6 STEPS TO PERFORMANCE MANAGEMENT BEST PRACTICES
A PRACTICAL GUIDE
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Establishing Effective Performance Management

For many medium size businesses, finding the time to proactively manage employee performance is difficult. The emphasis is more often on increasing revenues and achieving stability, especially in the early days. However, as businesses grow, the need for improving staff engagement, productivity and loyalty becomes increasingly important. It is at this critical stage that Performance Management can mean the difference between businesses that experience sustained growth and those whose momentum falters.

Even when organizations are aware of the importance of Performance Management, the tendency is to carry it out in an ad hoc manner. Such methods work with a low headcount, but as this increases, more formal processes are needed.

An enormous body of research has shown time and again that consistent employee feedback plays an important role in the success of larger organizations:

“Over the last three decades, extensive surveys of over 250,000 employees in a huge range of industries around the world have established that keeping employees happy and committed depends on a few simple practices...Research shows that effective human capital practices can add up to 47% more shareholder value.”

Katiyar & Khalid 2014.¹
A Practical Guide to Performance Management

This whitepaper offers a practical guide for businesses that have identified Performance Management as part of their long-term growth strategy. Drawing on industry research, client case studies and our extensive experience in this field, it offers step by step advice on how to integrate Performance Management into a company’s workflow.

We will look at the six steps involved in developing an effective Performance Management strategy:

1. Establishing a business case
2. Tailoring Performance Management to your specific business needs
3. Implementing effective staff reviews
4. Building a process that adapts as your business evolves
5. Analysing and understanding your strategy’s effectiveness
6. Using the most appropriate technology for your company

These steps are intended to provide insight and clarity to any business preparing to implement Performance Management. This paper will identify the major challenges typically faced when it comes to introducing Performance Management, and provides practical steps to develop a strategy to overcome them.
The Crucial Role of Performance Management

“It’s great being able to enter goals for employees and better manage performance and behavior”

Hilary Dempsey, head of HR at TERMINALFOUR

Performance Management can be seen as a process which involves communicating with employees so that they are aware of what is expected of them, while ensuring that their goals and actions are aligned with company strategy. It is about effectively managing individuals and teams so as to improve organizational performance on a global level. In this way it is strategic (it is about broad issues and long term goals) and integrated (it links to all aspects of the business).

Performance Management can include a range of activities:

- Learning and training
- Targets for individuals
- Annual reviews and regular feedback
- Development and improvement plans
- Objective rewards and recognition
The Chartered Institute of Personnel and Development\(^2\) (CIPD) state that Performance Management can have considerable business benefits, including:

- Staff loyalty and empowerment
- Increased engagement
- Helping staff progress
- Customer satisfaction
- Improved morale
- Improvements to the bottom line

There is a misconception that Performance Management simply refers to annual reviews. While these are of course a significant aspect, reviews should be seen as part of a larger process. Rather, Performance Management is a much more universal process. A well-developed strategy will help employees by:

- Letting them know what the company aims to achieve
- Communicating the role of individual employees in achieving those aims
- Arming employees with the skills they need
- Making them aware of the standards expected of them
- Letting employees know how they are doing, that they are being supported, how they can develop and manage difficulties\(^2\)

“Performance management used to be something companies did to people, but now people are involved in their own performance management... People like documenting what they have done.”

*Heather Moore, Employee Development Manager, Vale of Aylsebury Housing Trust*
Steps to Establishing Performance Management Best Practice

Introducing a Performance Management strategy to your organization is an essential step in achieving organizational maturity. Getting it right can have considerable benefits in terms of business health and staff engagement. Employees benefit considerably when you implement the following steps and will grow both professionally and personally. As they learn new skills, competencies and recognise the investment the company is making in them, they will become more productive and this will be reflected in the bottom line.

