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harvard management update

ARTICLE REPRINT NO. U0409A

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by Loren Gary

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Performance Management That Drives Results

by Loren Gary

BEGINNING IN THE LATE 1990s, Weyerhaeuser embarked upon a campaign to achieve market leadership in the paper and wood products industries through a series of acquisitions. After the last of these acquisitions, Willamette Industries, in 2002, executives at the Federal Way, Wash.–based company conducted an assessment of the company's culture and realized they had a problem: they weren't doing a good enough job of holding leaders accountable for achieving superior competitive performance.

"The principles upon which the performance-management system was based were great," says John Hooper, director of strategic workforce initiatives and change. "But we hadn't institutionalized them in managers' actions and behaviors."

Weyerhaeuser's leaders recognized that the organization was slow to address performance problems. "Eighty-two percent of the company's employees had received an above-average rating in the most recent evaluation," says Hooper. "There was also little correlation between individual performance ratings and compensation decisions. In short, we needed to walk the talk." So Weyerhaeuser set a task for itself: build a performance-management culture that would help it achieve top-quartile performance in each of its major lines of business.

Like Weyerhaeuser, more and more companies are demanding that their performance-management systems drive demonstrable business results. And what they're discovering is that one-size-fits-all notions of performance won't get them where they want to go.

The most powerful systems for managing employees' efforts "respond to an organization's unique business and human capital context," write Colleen O'Neill and Lori Holsinger, of Mercer Human Resource Consulting, in a recent white paper. But even the most exquisitely tailored system can't run on autopilot—its success depends on executives' willingness to hold themselves and their subordinates accountable for delivering the desired results.

Experts say that performance-management excellence requires perspective, metrics, and a passion for execution. The best managers:

- Develop rigorous systems that create distinctions among three groups: the few who are making outstanding contributions, the great majority who are performing successfully, and the small number who aren't making the grade.
- Create measures to drive employee contributions.
- Foster a culture of accountability, in which supervisors aren't afraid to speak frankly when targets aren't being met, or to link decisions about financial incentives to actual performance.

Addressing relative contributions

High-performing organizations clearly distinguish top performance from satisfactory and poor performance. To determine the "right" method for doing this—more on the options later—senior leadership must first decide "what they value most about performance," says O'Neill.

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For example, one of O'Neill's clients, a financial services firm, decided that, given its corporate culture, it was more important to identify and correct underperformance than it was to make subtle distinctions among the top performers. Weyerhaeuser has decided to do both: create gradations of difference among top performers and weed out underperformers.

Get the best people in the most important jobs.

Once you've identified the overarching goals of your performance-management system, create what Mark Huselid, professor of human resource strategy at Rutgers University's School of Management and Labor Relations, calls a "differentiated workforce strategy."

In a pharmaceutical company, he explains, the main drivers of extraordinary performance include the ability to

tightly manage R&D cycle times, high-quality manufacturing processes, an excellent sales force, and a deep understanding of how to work with the FDA.

"These activities are the company's A jobs, its most strategically significant positions," says Huselid. For each A job, the company should "determine what the associated capabilities and workforce competencies, leadership behaviors, and key indicators of business success are." For the salesperson, one competency might be the ability to get face time with doctors; one success indicator might be the number of prescriptions written per hour spent with a physician.

"Only by putting A people in the A jobs can a company really move ahead of its competitors," says Huselid. "Spell out what extraordinary performance would look like for each of these A jobs, then make sure you've got your top performers in those jobs. B players, whose performance meets the basic expectations, also have a role in the company, but until they demonstrate that they can perform at A levels, they should not be in the most important positions."

Know how to handle underperformers.

"Do you really want C players in your company at all?" asks Huselid. "More and more businesses are culling their bottom ranks of employees with good results." His views about what to do with employees who aren't meeting basic expectations represent one end of the spectrum in a lively debate that currently rages in management circles. To some extent, the disagreement is a result of confusion over two different methods of differentiating performance, says Dick Grote, a performance-management consultant and author based in Dallas.

Absolute comparison procedures evaluate individuals in terms of their performance against predetermined goals and expectations, Grote explains. It's the approach that's commonly used in performance appraisals: "How well did Pat do against the objectives and competencies we discussed at the beginning of the year?" The problem with absolute comparisons is obvious: if the standards are set low enough, almost anyone can exceed expectations.

Relative comparison is different. Here individuals are evaluated in terms of how their performance compares with that of other people. It's this technique that makes many managers uncomfortable.

"*Forced ranking* and *forced distribution* are two examples of the use of relative comparisons," explains Grote. "A forced ranking system usually operates alongside but somewhat apart from the performance-appraisal process, using criteria that address both employees' performance and their potential." In a typical scheme, 20% of a company's workers are identified as A players, 70% as B players, and 10% as C players. Even if everyone is meeting basic expectations, some employees are still assigned to the bottom tier and, in some companies, terminated on the basis of that evaluation. This is the policy that raises the ire of many experts, who argue that it undermines trust in the corporate culture to terminate employees who are hitting their targets. But not all companies that use forced ranking automatically terminate the bottom-tier employees; some just notify employees of their rank without taking any additional action, says Grote.

A forced distribution system, on the other hand, focuses just on the annual appraisal process, not on assessments of employees' potential. "Perhaps 30% of Fortune 500 companies use this method to counteract the 'grade

CUSTOMIZING TO FIT YOUR CULTURE

Forestry products company Weyerhaeuser has tailored the forced distribution scheme it uses for performance management by opting for recommended rather than forced distribution guidelines. "At our company, leadership is not seen as a paint-by-numbers affair; rather, it's a matter of applying broad, overarching principles," says John Hooper. Our senior managers basically said, 'We should be trustworthy enough to expect high performance ourselves and inspect performance ratings and compensation decisions ourselves to make sure that they're in line with the goals—we shouldn't have to rely on the performance-management system to make the distribution decisions for us.'"

