

# White Paper:

## Retention and Productivity through Effective Management

### Step 2: Managing Performance

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Recent studies published by Robert Half International show two important facts:

1. Executives still view employee retention as their number one concern.
2. The top reason for losing top performing employees was unhappiness with management.

In these tough economic times, we cannot afford to lose top performing employees. With budgets being tightened, we must focus on cost effective means to avoid this type of turnover and leverage productivity. There are three areas that may offer a big return for a small investment:

1. Targeted, personalized management development
2. Improved performance management processes
3. Objective information for selecting, training and coaching employees

This white paper suggests an approach to **Step 2** above.

*For the white paper on Step 1 – Management Development, go to [www.pdservices.com/pdf/WhitePaper-ManagementDevelopment.pdf](http://www.pdservices.com/pdf/WhitePaper-ManagementDevelopment.pdf).*

## Performance Management

The fundamental process of good management is the performance management process. Employees perform best and are most satisfied when they understand expectations and know how they are doing. When boiled down to its simplest view, managing performance implements the following steps:

1. Set, communicate, and gain concurrence on your expectations for the employee.
2. Track performance against these expectations.
3. Give feedback, training and coaching based on performance against expectations on an ongoing basis.
4. Formally appraise the employee at least annually for a record of performance to be used as input to merit compensation, promotion, discipline, etc.

A key consideration in using this process is to make sure your expectations truly reflect what you need the employee to produce. Consequently, the “one size fits all” approach of a single form of generic

goals and competencies will not be effective. Expectations should be defined by position and by employee.

Performance management is often viewed as being only the fourth step, the appraisal. In that view, the appraisal is a single event that adds minimum value. Managers often view the appraisal as “something the HR department makes me do”, giving it the effort and attention you might expect with that attitude. By making sure you are implementing the entire process, performance management becomes a management tool with real value, often becoming fundamental to the organization’s management culture.

### **Setting expectations:**

Setting expectations generally consists of two parts; results and behaviors. Many organizations start defining results at the top by defining organizational goals, then “water falling” the goals out to the divisions, departments and other business groups. Water falling continues as the organizational goals are pushed out to the employee level. It is critical when using this technique that the employee’s contribution to that goal is well defined, so you can measure the employee’s individual performance against that goal.

An example of waterfalling a goal would be an organizational objective to improve customer satisfaction to 95%. The sales team may contribute to this goal by communicating product capabilities via an improved proposal/quoting process. Customer fulfillment may contribute by meeting quoted ship dates 98% of the time. Those ultimately translate into individual goals for employees.

If your organization does not employ waterfall goal setting, each manager should start the results setting with his/her own version. Define his/her own objective (hopefully as part of the performance management process with their manager) and drive those results out to his/her team.

Goals will vary by employee, even within the same position. Sales people may have different opportunities to generate revenue from their territories, or you may expect more out of your more experienced people. Administrative people may have different tasks and responsibilities that you need to consider in setting individual goals. We generally advise that you set no more than 5 to 8 goals per employee. Try to make them as objective (measurable) as you can.

Once the results (goals) are defined, you are in a better position to define the behaviors (competencies) that will contribute to the results. We find that defining competencies by position is generally most effective. Competencies include things like job knowledge, communications, attendance, etc. that are needed to achieve the expected results in an acceptable way. Many times the competencies embody the “how we do it” of an organization’s culture. If you have current job descriptions, use them as an input into competencies.

Competencies are often less objective than goals. A risk with competencies is making them so subjective that employees and managers are still not on the same page as to expectations and

performance. We find the best practice is to define the competency, then define behaviors for each rating scale specific to that competency. For example:

*Sample Communication Competency*

*Definition:*

The ability to effectively converse and listen to others concerning company matters. The use of proper written and grammatical skills, and the meaningful application of computer technology [e-mail, Internet, etc.].

