

LEARNING MADE EASY



# Performance Management

for  
**dummies**<sup>®</sup>  
A Wiley Brand



Measure results  
and behaviors

—  
Implement a performance  
management system

—  
Create a positive  
culture

**Herman Aguinis, PhD**

Professor of Management,  
*The George Washington University  
School of Business*





# Performance Management

by Herman Aguinis, PhD

for  
**dummies**<sup>®</sup>  
A Wiley Brand

## Performance Management For Dummies®

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# Contents at a Glance

<b>Introduction</b> .....	1
<b>Part 1: Getting Started with Performance Management</b> .....	5
CHAPTER 1: Introducing Performance Management .....	7
CHAPTER 2: Making the Case for Performance Management .....	29
CHAPTER 3: Designing and Implementing Effective Performance Management .....	47
CHAPTER 4: Anticipating and Minimizing Negative Consequences .....	61
<b>Part 2: Designing an Effective Performance Management System</b> .....	77
CHAPTER 5: Delivering Strategic Business Results .....	79
CHAPTER 6: Becoming a Performance Management Leader .....	101
CHAPTER 7: Defining Performance .....	121
CHAPTER 8: Measuring Performance as Results .....	143
CHAPTER 9: Measuring Performance as Behaviors .....	151
CHAPTER 10: Using Performance Management Analytics .....	173
CHAPTER 11: Minimizing Rating Distortion .....	197
<b>Part 3: Implementing Performance Management Effectively</b> .....	209
CHAPTER 12: Creating and Implementing Personal Development Plans .....	211
CHAPTER 13: Conducting Effective Review, Disciplinary, and Termination Meetings .....	233
CHAPTER 14: Implementing Team Performance Management .....	247
CHAPTER 15: Evaluating Your System .....	269
<b>Part 4: Connecting Performance Management with Rewards and the Law</b> .....	275
CHAPTER 16: Offering Financial and Nonfinancial Rewards .....	277
CHAPTER 17: Setting Up an Effective Pay System .....	287
CHAPTER 18: Staying on the Right Side of the Law .....	305

<b>Part 5: The Part of Tens</b> .....	317
CHAPTER 19: Ten Reasons for Implementing Effective Performance Management.....	319
CHAPTER 20: Ten Key Factors for Delivering Outstanding Results.....	325
CHAPTER 21: Ten Tips for Becoming a Great Performance Management Leader .....	331
<b>Index</b> .....	337

# Table of Contents

<b>INTRODUCTION</b> .....	1
About This Book .....	2
Foolish Assumptions .....	3
Icons Used in This Book .....	3
Beyond the Book .....	3
Where to Go from Here .....	4
<b>PART 1: GETTING STARTED WITH PERFORMANCE MANAGEMENT</b> .....	5
<b>CHAPTER 1: Introducing Performance Management</b> .....	7
Why Do You Need Performance Management? To Succeed (of Course) .....	8
Why performance management is alive and well .....	8
Imagining an organization without performance management .....	10
Making Performance Management Work in Your Business .....	10
Distinguishing performance management from performance appraisal .....	10
Adapting performance management to today's reality .....	11
Adapting performance management for different generations .....	14
Designing and Implementing a Performance Management System .....	14
Step 1: Establishing prerequisites .....	15
Step 2: Planning performance .....	20
Step 3: Executing performance .....	22
Step 4: Assessing performance .....	23
Step 5: Reviewing performance .....	25
<b>CHAPTER 2: Making the Case for Performance Management</b> .....	29
Using Performance Management to Achieve Multiple Purposes .....	30
Strategic objectives .....	30
Administrative objectives .....	30
Informational objectives .....	30
Developmental objectives .....	31
Organizational maintenance objectives .....	31
Documentation objectives .....	33