The basic criteria for making these decisions are performance against agreed-upon stretch goals and the demonstration of certain key leadership behaviors. When necessary, additional criteria are used to help supervisors make finer distinctions. These criteria include comparing A players from different units to see if any meaningful distinctions in their performance can be made and looking to see whether some top performers have made a greater contribution to shareholders than similarly ranked employees.

This may not be the textbook approach to "transforming a 'nice' performance management culture into one characterized by 'tough love,' but it's working for us," Hooper continues. "At the end of the first year of using the new system, we saw significant differentiation among the performance ratings and also in the merit and bonus decisions."

THE HIDDEN FACTORS THAT MAKE OR BREAK PERFORMANCE MANAGEMENT

The best performance-management systems provide a framework for differentiating performance and for linking those judgments to appraisal ratings and compensation decisions.

But what makes individual managers willing to ask hard questions such as, "Why doesn't this unit's performance jibe with the ratings of the individuals in it?" What helps them make time available for the often uncomfortable work of coaching and monitoring an employee whose performance is subpar, or for the emotionally draining task of managing an employee who fails to improve out the door?

"No matter how much you fine-tune the processes, performance management will never be easy or simple," says consultant and author Dick Grote, "and even the best system can't replace the need for courage and perseverance." What helps managers tap into these emotional resources?

- **Clarity.** Managers who've already provided straight talk about what is required have a much easier time addressing problems that arise when those requirements aren't being met, says Grote.
- **"Senior executives** who make performance management a part of their persona," says Mercer Human Resource Consulting's Colleen O'Neill. Adds Grote: "You can't overestimate the value of having senior managers who show up at performance-management training sessions and who demonstrate genuine appreciation for the difficulties involved in supervising people by sharing stories of situations they've dealt with in their own careers."
- **Stretch goals, negotiated interdepartmentally.** Say a CIO is trying to set a stretch goal around reducing the cost of the computer assets used by the company's business units. "It's easy to set that goal in isolation, but if she has to do it in conversation with the leaders of the business units that will be affected by that goal, that's what really brings performance management to life," says Weyerhaeuser's John Hooper. "The CIO says she wants to reduce asset costs by X percentage, the business-unit heads describe the consequences that reduction will have for each of them—the conversation goes back and forth until agreement is reached. Leaders are more likely to own targets that have been collaboratively decided upon."

inflation' in performance ratings by ensuring that there's some differentiation," says Grote. For example, a company might decide that only 5% of its workers can be assigned a "distinguished" rating and no more than 20% can get a "superior" rating. The company might also require that 10% of all employees be assessed as "needs improvement" and that a minimum of 5% must be rated "unsatisfactory."

Building accountability

A robust performance-management system provides a structure that encourages executives to take responsibility for seeing to it that their reports meet their objectives and also that their reports hold their subordinates similarly accountable. It fosters accountability in two ways. First, it helps ensure that employees hew to the metrics that have been chosen to evaluate progress toward the stated goals.

At American Airlines, for example, a new online performance-management tool for management and support staff—some 10,000 employees in all—enables an employee to look up her entire chain of command quickly, so she can better coordinate the objectives she's setting for herself with the goals and metrics identified by the managers and organizational units above her. "Whenever an employee changes an objective," says Sarah Keller, manager of performance management, "the system sends an e-mail to the employee's supervisor. This creates an opportunity for the supervisor and employee to have a conversation about how well aligned the new objectives are, and whether the right measures have been chosen to assess its impact."

The second way a performance-management system builds accountability is by encouraging managers to be diligent and discerning in their appraisals. At Fort Worth, Tex.–based Burlington Northern Santa Fe Railway, a "people leader" program brings supervisors at the same level together for two days each year.

Here they receive coaching from one another and outside experts about how to foster an ongoing dialogue with subordinates about performance, how to ensure that the company's strategic objectives cascade down to the individual level, and how to pick the right measures for evaluating performance.

When it's time for the annual performance review, a supervisor's manager reviews the supervisor's appraisal of an employee and that employee's self-evaluation before the actual meeting takes place. This allows the reviewing manager "to see if his impression of the employee squares with what the employee has accomplished," says Lachelle Ashworth, director of organizational effectiveness.

In other companies, managers two and three levels above the supervisor read these appraisals before the meeting is held.

"Although executives this high up don't have much day-

to-day interaction with these employees, they still have some subjective sense of where the real talent in the organization lies, some feeling for who is positioned to take the company into the future," says consultant Grote. "Being able to review the appraisals of employees two and three levels below them helps the senior leaders confirm or discount these subjective impressions. What's more, it allows them to see which supervisors are doing a good job of managing the talent they have."

Regular evaluations of the entire performance-appraisal process also help build accountability. At Sprint (Overland Park, Kans.), employees provide comments on the process through an online survey sent at the end of the annual appraisal. Based in part on last year's employee feedback, Sprint has established a specific manager quality objective: in this year's evaluation process, employees will be able to assess the quality of their supervisors. Other companies hold rater-reliability sessions, in which supervisors share their ratings of subordinates before the appraisals are sent up the chain of command for review. By forcing supervisors from different groups to defend the ratings they've given their people, these sessions help to ensure a level playing field.

Of course, nothing makes managers pay attention to performance management faster than making the ability to do it well an essential criterion for promotion.

At San Rafael, Calif.–based Lucasfilm, managers' current performance assessments are based, in part, on how rigorously they have worked to develop their direct reports and how proactive they have been in identifying and addressing performance issues. These assessments become part of a larger evaluation of managers' potential for senior leadership. ◆

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