

# Making Performance Management Relevant

By Jeff Labrador, Ph.D. and Jeff Weekley, Ph.D., Kenexa

A survey done by the Society for Human Resources Management concluded that more than 90% of performance appraisal systems are a failure. Managers and employees alike typically view the impending review process with dread. For most, it is a painful bureaucratic process that rears its ugly head once a year—and once done, retreats into the human resource (HR) department's archives until roughly the same time the following year. A few companies, however, have broken this mold and use performance management (PM) as a competitive advantage, one facilitating the execution of their business strategy. What separates the typically unsuccessful PM systems from those that help drive the business? A few features that one might consider:

## Measures

The typical performance appraisal process has its focus on the form. The form usually contains a list of competencies (e.g., judgment) or attributes (e.g., leadership). Alternatively, there may be blank space for goals to be entered. These criteria are then rated on the ubiquitous five-point rating scale. For example, a typical performance appraisal presents managers with a list of job tasks and they would rate the performance of those tasks on a scale that ranges from very low (1) to very high (5). Unfortunately, these ratings are often not the issues that actually drive the business. They exist because they are convenient, easy to get at (for whatever that is worth), and allow direct comparisons of people across entirely different jobs. Goals are usually left to the incumbent and his/her supervisor to determine and may have little bearing on the business strategy.

Companies managing PM effectively take a different approach. They determine the contribution each job is expected to make to the success of the business. These key performance indicators (KPIs) might include order accuracy and average wait time (fast food),

product development cycle time (consumer products), direct labor hours per unit (manufacturing), levels of customer satisfaction and quality of service (retail). Where goal setting is used, care is taken to ensure that each goal supports the overall business strategy. The key is to identify which KPIs a job impacts and then measure the ways by which it is expected to do so. This requires companies to break away from easy-to-administer forms and think hard about the measures that matter, to identify which of those measures it can impact and how for each job, and to accept that individual measures may not be possible or desirable.

## Purpose

Ineffective performance appraisal systems often exist to serve an administrative objective such as distributing merit increases or documenting poor performance. These performance appraisals usually take place once a year. As one can imagine, there are a variety of problems with this practice. One primary concern is that some managers may recall the most recent events or behaviors that an employee performed and disregard earlier events or behaviors. The flip side of that coin is the manager will only identify the events or behaviors that took place at the beginning of the year as more important and evaluate the employee accordingly. Therefore, it is difficult to get a clear understanding of those performance evaluations. Since performance evaluations conducted in this fashion are limited, the feedback based on the yearly performance evaluation is inadequate. On the other hand, effective PM processes serve to direct effort by telling people what their objectives are and how effectiveness will be determined. Rather than an end-of-the-year event, the PM is a continuous reminder of what is important. Feedback on KPIs is frequent, and the overarching objective is to improve performance, not merely document it. This allows managers to discuss potential areas of development that will increase the likelihood of an employee to align with the organizational strategy.

### Accountability

A key difference between effective and ineffective PM systems lies in who is responsible for managing the process. If it is an HR program, the odds are it is a failure. If line managers, on the other hand, are accountable for managing the process, there is a good chance it can be effective. Line managers are the ones responsible for most of the KPIs in organizations anyway. As such, it only makes sense that they should be accountable for identifying important measures, monitoring performance on them, and providing feedback relative to expectations. Line managers are also the only ones who can make the system work, by rewarding those who perform well in it and taking corrective action with those who do not. This process starts at a very high level within the organization. The CEO sets the tone and it is his/her actions, not expectations, which will be mimicked throughout the organization. CEOs who set clear targets for improvement on specific KPIs, monitor performance against those targets and reward/correct accordingly will be far more likely to see those behaviors modeled than those who simply dictate that others do it.

Establishing an effective PM system is not easy, as evidenced by the small number of companies that do it well. They have a number of things in common: 1) they focus on measures of important indicators that directly relate to the execution of the business strategy—issues unrelated to this are deemed unimportant; 2) they view PM as a line management process focused on improving performance rather than an HR program focused on documenting it; and 3) they hold the appropriate parties accountable for managing the PM process. The organizations managing their PM processes well are being pursued by those who have not been able to achieve this. ■

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Jeff Labrador, Ph.D. serves as a Kenexa consultant for the Assessment Division, specializing in the analysis of data collected during the research process. Dr. Labrador helps organizations define best practices for hiring processes and minimum thresholds, and strategizes with leadership to ensure successful project completion through the evaluation of product return on investment studies. While at Kenexa, Dr. Labrador has been instrumental in the development of the Kenexa Interview Builder™ product, the Kenexa Performance Indicators for Customer Service, Teamwork and Engagement, and the Call Center Representative and Sales Assessments. In addition to selection-oriented work, Dr. Labrador is also involved with the development of organizational competency models and auditing of selection practices and methodologies for demonstrating client-oriented return on investment. He holds a Bachelor of Arts in psychology from San Diego State University, and a Master of Arts and Doctorate degree in industrial/organizational psychology from Central Michigan University.

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Dr. Weekley has authored numerous articles for the *Journal of Applied Psychology*, *Personnel Psychology*, *Academy of Management Journal*, *Human Performance* and *Journal of Management*. He is a member of the American Psychological Association, the Society for Industrial and Organizational Psychology and the Academy of Management. Weekley holds a Doctorate degree in organizational behavior from the University of Texas at Dallas, a Master of Science degree in industrial and organizational psychology and Bachelor of Science degree in psychology from Texas A&M University.

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