Answering the “What’s in It for Me” Question . . . . .	33
Convincing top management of performance management’s value . . . . .	34
Building support in the entire organization . . . . .	34
Realizing the awesome benefits of performance management . . . . .	36
What an Ideal Performance Management System Looks Like . . . . .	39
Contextual issues: Making everything fit . . . . .	39
Practical issues: Striving for effectiveness and fairness . . . . .	41
Technical issues: Sweating the details . . . . .	42
Taking Care of Talent Management Functions . . . . .	45
Training and development . . . . .	45
Workforce planning . . . . .	46
Compensation . . . . .	46
<b>CHAPTER 3: Designing and Implementing Effective Performance Management . . . . .</b>	<b>47</b>
Ensuring Performance Management Delivers Strategic Value . . . . .	48
Key ingredients of a strategic recipe . . . . .	48
Making performance management strategic . . . . .	49
Developing Performance Management Leadership Skills . . . . .	50
Becoming an effective coach . . . . .	51
Giving effective feedback . . . . .	52
Defining and Measuring Performance . . . . .	54
Measuring performance as behaviors . . . . .	55
Measuring performance as results . . . . .	55
Developing Employee Performance . . . . .	56
Creating development plans . . . . .	56
Implementing development plans . . . . .	57
Assessing Performance Management Effectiveness . . . . .	57
Using quantitative measures . . . . .	58
Using qualitative measures . . . . .	58
<b>CHAPTER 4: Anticipating and Minimizing Negative Consequences . . . . .</b>	<b>61</b>
Anticipating Damage Caused by Flawed Performance Management . . . . .	63
Damage caused to employees . . . . .	63
Damage caused to managers . . . . .	63
Damage caused to relationships . . . . .	63
Damage caused to the organization . . . . .	64
Learning from Flawed Performance Ratings . . . . .	64
Why Performance Ratings Are Here to Stay . . . . .	65



Setting Up an Appeals Process . . . . .	66
Dealing with judgmental and administrative issues. . . . .	66
Setting up a three-level appeals process. . . . .	67
Setting Up a Communication Plan and Dealing with Resistance to Change . . . . .	70
Questions that your communication plan should answer . . . . .	70
Dealing with cognitive biases. . . . .	73
<b>PART 2: DESIGNING AN EFFECTIVE PERFORMANCE MANAGEMENT SYSTEM . . . . .</b>	<b>77</b>
<b>CHAPTER 5: Delivering Strategic Business Results. . . . .</b>	<b>79</b>
Linking Performance Management with Strategic Business Objectives . . . . .	80
Making sure the strategic plan does what it is supposed to do . . . . .	80
Making sure HR does what it is supposed to do. . . . .	84
Conducting an External and Internal Analysis of Strengths, Weaknesses, Opportunities, and Threats . . . . .	86
Analyzing the external environment. . . . .	86
Analyzing the internal environment. . . . .	88
Conducting a gap analysis . . . . .	89
Creating and Understanding Your Organization's Mission and Vision . . . . .	91
Creating your mission. . . . .	91
Creating your vision . . . . .	91
Setting Up Objectives and Strategies Based on Your Mission and Vision . . . . .	94
Setting up objectives. . . . .	95
Setting up strategies . . . . .	96
Linking Your Organization's and Unit's Strategic Plans with Job Descriptions . . . . .	96
Linking the strategy of the organization and its units . . . . .	97
Linking the organization and units with job descriptions . . . . .	98
<b>CHAPTER 6: Becoming a Performance Management Leader . . . . .</b>	<b>101</b>
Becoming an Effective Coach. . . . .	101
Four guiding principles of effective coaches . . . . .	102
Seven behaviors of effective coaches. . . . .	103
Understanding your coaching style . . . . .	105
Observing and Documenting Performance. . . . .	106
Why documenting performance is so important . . . . .	108
Documenting performance accurately. . . . .	109

Giving Feedback Effectively . . . . .	110
Making sure feedback serves a purpose . . . . .	110
Avoiding the very high cost of NOT providing feedback . . . . .	111
Making sure feedback is beneficial. . . . .	112
An example of effective feedback. . . . .	113
Giving praise. . . . .	115
An example of effective praise . . . . .	115
Giving constructive feedback. . . . .	116
Giving feedback to Millennials, Post Millennials, and Baby Boomers . . . . .	118
<b>CHAPTER 7: Defining Performance . . . . .</b>	<b>121</b>
Performance Is All about Behaviors and Results . . . . .	121
Defining performance as behaviors . . . . .	122
Defining performance as results. . . . .	123
Causes for Excellent and Poor Performance. . . . .	123
How individual differences affect performance . . . . .	124
How knowledge and skills affect performance. . . . .	126
How context affects performance . . . . .	127
Anticipating performance problems. . . . .	129
Focusing on Four Different Performance Dimensions . . . . .	130
Task and contextual performance . . . . .	131
Key differences between task and contextual performance . . . . .	133
Counterproductive performance . . . . .	134
Adaptive performance . . . . .	136
When to Define Performance as Behaviors or Results and Why . . . . .	137
When to define performance as behaviors. . . . .	137
When to define performance as results. . . . .	138
<b>CHAPTER 8: Measuring Performance as Results . . . . .</b>	<b>143</b>
Measuring Performance as Results . . . . .	143
Determining accountabilities and their importance . . . . .	144
Determining objectives. . . . .	146
Choosing a Measurement System Congruent with Context. . . . .	149
Considering the role of organizational culture . . . . .	149
Considering the role of industry trends. . . . .	150
Considering the role of leadership . . . . .	150
<b>CHAPTER 9: Measuring Performance as Behaviors . . . . .</b>	<b>151</b>
Measuring Competencies. . . . .	151
Measuring two types of competencies. . . . .	152
Describing competencies . . . . .	154