Performance Management simply cannot be seen as an ‘optional extra’; organizations which approach company development in an ad hoc manner are simply less successful. As Onsase et al (2013) research points out:

Organizations which do not integrate ongoing performance practices and feedback into their management development programmes tend to experience lower than expected performance improvements and higher dissatisfaction and turnover. Thus, performance management provides organizations the opportunity to refine and improve their development activities.³

The following challenges and solutions have been identified as the most important steps in developing a Performance Management strategy:
Establishing a Business Case for Performance Management

When introducing the business case for Performance Management, you may encounter some resistance from senior managers and employees. Typically, colleagues will express concern that:

• The company lacks time and resources
• It offers little or no ROI
• It is an additional control on behaviour

Combatting these perceptions will require patience and preparation. It is important to understand these perspectives but also to challenge them with conviction. The science behind Performance Management is solid and you will be able to point to an overwhelming body of research which confirms its effectiveness.

In order to overcome these challenges, you need to build a concrete business case which outlines the value of introducing Performance Management to the businesses.

“When Performance Management is done well, employees become more productive, profitable and creative contributors. Gallup found that employees whose managers excel at Performance Management activities are more engaged [by up to 70%] than employees whose managers struggle with these same tasks.”

Gallup, 2015
Solution: Build a solid business case

The way you construct your business case depends on the culture of your organization. However, whether you present the business case as a slideshow or a report, it will need to include the following chapters:

**ONE.** A problem. Identify the key performance challenges facing your organization. Do you have high staff turnover? Are workers regularly underperforming? Is productivity lacking? Or do you simply need to improve procedures all around?

Presenting the business case for Performance Management requires the identification of a problem and a clear message showing how the process can help overcome it.

**TWO.** Numbers talk. Analyse the costs and expected outcomes of Performance Management in terms of ROI. Implementing a Performance Management strategy will incur costs, so you need to present a clear idea of what the outcomes will be in relation to the bottom line. Present clear figures outlining exactly how much the company can expect to gain and by when. What will a 5% improvement in productivity mean by the end of the financial year for example?

**THREE.** Involve employees from across the business. Make sure you speak to colleagues from the ‘shop floor’ up to management in order to include them all on the Performance Management journey.
Tailoring the Performance Management Process

Performance Management is not a ‘one size fits all’ process. The actions which work for one organization will be irrelevant to another, so ensuring the process you implement is tailored to your business is key.

**Solution: Carefully design a tailor-made process**

Developing a customised Performance Management process will require considerable knowledge of your company. That said, the fundamental elements of the process will be the same in any organization:

**ONE.** Research current issues facing the business and review past project initiatives. This is about understanding how Performance Management is currently enacted in the company; what are the limits of these and what can be improved?

**TWO.** Talk to managers and colleagues across the organization. Find out what their major issues and needs are. Do they feel there is a lack of fairness in rewards and bonuses? Do they feel they don’t receive enough feedback or guidance? Do they even care? This should be a litmus test of your whole company, ensure your research is representative of colleagues across the business.

**THREE.** Bring in objective external advisors. Consultants will most likely have seen the problems your organization faces many times before and can help suggest solutions you may never have considered.

**FOUR.** Align Performance Management with organizational goals and strategy by ensuring that colleagues’ targets work towards those of the wider business.
Implementing Effective Staff Reviews

“We can now focus on performance and make sure individuals are focusing on the right things.”

Hilary Dempsey, Head of HR at TERMINALFOUR.

The performance review is a major part of Performance Management, and as you develop your strategy it is essential to consider how this should be implemented. Good reviews can empower employees and boost their careers, while badly designed reviews can affect morale, engagement and performance.

Solution: Ensure reviews are effective

Many businesses take an inappropriate approach to the ‘annual review’. It is often seen as stressful by staff, or a pure waste of time. It does not need to be this way, however. The most effective approach to staff reviews should:

ONE. Encourage regular feedback throughout the year. What employees discuss in their annual review should not be a surprise. Managers need to take the time to regularly let employees know how they are doing in relation to their targets.

