunity to differentiate performance or to increase what extrinsic motivation is present. When substantial monetary rewards are used, they are frequently tied to concrete outcomes/accomplishments (e.g., profit sharing, bonus systems) and are not always easy to ascertain through traditional performance reviews.
- Due to ratings inflation and idiosyncratic rating patterns, most real-world rating systems have insufficient variance to support decision-making. Even when they are used, ratings are often an intermediary in actual decision-making. Managers are often just as well off using rank-order priorities against job-relevant criteria and a set budget.
- In many pay-for-performance schemes, linkages to organizational, unit or employee goals are nebulous at best. Thus, demonstrating bottom-line value for such systems often falls short.

To create conditions that promote pay-for-performance success, organizations should focus on the following features:

- Reward contributions that truly add value to the organization’s mission or bottom line.
- Ensure that employees have line of sight between their inputs and rewards and that they have sufficient personal control over rewarded outcomes.
- Communicate aspects of the reward system clearly and consistently, in line with effective implementation strategies.
- Evaluate pay-for-performance systems over time, assessing both intended and possible unintended consequences.

To combat these tendencies, a high-level corporate governance structure should be in place that looks beyond merely tactical issues to address strategic aspects of performance management, including the following:

LINKING TO OTHER TALENT MANAGEMENT PROCESSES. In many modern systems, performance data are used to inform many other talent processes, such as compensation, employee development, career development and succession planning. While these connections are important, these processes serve different purposes. Therefore, connections need to be clear yet flexible. A governance body can help ascertain whether such connections are working as intended and collaborate with local HR professionals to remedy linkages that are not adding value.

DRIVING CULTURE CHANGE. The ultimate goal of many performance management transformation efforts is to bring about culture change in the organization. Performance management both reflects and contributes to organizational culture. Culture change takes time and significant effort to achieve. Thus, appropriate governance bodies can help monitor and support the interim steps that organizations can take to influence culture change, such as the phases required in building a feedback culture.

MEASURING SUCCESS. Many performance management systems rely on compliance and utilization metrics to assess success (e.g., how many employees submitted goals on time, how many performance reviews were completed on time). Some assess ease of use for the new system and perceived usefulness. However, these metrics are only one component of success. A more complete means of measuring success also includes indicators of new behaviors (e.g., better feedback, high-quality conversations) and impact on the organization (e.g., better decisions about people). Appropriate governing bodies should receive ongoing reports and metrics on such markers of success and be willing to act on this feedback to navigate pitfalls as implementation occurs and as changes in performance management occur across time.

Good governance is one way in which HR organizations can meet the growing mandate to expand its role beyond...
a traditional focus on talent management, processes and transactions. As a part of good corporate governance, HR organizations can “be at the table” with top-level executives across functions to monitor the ways in which performance management is hopefully simplifying, improving and nurturing the entire employee experience.

LEGAL IMPLICATIONS FOR A CHANGING PERFORMANCE MANAGEMENT LANDSCAPE

With changes in traditional performance management approaches, the typical practitioner or HR professional may wonder whether legal standards or risks have consequently shifted with changes in practice. Although legal definitions and case law do shift over time, the basic elements of legal defensibility have remained largely intact. Specifically, the following factors are key to defensibility:\(^{54}\)

- Ensure appraisal/evaluation elements are based on job-relevant content.
- Set employee expectations/standards in advance.
- Have documented roles and responsibilities.
- Train managers and employees on the process.
- Document justifications for reward and recognition decisions.
- Provide timely feedback.
- Have a formal appeals process.
- Ensure alignment between evaluations and decision outcomes.

Note that one element not included in this list is the use of numbers or rating scales. The average employee, manager or even HR practitioner may believe that a system is more objective and defensible because of the use of complex rating scales or other numerical designations, but this is not the case. Often arbitrary rating systems, plagued by many of the issues highlighted above (e.g., ratings inflation, idiosyncratic rating patterns, multiple sources of error), can actually make a performance management system less rather than more defensible. Instead, practitioners should focus on the elements mentioned above that support defensibility more directly.
SUMMARY AND CONCLUSIONS
The landscape of performance management has likely forever changed. Whether anyone has figured out the optimal set of practices supported by research is in doubt. Nonetheless, gone are the days when performance management meant using a somewhat static annual process, focusing solely on supervisor-subordinate pairs with little input from others, and relying on complex and likely invalid rating processes in an often feedback-poor environment.