Measuring Behaviors Using Comparative Systems . . . . .	155
Rank order . . . . .	155
Alternation rank order . . . . .	155
Paired comparisons . . . . .	156
Relative percentile . . . . .	156
Forced distribution . . . . .	156
Considering Advantages and Disadvantages of Comparative Systems . . . . .	158
Anticipating problems caused by forced distributions . . . . .	159
Understanding the shape of the performance distribution and producing star performers . . . . .	161
Measuring Behaviors Using Absolute Systems . . . . .	163
Essays . . . . .	163
Behavior checklists . . . . .	164
Using a graphic rating scale system . . . . .	169
<b>CHAPTER 10: Using Performance Management Analytics . . . . .</b>	<b>173</b>
The Jury Is Out: All Firms Collect Performance Data . . . . .	174
Why all organizations collect performance data . . . . .	174
Setting the evaluation period . . . . .	176
Including Critical Components in Effective Performance Appraisal Forms . . . . .	177
Saying goodbye to paper performance evaluation forms . . . . .	177
Nine critical components of effective evaluation forms . . . . .	177
Evaluating the components of a sample evaluation form . . . . .	179
Including Critical Characteristics to Make Evaluation Forms Effective . . . . .	182
Eight critical characteristics of effective evaluation forms . . . . .	183
Evaluating the characteristics of a sample evaluation form . . . . .	184
Computing Overall Performance Score . . . . .	185
Using judgmental and mechanical procedures to compute overall score . . . . .	185
Using Multiple Performance Touchpoints . . . . .	189
Using supervisors . . . . .	189
Using peers . . . . .	190
Using direct reports . . . . .	191
Using employees themselves . . . . .	192
Using customers . . . . .	193
Using electronic performance monitoring . . . . .	193
<b>CHAPTER 11: Minimizing Rating Distortion . . . . .</b>	<b>197</b>
Dealing with Disagreements across Performance Touchpoints . . . . .	197
Why disagreements across performance touchpoints is not always a problem . . . . .	198
Dealing with disagreements when giving feedback . . . . .	198

Minimizing Intentional Rating Distortion . . . . .	199
Understanding rater motivation . . . . .	199
Why raters inflate ratings . . . . .	200
Why raters deflate ratings . . . . .	201
Increasing accountability in performance ratings . . . . .	202
Minimizing Unintentional Rating Distortion . . . . .	203
Designing rater error training . . . . .	203
Designing frame of reference training . . . . .	206
Designing behavioral observation training . . . . .	208

**PART 3: IMPLEMENTING PERFORMANCE MANAGEMENT EFFECTIVELY . . . . . 209**

<b>CHAPTER 12: Creating and Implementing Personal Development Plans . . . . .</b>	<b>211</b>
Creating Personal Development Plans . . . . .	211
Using development plans to answer four key career questions . . . . .	212
Using development plans to improve your short- and long-term career goals . . . . .	212
Using development plans for succession planning . . . . .	214
Setting your development plan objectives . . . . .	214
Setting the content of your development plan . . . . .	216
Setting the activities of a development plan . . . . .	218
Facilitating Employee Development . . . . .	221
Performing five functions in the development process . . . . .	223
Using the feedforward interview . . . . .	223
Motivating supervisors to facilitate employee development . . . . .	225
Using Multisource Feedback Systems in Implementing Development Plans . . . . .	227
Maximizing benefits of multisource feedback systems . . . . .	228
Minimizing risks of multisource feedback systems . . . . .	229
Deciding whether a multisource feedback systems will work in your organization . . . . .	230
Implementing a state-of-the-science multisource feedback system . . . . .	231
<b>CHAPTER 13: Conducting Effective Review, Disciplinary, and Termination Meetings . . . . .</b>	<b>233</b>
Conducting Effective Review Meetings . . . . .	234
Setting up review meetings . . . . .	234
Implementing an optimal sequence for review meetings . . . . .	236
Dealing with employee defensiveness . . . . .	238

