

Have you ever thought your performance management (PM) system could be the cause of your unhappy and/or demotivated employees? Does it lead your team to anticipated outcomes or do you treat it as a 'must-have' process with minimal impact on performance?

PERFORMANCE MANAGEMENT SYSTEMS FOR THE NEW GENERATION

HOW TO DESIGN A BETTER PERFORMANCE MANAGEMENT SYSTEM



By: Yasaman Motamedi, April 19, 2017

In today's day and age, you'll find that many companies are dissatisfied with their performance management (PM) system with only 55 percent of employees believing in their efficacy (Pontefract, 2015). The purpose of a PM system is to develop employees' capabilities across the broader organization and, in parallel, increase motivation and quality of work— not to discourage or frustrate employees. To realize the full benefits of an effective PM system, companies must invest in the overall happiness and satisfaction of their employees. For example, many organizations have found that invoking 'flex hours' or 'unlimited vacations' has had drastically positive effects on productivity (Dishman, 2012; Landrum, 2015). Sound counterintuitive? If it does, you're not alone. In the following sections, we'll explore fundamental principles of a PM system and

how many of the things that worked during the industrial age, are no longer relevant in the digital era.

Historically, PM systems focused solely on past performances measured through “Key Performance Indicators” (KPIs) which closely related to a company's bottom line. The most common example of this is the “Vitality Curve”, also known as the “Rank and Yank” system introduced by Jack Welch, the ex-CEO of the General Electric more than 20 years ago. This system requires every employee to fit in the ranking system's 'box', and if you were one of the unlucky



outliers (in the bottom 10 percent), it's likely you'll be sent on your way home soon – permanently. On the flip side, if you found yourself in the top 20 percent of performers, you might find a nice little promotion around the corner. Curious about what happens to the 70 percent (majority) in the middle? They are being ignored because, according to KPIs, they aren't deserving of any sort of recognition. Does this lack of recognition of the mass majority impact an organization's overall productivity? If you answered yes, give yourself a pat on the back. Everyone you employ has a role aligned with your company's overall mandate. By deploying a PM system that positively impacts the mass majority you can, therefore, expect the mass majority to operate more effectively.

It's unfortunate that many companies still use overly simplified PM systems for employee evaluations. You might be surprised to learn that NOT every employee wants a promotion. In fact, many studies have shown that recognition and subsequent appreciation are core performance drivers, right up there with overall compensation (Entrepreneur, 2015). This system may have been effective about 20-30 years ago that people's jobs were 9 to 5 and our knowledge of the differences between people and their motivations wasn't as broad as it is now. These days it is not as easy to fit everyone into the same ranking system and expect them to be happy. The workforce has changed and the expectations have changed with it.

A key turning point for many organizations is the realization that employees' intrinsic and extrinsic needs are different – it's through understanding each employee's motivation triggers that we can empower them and lead the company through real change. Human Resources teaches us about the general ineffectiveness of “one size fits all” PM strategies, yet most managers are still focused on how to force fit employees. This is not referring to an individual's fit within an organization's culture – this is what the screening and interview processes are for – but rather how to enable employees' different development needs using customized performance criteria.

Over the past decade, a frenzy of startups with drastically different approaches to PM has risen. From their well-known culture of questioning the status quo, we've seen many companies innovate and nuance classical PM systems for the better. Some prime examples include (1) Adobe Systems with their deployment of '[check-ins](#)' and (2) Google with their [Objectives and Key Results](#) (OKR) PM system. Perhaps one of the most interesting PM system innovations comes to us from Spotify, a Sweden-based company with a non-hierarchical organizational structure which focuses its PM system around autonomy and accountability (Michael Mankins, 2017). Spotify has changed its PM system from feedbacks that fed into salary reviews, to coaching that detached from monetary focus. In Spotify's words, this new system “... incentivized people to gather as many favorable reviews as possible rather than getting feedback around their biggest areas of potential improvement.” This has resulted in colleagues using an internal tool to invite anyone — including managers, peers, and direct reports — to provide feedback on their work and areas they could improve in. There have not been any limitations set on the number of feedbacks the employees



can ask for. Spotify employee Jonas Aman has said, “The result is a process that everyone needs to own and drive themselves — it is about development and personal growth.”

Another critical differentiator between new vs. old age PM systems is focused on employee motivation. Taking a forward-looking approach to the PM system managers meet with their employees every quarter for their reviews, but they their dialogues and conversations emphasis the employees’ future performance goals and tactical action items on how they can support them in their endeavour.

For agile companies, such as Spotify and Google, this process is substantially more flexible and face-paced. In the environment, there are no formal or fixed performance reviews. Managers meet with their subordinates on a weekly or bi-weekly basis and have an informal 'friendly' conversation about their goals and objectives, introducing a culture that stays away from unnecessary bureaucracy. These companies pay attention to the 80 percent at the bottom as well as the 20 percent on top in an 'everyone matters' mentality. Spotify, for example, focuses more on the bottom 10 percent to find out why they are not performing or are unhappy; taking the stance that this segment needs the most support.

To summarize, focus on individualized intrinsic and extrinsic motivators of your employees to produce a strong link between performance and reward – financial or otherwise.

When these points are in line with the company’s strategy, and the evaluation in place drives action from the employees, it will lead to an immense improvement in every employees’ overall performance and consequently the overall organizational performance.