With the new normal in mind, this report outlines the core issues concerning past performance management designs, suggests new possible design alternatives and reviews key elements of implementation.

Below are 10 key points that summarize the practice guidelines and help practitioners as they navigate an increasingly complex performance management landscape and find new opportunities to lead performance improvement and engagement efforts.

1. **Performance management is alive and well.** Critics have called for the demise of traditional performance management, leading to many cases of performance management experimentation and transformation; however, these examples often leave practitioners with more questions than answers.

2. **Performance management often tries to serve too many purposes.** Root causes of performance management failure are well-defined and documented, starting with the ubiquitous element of trying to serve too many purposes.

3. **Research supports the value of many performance management practices.** Despite many flaws, evidence supports the value of many individual performance management practices, and a set of sensible practices can be identified and implemented.

4. **Changing mindsets is the first step to transformation.** Sensible practices begin with a shift in thinking that emphasizes simplicity, flexibility, relationships and communication and that de-emphasizes complexity, rigidity and strict adherence to policies and procedures.

5. **A clear purpose statement can guide transformation efforts.** It is critical that a clear statement of purpose and guiding principles (starting with the end in mind) serve as the means to evaluate any proposed interventions or processes.

6. **Good implementation outweighs elegant design.** Despite the best of design intentions, implementation or execution is more important than design.

7. **The key to good implementation is communication.** In implementation, constant and consistent communication by senior business leaders is critical.

8. **Agile implementation provides a useful model for performance management change.** Following innovations in IT development, a set of agile guidelines and practices is worth considering for performance management implementation.

9. **Effective governance ensures performance management adapts to business needs.** Good corporate governance is critical to performance management implementation. Good governance will help monitor and adapt to changing demands as they occur.

10. **HR and business leaders should partner for performance management success.** As a part of good corporate governance, HR organizations can “be at the table” with top-level executives across functions to monitor the ways in which performance management is hopefully simplifying, improving and nurturing the entire employee experience.

Gone are the days when performance management meant using a somewhat static annual process, focusing solely on supervisor-subordinate pairs with little input from others, and relying on complex and likely invalid rating processes in an often feedback-poor environment.

The debate over performance ratings has played out in popular press articles and opinion pieces. This article thoroughly summarizes the research and practical considerations on each side of the debate. Rating critics argue that ratings don’t accurately reflect performance, in part because an objective understanding of job performance remains elusive. Moreover, they note the importance of context and rater goals in determining ratings, and the difficulty in evaluating behavior accurately. On the other side of the debate, ratings supporters argue that performance is always evaluated whether ratings are explicit or implicit and that organizations have not yet found a suitable substitute for making effective talent decisions and ensuring employees receive feedback.


In this book, Dr. Aguinis presents a comprehensive view of performance management. One of the strengths of this volume is the emphasis on the role of context. This volume presents a solid overview of the intersection between science and practice and brings an important interdisciplinary view to performance management. Another strength is the presentation of over 40 case studies, which help the reader see evidence-based practices in action.


This article makes the case that individual performance is a building block for organizational success. The authors acknowledge that performance management is perceived as lacking value but note that this is because most performance management approaches focus on the appraisal at the expense of other important activities, such as setting expectations and providing ongoing feedback. They offer research-based guidance on building a more effective approach.


This paper presents another helpful case study, this time featuring performance management changes at the company Adobe. Some of the key changes and practices highlighted in the article include reimagining performance reviews as an ongoing versus annual process, a greater emphasis on development and an employee’s progress forward versus looking backward, and changes to their processes that emphasized people as important assets versus being subjects of evaluation.


While not specifically about performance management, this important article emphasizes a focus on the core health of an enterprise rather than short-term returns to shareholders. This critical distinction has implications for the role of performance management—by emphasizing long-term health and development, performance management can become an essential tool for future-focused corporate health and governance versus a chagrined aspect of HR mandating and monitoring.