Making the Tough Calls: Disciplinary Process and Organizational Exit . . . . .	241
Offering decision-making leave . . . . .	241
Avoiding five common pitfalls in the disciplinary process . . . . .	243
Dealing with terminations . . . . .	244
<b>CHAPTER 14: Implementing Team Performance Management . . . . .</b>	<b>247</b>
Not All Teams Are Created Equal . . . . .	248
Reasons why teams exist in all organizations . . . . .	248
Designing a State-of-the Science System . . . . .	249
Anticipating dangers of poorly designed systems . . . . .	250
Setting necessary conditions for an effective system . . . . .	251
Implementing a system for virtual teams . . . . .	251
Accountability as a key purpose of team performance management . . . . .	254
Implementing a State-of-the-Science System . . . . .	255
Step 1: Establishing prerequisites . . . . .	257
Step 2: Performance planning . . . . .	259
Step 3: Performance execution . . . . .	260
Step 4: Performance assessment . . . . .	261
Step 5: Performance review . . . . .	263
Connecting team performance management with team rewards . . . . .	265
<b>CHAPTER 15: Evaluating Your System . . . . .</b>	<b>269</b>
Pilot Testing the Performance Management System . . . . .	269
Reasons for doing a pilot test . . . . .	270
Selecting the pilot test group . . . . .	270
Ongoing Monitoring and Evaluation of the Performance Management System . . . . .	271
What to measure . . . . .	272
How to measure . . . . .	273
<b>PART 4: CONNECTING PERFORMANCE MANAGEMENT WITH REWARDS AND THE LAW . . . . .</b>	<b>275</b>
<b>CHAPTER 16: Offering Financial and Nonfinancial Rewards . . . . .</b>	<b>277</b>
Not All Rewards Are Created Equal . . . . .	278
Financial rewards . . . . .	278
Nonfinancial rewards . . . . .	278
Different Types of Financial Rewards . . . . .	278
Base pay . . . . .	278
Cost-of-living adjustments and contingent pay . . . . .	279

Short-term incentives .....	279
Long-term incentives .....	280
Income protection .....	281
Allowances .....	281
Different Types of Nonfinancial Rewards .....	282
Relational .....	282
Work-life focus .....	283
Linking Performance Management with Different Types of Rewards .....	283
Rewards with low dependency on performance management .....	284
Rewards with high dependency on performance management .....	284
Rewards with moderate dependency on performance management .....	285
<b>CHAPTER 17: Setting Up an Effective Pay System .....</b>	<b>287</b>
Setting Up Traditional and Contingent Pay Plans .....	287
Traditional pay plans .....	288
Contingent pay plans .....	289
Implementing Contingent Pay Plans .....	289
The benefits of CP plans .....	290
Reasons why contingent pay plans fail .....	291
Selecting a Contingent Pay Plan .....	294
Traditional versus involvement cultures .....	295
Strategic direction .....	296
What pay can and cannot do about improving performance. . .	297
Turning recognition and other nonfinancial incentives into rewards .....	301
<b>CHAPTER 18: Staying on the Right Side of the Law .....</b>	<b>305</b>
Implementing the Golden Rule .....	306
Implementing the golden rule around the world .....	306
When the golden rule breaks down .....	306
Six Legal Principles Affecting Performance Management .....	307
Employment at will .....	307
Negligence .....	308
Defamation .....	309
Misrepresentation .....	310
Adverse impact/unintentional discrimination .....	311
Illegal discrimination/disparate treatment .....	311
Laws Affecting Performance Management .....	313
Laws affecting performance management around the world . . .	314
Lawful performance management in global organizations . . . .	315
Putting it all together: A legally defensible performance management system .....	315

<b>PART 5: THE PART OF TENS</b> .....	317
<b>CHAPTER 19: Ten Reasons for Implementing Effective Performance Management</b> .....	319
Six Useful Purposes.....	319
Self-Insights, Development, Motivation, and Self-Esteem.....	320
Better Understanding of Job Requirement .....	320
More Employee Engagement and Voice Behavior .....	321
Improved Commitment and Decreased Turnover.....	321
Early Detection of Performance Declines and Less Employee Misconduct .....	321
Differentiation between Good and Poor Performers .....	322
Common Understanding of What Is Good Performance .....	322
More Fair and Legally Defensible Administrative Decisions .....	322
Easier Organizational Change .....	323
<b>CHAPTER 20: Ten Key Factors for Delivering Outstanding Results</b> .....	325
Congruence with Strategy and Context .....	325
Thoroughness and Inclusiveness .....	326
Meaningfulness .....	326
Practicality .....	327
Reliability, Validity, and Specificity .....	327
Identification of Effective and Ineffective Performance.....	327
Standardization and Thoroughness .....	328
Openness .....	328
Correctability .....	328
Acceptability, Fairness, and Ethicality.....	329
<b>CHAPTER 21: Ten Tips for Becoming a Great Performance Management Leader</b> .....	331
Become an Effective Coach .....	331
Develop a Good Coaching Relationship and Facilitate Employee Growth .....	332
Understand Your Own Coaching Style.....	332
Make the Employee the Director of Change.....	333
Learn How to Evaluate Performance Accurately .....	333
Document Performance Accurately .....	333
Give Feedback Effectively.....	334
Conduct Effective Performance Review Meetings .....	334
Be Fair and Direct in the Disciplinary Process.....	335
Be Fair and Direct in the Termination Process .....	335
<b>INDEX</b> .....	337





