



# Choosing a Performance Management System that Performs

## INTRODUCTION

Most organizations consider performance assessment processes as being an important employee intervention activity. Most of them have at least one performance assessment cycle that is mandatory for all employees.

However, despite the understood importance of the process, in actual practice, performance assessment or employee appraisal largely remains an annual ritual in most organizations – file opened at the beginning of every year and closed at the end of every year—a process that has more to do with annual increments and yearly promotions.

When an organization embarks on implementing Talent Management software, Performance Management is one of the first areas to get ‘system’atized. This could prove to be a shortsighted approach that robs organizations of very valuable information about their talent and how to leverage them. What is required is a Performance Management System that is cognizant of the multiple factors that are at play during the talent assessment process. The first step in the strategic function of talent management is to make the entire exercise a people-driven and organization-focused one.

## The Complete Picture

Performance Management does not start with setting up Key Result Indicators at the beginning of the appraisal cycle; nor does it end with arriving at the final performance ratings and subsequent bonus rates. The true beginning of Performance Management starts with an understanding of how business goals are translated to each employee's key result indicators.

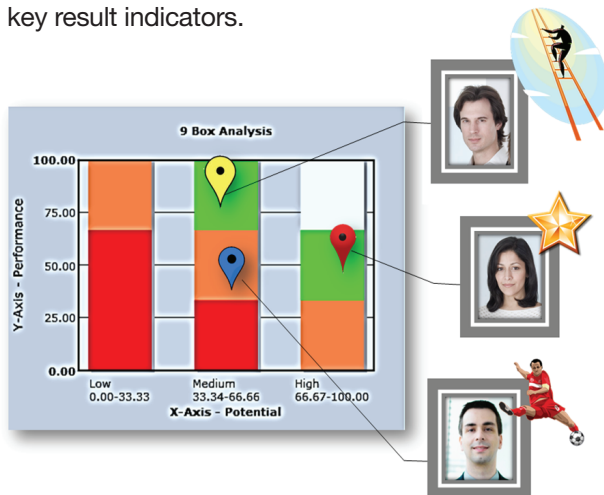


Fig. 1. A good Performance Management software should enable you to develop your talent map.

And the outcome of the Performance Management process should ideally provide insight into the organization's current capabilities, and thus align and fine-tune other talent management initiatives. Analysis of past performance results helps the organization understand how it is continuously improving its capabilities to perform. It enables the organization to identify its star performers and potential successors to critical positions. It also sheds light on areas where the organization needs to strengthen itself, giving rise to training plans and programs that are aligned with such needs.

## Designing an Effective Performance Management Process

A well-designed Performance Management process enables organizations to clearly articulate and act on the following:

**Direction:** A well-defined appraisal process lets an

employee clearly understand and articulate the organizational vision, team goals and strategies and how she is aligned to that. It provides a sense of why an employee is doing what she's doing.

With well-defined goals, an organization can clearly articulate what it is striving to achieve and how such objectives are translated into actions.

**Awareness:** Continuous feedback on performance lets the employee amplify her strengths and correct weaknesses.

For the organization, even as the appraisal process is underway, it gives a clear sense of how the organization is performing as a whole – a sense of how well it will be able to achieve the stated objectives.

**Support:** The assessment process enables the employee to seek intervention and support whenever and wherever necessary.

The organization is able to recoup on its strategies to acquire new talent and the required know-how for achieving its goals.

**Rewards and Recognition:** The assessment process throws light on people displaying positive performance and making meaningful contribution. It clearly specifies how performance correlates to the rewards in cash and kind for the employee.

The organization is able to understand and justify how its monetary budgets are correlated with driving performance.

## Why Most Performance Management Software does not Perform

Software, in most sense, is used to:

- Provide a system of records
- Automate a routine process
- Provide some reporting capabilities

Most Performance Management software solutions provide the above functionalities, but they don't provide the insights that we talked about earlier.

However, it is not just software-related issues that limit the usefulness of Performance Management software. There are organizational issues as well:

- If an organization approaches Performance Management automation in the same way it approaches any other routine process (for example, invoicing process), then it is indeed looking for a software that will make the process more automated and mechanized.
- If the human behavioral dynamics aspect in the Performance Management process is not recognized, the resulting software solution also becomes an automation solution and not a management solution.
- If the culture of the organization looks at Performance Management as an annual cycle and does not look at it as a process of continuous improvement, then it adversely affects the scope and utility of the implemented software solution. The software might respond with all the 'bells and whistles' – workflows, notifications and alerts, but will ultimately lack at its core.