TWO. Decide on the most effective type of review for your business. The choice of review and when it is carried out depends on what is most appropriate for your company in terms of time and costs. Types of reviews include:

• Manager review: line managers provide feedback
• Self-appraisals: employees rate themselves according to defined targets
• 360 degree ‘multi-rater’ assessments: A broader review where peers, line managers and customers provide feedback to gather a more in-depth view

THREE. Provide clear outcomes and targets for individuals. This is about aligning behaviours with wider company goals. Measuring progress against such goals should be objective and based on concrete examples and measures so as to ensure personal liking or animosity does not come in the way of fairness.
Building a Process That Adapts as Your Business Evolves

The tools and processes underpinning your Performance Management strategy cannot stand still. Just as your company grows and priorities change, so should Performance Management. It might once have been relevant to focus purely on sales figures, yet as a company matures a greater emphasis on brand identity and customer relations is required, and this will engender a related shift in your Performance Management strategy.

Solution: Have clearly defined roles and process documentation

Throughout your Performance Management strategy you will need to have an identifiable project leader. This individual or team will be responsible for the Performance Management vision in your organization and take a lead on:

• Constant analysis of how the strategy is being implemented
• Research into how the company’s Performance Management can be improved
• Clear documentation of progress

“It’s so well presented, intuitive and easy to use. People really enjoy using it. The way the system is set up means that individuals feel they have a voice – they write about how they are progressing and move the slider to where they believe they are.”

Heather Moore, Learning and Development Adviser, Vale of Aylesbury Housing Trust.
A principal motivation for implementing a Performance Management strategy is that it offers a means of understanding how individual employees and the organization as a whole are performing against targets. Performance Management will provide you with a rich source of data about colleagues, how they feel, what the major challenges they face are and areas in which they and the organization could improve. This data should be used to:

- Define new organizational targets
- Identify weaknesses and failures
- Reward success
- Help discover rising stars

**Solution: Analyze & use your data**

Performance Management data should, if at all possible, be digitized. This will massively facilitate your ability to analyze the information you have collected throughout the process. Data should be analyzed in relation to company goals:

- Who is achieving goals, who is surpassing them and who is underperforming?
- How is morale among colleagues?
- Where is the company improving and where could it do better?
- How widespread is understanding of roles and responsibilities?
- Do staff understand the company's goals?

As with any data, these statistics should inform company policies. They can be used to inform new goals and strategies.
Using the Most Appropriate Technology for Your Company

“The platform we use forms the key piece of our talent management strategy. It’s the tool we go to look at how people are performing, what the next challenges are and what the training needs are.”

Nicola Austin, HR Manager at Tectrade

Companies traditionally carried out their Performance Management activities using pen and paper, with reviews spent filling in tick-box forms. There is a perception that any larger Performance Management tools would be costly and burdensome. However, Cornerstone Performance finally provides organizations with user-friendly technology that enables you to align employee activities with organizational strategy.

Solution: Use appropriate cloud based solutions

Technology for the Performance Management industry has rapidly advanced in recent years and is now an accessible to companies of all sizes. Flexible and scalable, Cloud based subscription services offer some of the best solutions for companies by providing:

- Easy to access online review tools, using browser based technology end users recognise. This results in greater completion figures from respondents.
- Tracking and analysis are simplified, and available across desktop and mobile devices.
- Automation and streamlining of performance reviews using workflow technology that integrates with existing Line-Of-Business systems.
- Catalogues of previous actions and targets are stored securely, backed up, and easily available for retrieval and review anytime.
- Training resources can also be made available online, and easily linked to Performance Management tools.
- Tips and pre-defined feedback available to managers when writing performance appraisals, by logging into the same systems with their own credentials.
Supporting Effective Performance Management

As this guide has outlined, Performance Management is an essential factor in improving the outcomes of growing organizations. Contrary to perception, it involves far more than simple annual reviews. Instead it is a broader discipline, offering numerous ways of aligning employees’ behaviours with company goals.

This paper has outlined the six major steps involved in implementing an effective Performance Management strategy. Are you a medium-sized business? Cornerstone has your back. Learn more about our commitment to your success. Discover how our specially-tailored learning and performance management software can lead to amazing results.
References


2. CIPD http://www.cipd.co.uk


Learn more cornerstoneondemand.com/performance-suite