# Introduction

**P**erformance management is a continuous process of identifying, measuring, and developing the performance of individuals and teams and aligning their performance with the strategic goals of the organization. So performance management is a key tool to transform people's talent and motivation into a strategic business advantage.

But because you are reading this book, you already know that performance management is broken. You hate wasting time dealing with “HR cops” who ask you to fill out useless performance evaluation forms. And you surely hate those dreaded soul-crushing annual performance review meetings. I don't need to tell you, because you already know, that performance management is not even close to living up to its promise of turning human capital into a source of competitive advantage.

Though you may see media headlines proclaiming “Performance Evaluation is Dead” and “The End of Performance Reviews,” performance management is not going away. On the contrary, many companies such as GE, Microsoft, Google, Yahoo!, Adobe, and Accenture are transitioning from performance appraisal (once-a-year evaluation and review) to performance management (ongoing evaluation and developmental feedback). In other words, performance management is becoming a normal, routine, built-in, and ever-present aspect of work in 21st-century organizations, particularly considering demographic trends about Gen X and Gen Y employees who are digital natives, demand ongoing feedback, and thrive when given growth opportunities.

So if you want to be a successful manager, you need to be a successful *performance management leader*, which means you need to have the knowledge and skills to manage the performance of your employees. And this is exactly what this book will teach you how to do.

*Performance Management For Dummies* is a definitive guide on how to design and implement a successful performance management systems. You'll learn how to maximize the benefits of performance management and minimize its pitfalls.

# About This Book

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*Performance Management For Dummies* teaches you how to make performance management work for you by connecting individual and team performance with your organization's strategic goals and priorities. This book also teaches you the nuts and bolts of how to define and measure performance in terms of what employees do (behaviors) and the outcome of what they do (results) — both for individual employees as well as teams. And this book also teaches you how to use performance management not just as an evaluation tool but, just as importantly, to help your employees grow and improve on an ongoing basis.

The book also covers how to gather and use data to understand whether the performance management system is working and where fixes may be needed. Overall, the book teaches you how to design and implement a state-of-the-science performance management system.

And if you don't manage employees yet, you can give a copy of this book to your managers because what they learn in this book will help them manage your performance and make your own job a lot more satisfying and rewarding.

The information contained in this book is deliberately accessible and covers everything you need to know about performance management from the basics to the more sophisticated insights that will improve and fine-tune your existing performance management system. As a result, this book is essential reading whether you are new to business, in your first management or HR job, or a seasoned professional seeking some additional nuggets of wisdom to help squeeze just a little more value out of performance management. If you are already familiar with performance management, this book shines some light on the common problems or mistakes people make, so you can rectify any errors that may be impairing your results. Reinventing the wheel is time consuming and costly. Instead, it's better to learn from both the evidence and research accumulated over decades as well as other people's mistakes to make your performance management system work right now. You want performance management to be a useful and insightful business tool rather than a once-a-year, soul-crushing, and time-wasting exercise.

Consider this book your performance management guide and come back to it often. Try out the ideas and suit your situation in your business. Make it your own and allow performance management to inform your talent-related decisions and support your strategy.

# Foolish Assumptions

For this book, I've assumed that you are a participant in performance management in any capacity. This means your performance is evaluated, you evaluate someone else's performance, or you are a member of the HR or related talent management function. Also, I've assumed that your participation in performance management is in the context of a business, government department, or not-for-profit organization seeking to better understand and use performance management.

## Icons Used in This Book

All For Dummies books use distinctive icons to draw attention to specific features within a chapter. The icons help you quickly and easily find particular types of information that may be of use to you:



TIP

This icon highlights a practical tip to help you with designing or implementing a performance management practice.



REMEMBER

When you see this icon, I'm highlighting a valuable point that you'll want to remember. It saves you from underlining or using a highlighter pen as you read, but feel free to highlight key points as you go through the book.