This paper presents a fascinating case study on how the large global consulting firm Deloitte redesigned its performance management system. This study presents some thoughtful approaches to working through the issues of selecting specific measures, dealing with rater effects, testing the system and iterating designs, and striving for increased transparency. Many helpful lessons learned and design ideas are presented.


Vocal critics of the performance review, the authors provide a scathing analysis of traditional evaluation practices in organizations. One of their key assertions is that performance reviews set up a dysfunctional power dynamic between employees and managers in which managers take the role of judge and are the sole arbiter of defining success. They argue that this dynamic harms performance and engagement. They offer an alternative approach to performance management that entails ongoing, two-way conversations in which employees and managers collaborate on setting performance expectations and evaluating results.


This research examined the impact of feedback and goal orientation on satisfaction with performance appraisals. Results indicate that individuals with a performance goal orientation tend to be more dissatisfied with negative feedback than individuals with a learning goal orientation, but the reverse was true for positive feedback. However, everyone was dissatisfied to some extent when receiving negative feedback as part of an appraisal, highlighting the risks of focusing on performance weaknesses during reviews.

From two of the top researchers in performance management, this paper provides an excellent overview of published research on elements of performance appraisal and performance management, focused quite heavily on ratings research. Areas discussed in the paper include scale formats, criteria for evaluating ratings, training, reactions to appraisal, purpose of rating, rating sources, demographic differences in ratings, and cognitive processes.


Based on practical experiences developing and implementing various talent management systems in large organizations, the authors present a simplified approach to many HR practices. A core principle highlighted in the book is that steps and requirements should only be added to an HR activity if they add more value than they cost in terms of time and aggravation to complete. Moreover, the authors urge HR practitioners to use evidence-based approaches rather than rely on fads and to ensure accountability and transparency are built into every intervention.


Pay and its relationship to motivation, performance and creativity is a complex subject. In this significant overview of the motivational effects of compensation, many long-held beliefs are reviewed and revisited. The authors offer what they argue is a more scientifically grounded view of how extrinsic rewards such as pay for performance function and how they influence motivation, creativity and performance. Understanding such dynamics is a must for designers of performance management systems, which incorporate significant linkages to pay.


This volume offers an excellent overview of how to set up and use feedback systems in practice. The authors offer a well-argued view of feedback as an essential element of coaching, management and human resource practices. The book covers a wealth of research and translates this research into evidence-based practices. Of particular importance to practitioners, the authors offer a straightforward model of feedback featuring four critical elements, including the behaviors of the feedback provider, the content of the message, the beliefs of the feedback recipient and the context in which feedback takes place.


This seminal article presents a comprehensive meta-analysis on the effectiveness of feedback. The results of years of research reveal that feedback does not always improve performance; about a third of the time, feedback has a negative impact on performance, a third of the time it is neutral, and a third of the time it has a positive impact. The authors explore various moderators of the feedback-performance relationship, notably the importance of focusing on behaviors rather than personal characteristics when offering both praise and constructive feedback.


In this classic paper on why change efforts succeed or fail, Dr. Kotter offers sage insights into critical success factors. The article is based on a 10-year study of more than 100 companies that attempted transformations. Many, if not all, of the factors cited are still highly relevant and often overlooked today. The paper outlines eight of the most significant errors that can undermine change efforts and discusses the factors that can encourage success. For change agents undertaking performance management changes, this classic paper is a must read.


This seminal article reviews and summarizes research on performance ratings. The authors’ analysis shows that ratings suffer from numerous random and systematic errors. They conclude that despite years of research and experimentation, different rating scales and methods do little to improve rating accuracy, resulting in a call for a moratorium on ratings research. They note that research on rater cognitive processes holds the most promise for understanding ratings.


This article summarizes eight categories of studies that advance goal theory: goal choice, learning goals, framing, affect, group goals, goals and traits, macro-level goals, and goals and subconscious priming. For example, research on macro-level goals shows that organizational growth goals along with self-efficacy and organizational vision predict future growth. Because goal-setting works across a variety of situations and tasks, future research possibilities are unlimited. One suggestion for future research is to explore the link between goal setting and other theories.