In reality, a Performance Management cycle is influenced by several organizational factors, which, in most cases, are overlooked and thus not implemented in Performance Management software. These considerations are not too rare nor are they applicable for a particular industry or situation. Let's look at some of them.

## Continuous Assessments

This is the fundamental notion that should guide the design of a performance assessment process. Assessment is not a one-time activity; nor is it an activity that is done at designated periods.

It is quite natural and practically relevant that organizations designate specific periods in a year for the appraisal process.

However, such cutoff dates should not necessitate that accomplishments and observations are remembered and entered into the system at one-go.

Performance observations and feedback are recorded on a regular basis, whenever needed. It is not necessary to designate a time and place for doing this; it is done whenever necessary.

Not only accomplishments and observations, but goals and objectives too can change with a change in roles, directions and even past successes and failures. This ensures that the appraisal document stays relevant throughout the time period. It also reflects the performance status of the employee at that given time.

## What are my goals?

Every appraisal cycle starts with a set of goals or objectives against which performance is tracked and measured. Such goals are easily defined for appraisals spanning a short period of time – e.g. probationary appraisals or on-the-job appraisals that typically measure proficiency in displaying a certain skill, such as operating a machine.

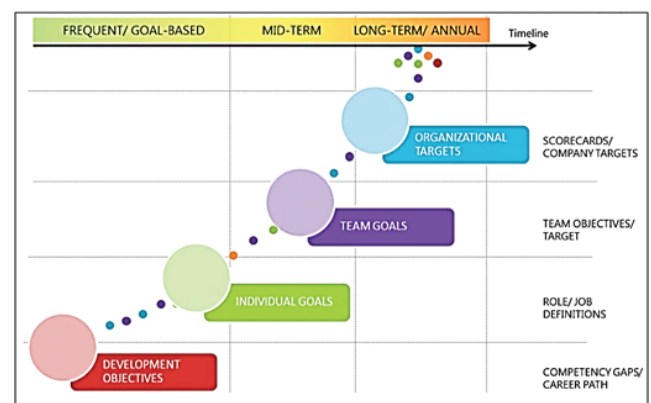


Fig 2. Goal setting has multiple dimensions; it is essential that a Performance Management software has provisions for handling these dimensions.

However, goal setting for a regular appraisal cycle has many more dimensions – job competencies, development objectives, team and individual-specific objectives etc. Most organizations have made this process of goal-setting so regularized that these dimensions blur and become insignificant.

In addition, cascading organizational goals to individual employees in a meaningful fashion has remained an interesting theory, but an elusive implementation aspect. Apart from sales functions (whose targets are clearly defined), organizations find it difficult to make organizational goals relevant for other functions.

For example, if the organization plans to grow at 10% for the coming year how should an HR department help the organization in achieving that goal? Will Turn-around-time be a good enough metric for the recruiting department? What about the quality of hire?

## Multidimensional Organizational Structures

In matrix organizations and other multidimensional organization structures, employees have other reporting lines in addition to their line reporting structure. For example, matrix structures are very typical of organizations working on several projects, customers/clients etc. Within an appraisal period, an employee might be associated with different projects, causing his performance to be appraised by more than one manager.

This also means that this employee's goals and objectives are not a static definition made at the beginning of the appraisal period. The goals and objectives are much more dynamic; they change and adapt as the employee moves between different projects. The goals could also be determined by different project organizations and they could be rated by the respective project managers.

## The Parties in a 360-degree Appraisal

Traditionally, 360 degree appraisals have meant an employee being appraised by his superiors, peers and subordinates. Given the straight line organizations of the past, this definition was used to identify an employee's direct supervisors, members of his own team and people who directly report to him.

On the contrary, 360 degree appraisals are more holistic: they are about employees getting appraised by the ecosystem that they work in. This ecosystem does not have to include only direct line structures. It includes any party that works with the employee towards substantial and meaningful goals. This ecosystem could include parties from outside the organization such as customers, vendors and other business partners.

For example, a product manager who has worked with a sales person to pursue a key account should be rightfully evaluated by the sales person. In all likelihood, this would get translated as appraisal as and when a critical incident occurs and the employee's behavior in those incidents are assessed by the different members who were involved in it.

## Assessment Mechanisms

Any one setting up a Performance Management framework when deciding the right assessment mechanism will be faced by several questions like—should one use a rating scale or a ranking scale, should it be a five point scale or ten point scale? Or, how much should the weightage for each parameter be, how much should the weightage for each appraiser be and why? The questions are endless and each appraisal template should be treated as unique by the organization.

## A Closed Loop Control System

A software solution for managing your Performance Management process should be chosen based on the considerations discussed above. Ultimately, the software system should reflect, as closely as possible, the requirements and dynamics of the organization's Performance Management process.