EXAMPLE

Nothing makes a point better than a real-life example, so I include illustrations of how many organizations do things in practice. I'm not doing this to impress you but to impress upon you the ideas that I'm trying to get across.



WARNING

Every once in a while, you may want to do one thing when it would actually be better to do the opposite (or to do nothing at all). I call attention to these situations with the Warning icon.



ACTIVE  
LEARNING

This icon contains an activity, question, exercise, or self-assessment that will help you learn by doing. It will help you make the material more personal and applicable to your organization and specific situation.

## Beyond the Book

In addition to the material in this print or e-book you're reading right now, this product also comes with some access-anywhere goodies on the web. Check out the free Cheat Sheet at [www.dummies.com](http://www.dummies.com) for some helpful checklists. Just go to the site and type "Performance Management For Dummies cheat sheet" in the Search box.

Also, check out my personal website, where you will find many relevant articles and resources about performance management and talent management in general: [www.hermanaguinis.com](http://www.hermanaguinis.com).

## **Where to Go from Here**

That's entirely up to you. You can read this book in order from Chapter 1 to 21, but you don't have to. Where you start reading depends on how familiar and comfortable you are with performance management already.

If you are new to performance management or are interested in or charged with designing or improving an existing performance management system, then start at the beginning. Otherwise, use the table of contents to find what you are most interested in and jump straight to that section. Whatever reading approach you take, you will find a treasure trove of useful information and evidence-based advice that will allow you to unlock the true potential of performance management to transform people's talent and motivation into a strategic business advantage and make work a more satisfying and rewarding experience.

# 1 Getting Started with Performance Management

## **IN THIS PART . . .**

Discover why you need an effective performance management system.

Understand the purpose and benefits of performance management.

Define and measure employee performance.

Avoid the problems caused by flawed systems.

- » Using performance management to create a competitive advantage
- » Making performance management work
- » Designing and implementing a performance management system

## Chapter **1**

# Introducing Performance Management

**T**he organizational success equation is quite simple. Organizations that have more and better resources are more successful compared to those that don't. This applies to large corporations, small start-ups, not-for-profits, and to organizations of every size and in every type of industry.

Here's the complicated part. In today's globalized and hyper competitive world, it is relatively easy to gain access to the same resources as your competitors — particularly when it comes to technology and products. For example, most banks offer the same products such as different types of savings accounts and investment opportunities. If a particular bank decides to offer a new product or service, such as an improved mobile phone app, the competitors offer precisely the same product.

But, a key differentiating resource is people. Organizations with engaged, motivated, and talented employees offering outstanding service to customers and coming up with creative ideas pull ahead of the competition, even if the products offered are similar to those offered by the competitors. Performance management is the ideal tool to have this type of workforce.

# Why Do You Need Performance Management? To Succeed (of Course)

There are 100s of books on talent management. Why? If you manage your talent right, you create a sustainable competitive advantage.

A performance management system is a key tool to transform people's talent and motivation into a strategic business advantage.



REMEMBER

*Performance management* is a continuous process of identifying, measuring, and developing the performance of individuals and teams and aligning their performance with the strategic goals of the organization.

Let's take a look at the two main components of the definition of performance management:

- » **Continuous process:** Performance management is ongoing. It involves a never-ending process of setting goals and objectives, observing performance, and giving and receiving ongoing coaching and feedback.
- » **Alignment with strategic goals:** Performance management requires that managers link employees' activities and outputs with the organization's goals. Making this connection helps the organization gain a competitive advantage because performance management creates a direct link between employee and team performance and organizational goals, and makes the employees' contributions to the organization explicit.

## Why performance management is alive and well

Because performance management plays such a key role, many companies, including GE, Microsoft, Google, Yahoo!, Adobe, and Accenture, are going through a similar process of transitioning from a performance appraisal to a performance management system. In other words, they are moving away from a dreaded once-a-year review to ongoing evaluation and feedback.



REMEMBER

Contrary to a trend described in the media with such headlines as “Performance Evaluation is Dead” and “The End of Performance Reviews,” the evaluation of performance is not going away. In fact, performance assessment and review are becoming a normal, routine, built-in, and ever-present aspect of work in all types of organizations.



It is not the case that companies are abandoning ratings and performance measurement and evaluation. They are actually implementing performance systems more clearly aligned with best practices, as described in this book, that involve and ongoing evaluation of and conversation about performance.

Many companies are getting rid of the labels “performance evaluation,” “performance review,” and even “performance management.” Instead, they use labels such as “performance achievement,” “talent evaluation and advancement,” “check-ins,” and “employee development.” But they still implement performance management, but use new, more fashionable, and perhaps less threatening labels.