Goal setting offers many benefits, including increased performance and self-esteem. Decades of research demonstrate that performance is better when individuals set challenging and specific goals rather than simply aiming to do their best. However, goal setting does not always increase performance. Pitfalls can include conflicts among competing goals, goals that are too difficult and result in increased stress, and decreased willingness to take risks if the penalty for not attaining goals is too high, among others. In this article, the authors discuss the benefits and pitfalls in detail and offer several strategies for overcoming the pitfalls, such as focusing on learning goals rather than performance goals in some situations.


This article presents survey research results from a sample of 244 organizations that are engaging in cutting-edge performance management practices: ongoing feedback, ratingless reviews and crowdsourced feedback. In this sample, 97% of organizations engage in ongoing feedback, 51% use ratingless reviews, and 27% use crowdsourced feedback. Most organizations surveyed used cutting-edge practices in conjunction with more traditional performance management practices (e.g., cascading goals). Based on the self-reported effectiveness of these strategies, organizations find that they are somewhat helpful for increasing alignment of individual efforts with organizational goals, improving the overall performance management process and meeting reward system objectives.


This book presents a theory of goal-setting and its relationship to performance. It includes a summary of goal-setting research and includes extensive empirical evidence to support its positive relationship to performance. To this date, support for the effect of goal setting on performance was based on research with over 40,000 men and women from Asia, Australia, Europe and North America. Samples from field and laboratory studies of individuals and groups are included. Goals work by creating a discrepancy between the current and desired state. This discrepancy must be large enough to cause discomfort but not so large to feel impossible to resolve. Therefore, goals are most effective when they are challenging (but still attainable) and specific so that the individual knows what must be done to meet the goal.


Aimed at helping managers and HR professionals, this classic book provides information about giving and receiving feedback in a way that enhances its effectiveness. London uses a model to help the reader understand how feedback content and process can impact effectiveness and receptivity. Related to performance management, the book describes how to change the focus of the appraisal from monitoring and judgment to development and coaching. It reviews various approaches to gathering feedback, including 360-degree feedback, and addresses the impact of culture on feedback. It also discusses how employees can gather, accept and use feedback to change their own behavior and increase their performance.


Performance management is both shaped by and helps shape an organization’s culture. This chapter describes the various ways in which performance management relates to organizational culture through policies, practices and procedures and how changes to performance management can result in changes to the culture. For example, if an organization wanted to drive greater employee innovation, it could allow more flexibility in individual performance goals. Current issues in performance management are described, such as multisource feedback and links to engagement, along with how these issues relate to culture.


This paper is one of a series published in partnership between the Society for Industrial and Organizational Psychology and the Society for Human Resource Management. The paper briefly frames the central problem with traditional performance management processes: that they often fail to improve performance. It offers three key strategies for developing a performance management process more likely to positively impact performance: setting goals effectively, monitoring performance and providing feedback, and evaluating performance. Alternatives to using performance ratings are discussed.


This book provides candid and evidence-based guidance for creating an effective performance management process. It begins by making a business case for why organizations should
consider transforming performance management: to save money, increase employee morale and improve performance. The book presents a model of effective performance management and practical ideas for designing and implementing performance management effectively. Step-by-step guidance is offered for each major performance activity: setting expectations, measuring performance, providing feedback, making talent decisions with performance information and handling poor performers. Strategies for effective implementation and driving lasting behavior change are discussed. The authors conclude with an exploration of emerging and future trends in performance management.


This book examines the performance appraisal process from a social-psychological perspective, emphasizing the goals pursued by raters, employees and other stakeholders in the process. Research demonstrates that raters often have a variety of goals when rating employees beyond the desire to accurately evaluate performance, such as a desire to preserve relationships with employees and/or pressure to conform to expected rating norms. The context in which appraisals are done can significantly impact rater goals and outcomes. Given the demands and pressures faced by managers, pursuing various rating goals can be a prudent way to navigate the political landscape in organizations. The authors offer several recommendations for application and future research.


GE has long been known for its “rank and yank” performance management approach in which employees were ranked against their peers, and the bottom 10% of employees were subsequently fired. Although this practice was abandoned in the mid-2000s, the remaining performance management process was fairly traditional. However, GE has since undertaken a more significant shift, moving away from traditional performance reviews and instead implementing real-time, crowdsourced feedback. This article tells the story of this transformation and describes the business rationale for the changes.