Limiting the functionality, owing to software limitations or organizational limitations, translates into a poor experience for all the stakeholders involved – employees, appraisers, HR and the top management.

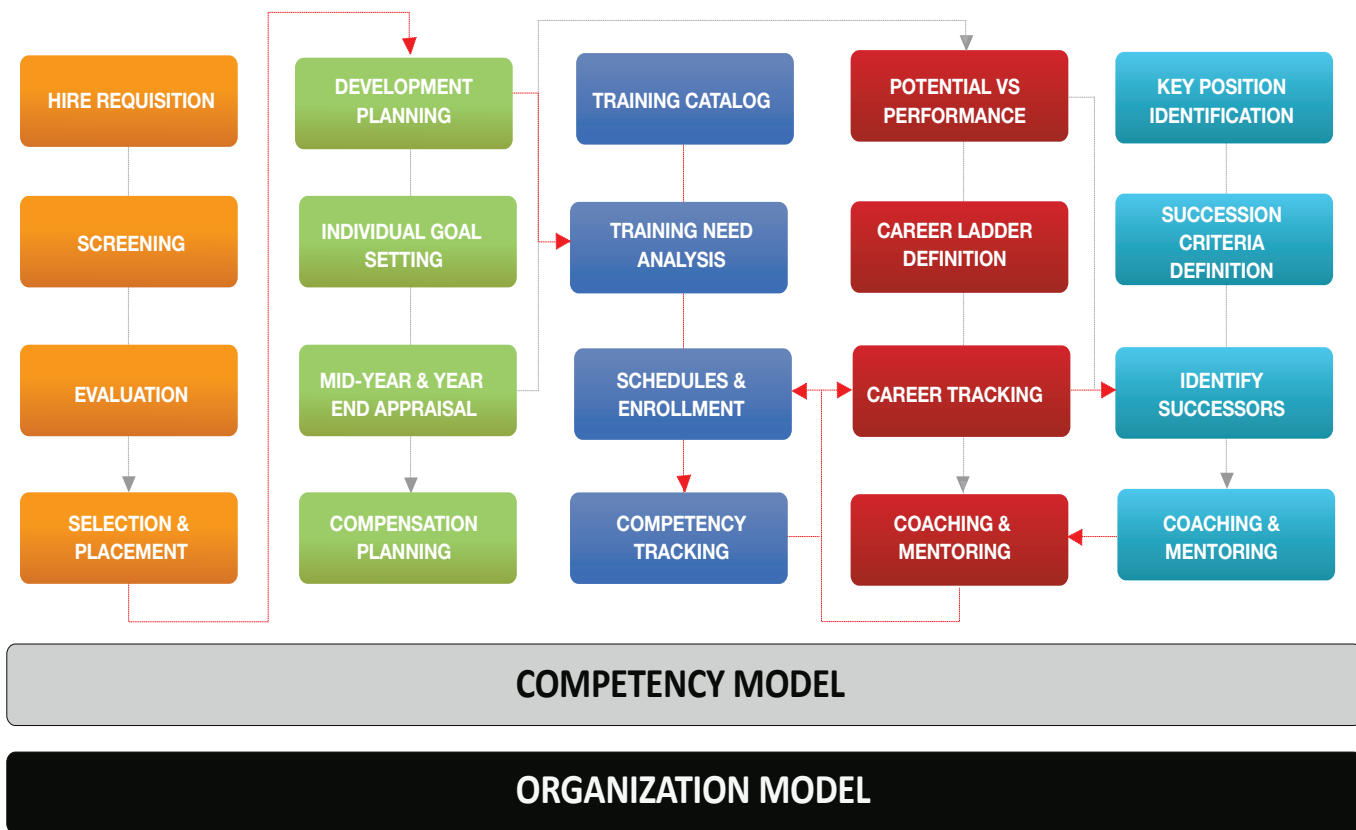


Fig. 4. A closed-loop Talent Management System lets you align all your talent strategies towards a unified goal.

Apart from the process considerations, to provide clarity on Direction, Awareness, Support and Recognition – to both the employee and the organization—the designed Performance Management System should be an inherent part of a Talent Management suite.

A Talent Management suite is not a stack of different Talent Management processes – Recruiting, Performance Management, Training, Career and Succession Planning. What is needed is a closed-loop control system, where processes are not just vertically integrated, but also talk to each other.

For example, the results of Performance Management influence the organization’s development initiatives. They also feed into employees’ career planning process, letting both the organization and the employees track and measure their progress in improving overall capabilities. Improved capabilities in turn influence what goals and objectives are defined, enabling the organization to align its overall talent management strategies towards continuous improvement.