REMEMBER

Everyone does performance management one way or another. Results of a survey of about 1,000 HR professionals in Australia showed that 96 percent of companies implement some type of performance management system. And, results of a survey of 278 organizations, about two-thirds of which are multinational corporations from 15 different countries, showed that about 91 percent of organizations implement a formal performance management system.

## PERFORMANCE MANAGEMENT PAYS OFF

A study by Development Dimensions International (DDI), a global human resources consulting firm specializing in leadership and selection, showed that performance management pays off. Organizations with formal and systematic performance management systems are 51 percent more likely to perform better than the others financially, and 41 percent more likely to perform better on customer satisfaction, employee retention, and other important metrics.

Performance management systems are a key tool that organizations use to translate business strategy into business results by influencing “financial performance, productivity, product or service quality, customer satisfaction, and employee job satisfaction.” 79 percent of the CEOs surveyed in this study said that the performance management system implemented in their organizations drives the “cultural strategies that maximize human assets.”

Based on these results, it is not surprising that senior executives of companies listed in the *Sunday Times* list of best employers in the United Kingdom believe that performance management is one of the top two most important HR management priorities in their organizations.

Paraphrasing Mark Twain, I can tell you with certainty that the death of performance has been vastly exaggerated.

## Imagining an organization without performance management

Imagine an organization without a performance management system. Not a pretty picture. You cannot do any of the things that are critical for talent management and the success of your organization:

- » Connect the behaviors and results produced by employees to your organization's strategic priorities.
- » Make fair and appropriate administrative decisions such as promotions, salary adjustments, and terminations.
- » Inform employees about how they are doing and provide them with information on specific areas that need improvement.
- » Give employees information on expectations of peers, supervisors, customers, and the organization, and what aspects of work are most important.
- » Give employees information about themselves that can help them individualize their career paths. For example, if they don't know their strengths, they cannot chart a more successful path for their future.
- » Learn who are your high-potential and star performing employees.
- » Anticipate where you will need to hire people and with which particular skill set.
- » Evaluate the effectiveness of HR initiatives. For example, you don't have accurate data on employee performance to evaluate whether employees perform at higher levels after participating in a training program.

## Making Performance Management Work in Your Business

Do you want to make sure performance management works in your business? It should be clear by now that performance management is much more than just performance appraisal.

### Distinguishing performance management from performance appraisal

Many organizations have what is labeled a “performance management” system. But it actually is a performance *appraisal* system. And performance appraisal is not the same thing as performance management.

A system that involves employee evaluations once a year without an ongoing effort to provide feedback and coaching so that performance can be improved is not a true performance management system. This performance appraisal system is the measurement and description of an employee’s strengths and weaknesses. And while performance appraisal is an important component of performance management, it is just a part of a bigger whole because performance management is much more than just performance measurement.

Much like those that focus on performance appraisal only, “performance management” systems that don’t make explicit the employee contribution to the organizational goals are not true performance management systems. When you make an explicit link between employee and team performance objectives and the organizational goals also you are establishing a shared understanding about what is to be achieved and how it is to be achieved.



Table 1-1 summarizes main differences between performance management and performance appraisal. Think about the system at your organization. Is it truly performance management, or performance appraisal?

**TABLE 1-1**

### Performance Management versus Performance Appraisal

Performance Management	Performance Appraisal
Driven by the line manager	Driven by the HR function
Strategic business purpose	Mostly administrative purpose
Ongoing feedback	Feedback once a year
Emphasis on past, present, and future	Emphasis mostly on past

## Adapting performance management to today’s reality

Performance management has a long history and is actually not something new.

Did you know that the Wei dynasty in China, which was in power between the years 220 and 265, implemented a performance evaluation system for government employees? Here’s a cool fact: It was a nine-rank system, by which workers were rated based on their performance. A low ranking meant the worker would be fired.

Now, fast forward to nineteenth-century England. The performance of officers in the Royal Navy was rated by their peers.

At approximately the same time, Robert Owen, a Welsh industrialist, set up a large cotton mill in New Lanark (Scotland). By the way, you can still visit it today. He mounted a block of wood on each machine with four sides painted, based on this performance rating system: white was best, then yellow, then blue, and the worst, which was black. At the end of each workday, the marks were recorded, and each worker was evaluated by turning the block to the appropriate side, which would face the aisle. Owen would walk the mill floor daily to see the block color on each machine.

But the nature of work and organizations today is quite different from those in China in the third century and England and Scotland in the nineteenth century. Due to technological advancements, globalization, and demographic changes, we are now in the middle of a new industrial revolution.