• **Exceptional**

Communication skills are superior. Listening and interpersonal communication skills strengthen others. Effectively uses all available communication technology. Written documents are clear, concise, and well-constructed.

• **Valued Performer**

Communication skills are excellent. Listening and interpersonal skills are above average. Effectively uses most available communication technology. Written documents are usually clear and concise.

• **Effective**

Communication and listening skills are good. Effectively uses some available communication technology. Written documents convey information appropriately.

Etc....

We recognize that creating such competencies can be a significant effort for the HR department. Many performance management systems come with pre-written, customizable competencies using this approach. Other resources contain a list of pre-written competencies.

The value of this type of competency is that the employee and manager better understand the performance expectation, improving communication and feedback. When it comes time for appraisals, managers tend to be more consistent in appraisal scoring with this level of detail.

The final task will be to weight the importance of each of these expectations. The weighting is another tool for communication with the employee that they need to focus on.

**Tracking Performance, giving feedback, training and coaching:**

If this is to be a performance management process, tracking performance and giving feedback, training and coaching throughout the performance cycle is the daily/weekly/monthly activity that makes the process successful. While on the spot feedback is desirable, we suggest that the manager and employee meet periodically for a performance check-in, a quick, fairly informal discussion of the employee's progress against expectations. The frequency of these check-ins may be weekly, monthly, or even quarterly depending on the pace of the business and needs of the employee.

The format of the check-in meetings should be to review progress against goals and review any variance, positive or negative, from competency expectations. The employee will take more ownership of the results if he/she is expected to track and report their own progress in preparation for these meetings. If needed, an action plan that includes any appropriate training and coaching should be discussed to address any performance issues.

Another value of the check-in meeting is to make sure that the manager and employee stay on the same page with regard to expectations. With the pace of change in business today, it is common for expectations to change over the course of the performance cycle. These changes in expectations can be formalized as part of the check-in meetings.

### **Formal Appraisal:**

A great deal of time and attention is given to writing effective appraisals. The appraisal is simply the logical end to a given performance cycle. In practice, it should be a summary of the performance check-ins discussed in the previous section.

The manager prepares for creating the appraisal by reviewing any performance notes (check-ins and other) and objective data on the employee's performance against goals. Most appraisal systems will have a 5 point scale of performance ratings, though some prefer other approaches. I believe it is important to give the employee an objective rating for each goal and competency. When appropriate, particularly for a 1 or 5 rating, specific comments on the employee's performance that support the rating should be included.

I am a fan of including an employee self evaluation in the process. The employee can use the same form/format as the manager, scoring himself/herself and making appropriate comments. The manager should wait to review the self evaluation until they have at least completed a first pass at the employee's appraisal to avoid being unduly influenced by the self-appraisal. Including a self-appraisal in the process increases the employee's involvement, improves their own preparation for the appraisal meeting, and helps the managers identify and prepare for any differences of opinion between the manager and employee.

Some organizations need input into an employee's appraisal from multiple appraisers. An example is an accounting firm where an employee may work on several auditing projects, reporting to different leads, during an appraisal cycle. Each lead may have input to the appraisal. Appraisal input should be collected from each appraiser, weighted and consolidated into the appraisal. An automated appraisal system can save significant administrative time in consolidating input.

Once the appraisal is completed and reviewed with the employee, it can be an input into merit compensation increases, performance bonuses, etc. The information captured is of strategic value for analyzing organizational performance, development needs, fairness of compensation, etc.

## Summary:

The objective of this white paper is to communicate the best practices that I have observed in my role of selling, consulting and implementing performance management systems. I have observed a real difference in organizational performance and employee retention in organizations that focus on and do an effective job of managing employee performance. The keys to success include setting and communicating real expectations and using those expectations as the baseline for performance feedback and coaching throughout the performance cycle.

PDServices offers a performance management system that helps implement the process and steps discussed in this white paper. More information can be found on our website at <http://www.pdservices.com/employee-performance-management-appraisal.php>.

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