A long-held assumption in organizations is that employee performance is normally distributed. That is, performance looks like a bell curve with most people performing in the middle or average range and equal numbers of people performing exceptionally well or poorly. However, this research challenges this assumption. The authors present the results of five studies involving 633,263 individuals across different industries and jobs that shows that performance follows a Paretoian or power law distribution. That is, most individual performance clusters together at the low end of the distribution, while a few individuals perform exceptionally well. The implications are that organizations should focus on identifying and rewarding the top performers rather than making performance distinctions among all employees.


This book presents a practical and hands-on guide to designing and implementing an effective performance management approach. It includes step-by-step instructions for developing each component of the performance management process along with examples, best practices and tips for avoiding common pitfalls.


This report presents a detailed discussion of how to build a high-performance culture through the effective use of performance management. It includes a four-step process to motivate change, lay the foundation for a more effective system, sustain new behaviors, and monitor and improve the new process. To motivate change, organizations should assess their current performance culture and then shift mindsets by communicating big-picture goals to employees and providing ongoing expectations and feedback. Laying the foundation entails fixing the performance management policies and procedures to scale back burdensome requirements and training all managers and employees how to engage in the system. To sustain behavior changes, organizations should provide job aids and tools to help managers and employees engage in effective practices such as setting expectations and providing feedback. Finally, changes must be monitored and leaders held accountable for performing these behaviors effectively.


Effective performance management practices are important drivers of high performance and engagement; however, numerous attempts at fixing performance management systems have been unsuccessful. The primary reason for this lack of success is the exclusive focus on system changes rather than behavior change. This article explores strategies for achieving lasting behavior change. It emphasizes the importance of experiential learning to developing new manager and employee behaviors. On-the-job
Experiential learning has long been known to be an effective learning method (such as setting clear expectations and providing effective feedback), especially for soft skills. The authors propose a structured approach to experiential learning designed to maximize exposure to the right kind of experiences and extraction of learning principles from them.


Understanding and improving performance management systems in organizations has been the topic of numerous research and practice articles; however, performance management remains largely ineffective. This article notes that a significant part of the problem is that performance management has been reduced to prescribed steps within formal administrative systems that are disconnected from the day-to-day activities that drive high performance. The authors argue that improving performance management will not come from simply improving features of the process. Instead, real improvements are more likely to come from increased attention on improving manager-employee communication and the manager-employee relationship.


This article describes the SCARF model, which is based on neuroscience research and describes human behavior in organizations. The fundamental tenet of the model is that the brain treats social threats and rewards with the same intensity as a physical threat. Therefore, social threats can inhibit judgment and performance. Five domains of human social experience can activate reward and threat perceptions: status, certainty, autonomy, relatedness and fairness. To improve performance, it is important for organizations to minimize perceived threats in these domains. This article has numerous implications for performance management. For example, if performance ratings are perceived as unfair, the employee will perceive the rating as a threat, and performance will suffer.

Stone, D., & Heen, S. (2014). *Thanks for the feedback: The science and art of receiving feedback well (even when it is off base, unfair, poorly delivered, and, frankly, you’re not in the mood).* New York, NY: Viking.

Feedback is continuously available, even when it is not expected or desired. This book takes a fresh look at feedback from the receiver’s point of view. It offers tips for overcoming resistance to feedback and provides guidance for how to interpret different types of feedback. It discusses how to listen to and accept feedback gracefully, even if the news is surprising or unpleasant. Finally, advice is offered for how to use feedback to improve performance.


For many years, Microsoft used a stack-ranking system to rank employees directly against their peers. The company found that this practice resulted in unhealthy competition; therefore, to drive greater collaboration, they decided to stop stack-ranking employees and instead move to a system of ongoing feedback. This article describes the change that Microsoft undertook and shares the memo that Microsoft sent to its employees announcing the change.


25 Stone, D., & Heen, S. (2014). *Thanks for the feedback: The science and art of receiving feedback well* (even when it is off base, unfair, poorly delivered, and, frankly, you’re not in the mood). New York, NY: Viking.


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