Technological changes have occurred on an ongoing basis in the past two centuries. But, the Internet and cloud computing have fundamentally changed the way we work. These advancements give everyone in the organization, at any level and in every functional area, amazing access to information — instantaneously from anywhere. Vast amounts of data, what is often referred to as “Big Data,” are collected on an ongoing basis: what employees are doing, what they are producing, with whom they are interacting, and where they are doing what they are doing.

What does this mean for performance management? The old days of paper-and-pencil performance evaluations are mostly gone. So are the old days of static in-house enterprise technology platforms. Instead, performance management can be implemented using dynamic online systems accessed via web and mobile apps.

## **Get your head in the clouds**

The use of cloud computing for performance management is much more than a mere translation of paper evaluation forms to digital format. Cloud computing technology allows supervisors and peers to provide performance evaluations on an ongoing basis and in real time — and employees to receive feedback also on an ongoing basis and in real time. Using cloud computing for performance management allows organizations to update goals and priorities and communicate them also real-time to all employees, thereby allowing them to also update their team and individual goals and priorities. So, the cascading of goals from the organization to its units, and then to individual employees can be implemented successfully across thousands of employees in just a few weeks.

Another advantage of using cloud computing for performance management is that it leads to a clearer understanding of the role of managers in the performance management process. For example, we can quickly learn how often they are

communicating with direct reports about their performance. Also, we can quickly learn how often “check-ins” take place.



EXAMPLE

Zalando, an e-retailer delivering merchandise to about 15 European countries, is taking advantage of technological advancements to improve its performance management system. It put in place an online app that crowdsources performance feedback from meetings, problem-solving sessions, completed projects, launches, and campaigns. Zalando employees can request feedback from their supervisors, peers, and internal customers that lets people provide both positive and more critical comments about each other in a playful and engaging way. An important innovation is that the system then weighs responses by how much exposure the rater has to the ratee. Every time an employee requests feedback, the online app prompts a list of questions that can be answered by moving a slider on the touchscreen of a smartphone or tablet. Clearly, this is very different from a traditional annual performance appraisal, which is currently the target of sharp criticism.

The availability of Big Data is also changing performance management in important ways. For example, about 80 percent of organizations use some type of electronic performance monitoring (EPM). In its early days, EPM included surveillance camera systems and computer and phone monitoring systems. But, today EPM includes wearable technologies and smartphones, including Fitbits and mobile GPS tracking applications.



TIP

In today’s workplace, every email, instant message, phone call, and mouse-click leaves a digital footprint, all of which can be used as part of a performance management system. But we should not be enamored by the presence of Big Data, and instead, should think about “Smart Data.”

## Context matters

The availability of online tools allows for the customization of performance management systems such that every step can be customized and tailored to local contexts. For example, consider the case of providing feedback. People from more individualistic cultures, such as the United States, expect to receive feedback and many performance management systems include training for supervisors on how to provide one-on-one feedback in the most effective way. However, in collectivistic cultures, such as China and Guatemala, open discussions about an individual’s performance clash with cultural norms about harmony, and the direct report may perceive negative feedback as an embarrassing loss of face.



REMEMBER

Successful performance management systems need to consider local norms — including societal and organizational cultural issues.

## Adapting performance management for different generations

In the United States and many other Western countries, Baby Boomers, who are people born approximately between 1946 and 1964, are retiring in large number. Members of Generation X, who were born approximately between 1965 and 1976, and Generation Y or Millennials, born approximately between 1977 and 1995, are now entering the workforce in large numbers. This presents a challenge but also an opportunity for performance management systems.

Gen X and Gen Y employees are “digital natives.” Also, they are used to immediate feedback — just like when receiving a grade immediately after completing a web-based exam in high school and college. So you need to consider generational differences for the performance management system to be effective. For example, it is important to include “check-in” mechanisms to give managers and direct reports the opportunity to discuss performance issues on an ongoing and real-time basis.

# Designing and Implementing a Performance Management System

Performance management is an ongoing process. Unlike performance appraisal, it most certainly doesn’t take place just once a year. And it is not “owned” by the HR function. The HR function plays a critical role in terms of offering support and resources such as in-person and online training opportunities and online tools that can be used to measure performance and share feedback.



REMEMBER

Performance management must be owned and managed by each unit, and supervisors play a critical role. After all, the principal responsibility of managers is to manage, right?

The components of a performance management system are closely related to each other and the poor implementation of any of them has a negative impact on the performance management system as a whole. The components in the performance management process are shown in Figure 1-1.