

Performance Management Systems Under Review: Current Issues and Future Directions

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Memorandum for Chief Executive Officer

To: CEO of Ram Charan Corporation
From: Jae Eun Lee, Ozias A. Moore, and Rebecca Paluch
Priority: High
Date: August 15, 2014
Re: Ram Charan Corporation Performance Management System

INTRODUCTION

The performance management system (PMS) at Ram Charan Corporation suffers from various problems that prevent it from operating in an effective manner. While this is a serious issue for our organization, we are not alone in facing these performance management challenges. Various media outlets including The Wall Street Journalⁱ, Forbesⁱⁱ, and The Economistⁱⁱⁱ have examined causes of performance management system failures in organizations, encouraged abandoning the system, and even offered examples of companies succeeding after discarding of their systems. Based on these reports, the challenge of implementing a successful and effective PMS may appear to be daunting and confusing; however we have analyzed the problems and issues of our PMS and performance management (PM) in general and offer several innovative and valuable solutions. As such, this paper will discuss the problems identified within our company, demonstrate how these problems are related to larger issues, and offer solutions in order to implement a better PMS.

Our solution covers three broad themes; at the strategic level, we suggest PMS should be closely linked to the talent identification and development strategies, at the organizational level, we suggest PMS should be considered as a tool for continuous improvement and a conversational process between employees and the firm, and, finally, we suggest infrastructure upgrades by incorporating advanced technologies (please see *Appendix Figure 1*). As the problems with an ineffective performance management system are real and important for both the employees who use it and the overall strategy of the company, it is encouraging to have the interest and support of the CEO of Ram Charan Corporation in this matter.

ISSUES IDENTIFIED

Various problems with the current PMS were identified in the last conversation with the Ram Charan Corporation CEO. Specifically, it was noted that many employees view the system negatively or see it as demotivating while lacking emphasis placed on coaching, skill development, or career growth. In addition, the company receives complaints regarding the excessive amount of time it requires and the inconsistency of ratings from year to year. The complaints have not only come from the general workforce but have emanated from management as well. Management has questioned whether the PMS appropriately ties employee performance to the company's overall strategy and goals and whether rewards are delivered to the right employees. These are valid concerns, which has led us to examine the underlying issues within our PMS.

Changing Workplace

One of the most critical reasons for the failure of our PMS is the substantial changes in the content of work and how the work is done. Traditional PMS is based on a stable, predictable, work environment where the criteria for "success" can be defined *ex-ante* and where employees perform the same job, and their performance can be easily compared. With the increasing level of global market competition and technological advancement, however, firms have introduced innovative techniques in the workplace to be more flexible and competitive. These days, employees not only perform their job in a variety of ways (e.g., telecommuting, virtual teams, flexible work hour, etc.) but also by interacting with different types of employees (e.g., contractor, outsourcing, part-time worker). Thus, one set of performance criteria no longer applies universally. In addition, the workforce is becoming increasingly diverse based on cultural, racial, gender, and age demographics^{iv}. This increasing diversity often warrants more individualized PM to meet unique employee needs.

Rating and Timing of PMS

Given the rapid changes in the workplaces, we face two major challenges in our PMS: rating and timing of PMS. First, the performance rating system has been widely criticized as ineffective and demotivating. The implicit assumption of performance rating system is that the distribution of employee performance follows a shape of a bell curve where most people cluster around the mean and a few high and low performers at each end. Recently, a study (Aguinis, 2012) suggested the distribution generally resembles a ski slope where a majority falls below the average with a few high performers remaining at the extreme end. Thus, forcing employee performance to a predefined rating distribution is not only incorrect but also demotivating when employees receive an average or below average grade. Additionally, the concentration on ratings focuses attention towards the end result and disregards the total process which includes skill development and career growth. In response to the criticism of the rating system, companies including Microsoft, Expedia, and Adobe Systems started to abandon performance ratings^v.

Secondly, the timing of current PMS does not consider the rapid and dynamic nature of workplace changes. Traditionally, PM is often treated as an annual, or at most semi-annual, event between an employee and his or her direct supervisor. The structure of the current PMS, however, cannot accommodate any work activities with fluid work cycles and/or dynamic employee-manager interactions. For example, if employees at our firm often participate in project-teams with varying deadlines and multiple supervisors then how can a manager, especially the direct supervisor, properly evaluate each employees' contribution to each project? Should we also consider which project added more value to the bottom-line results? So far, our PMS is not advanced enough to accommodate such changes. The incompatibility between PMS and employee work activities perpetuates the current level of confusion for both employees and management.

Employee and Manager Involvement

While the inherent purpose of a PMS is to serve the employees, often it is created and implemented without any employee consultation. In addition, once in place, the process often takes place behind closed doors with little transparency or allowance for employee input. As such, employees become disengaged and disconnected from the process. In addition, the process often creates resentment towards the end product which leads to challenges to ratings extending the time and attention necessary for PM. Furthermore, the lack of employee involvement not only neglects the importance of employee buy-in but also creates an opportunity for challenges to performance ratings which will extend the process and distract from more vital pursuits.

The manager role today often requires skillful multi-tasking. As such, PM can get overlooked until it arises at the scheduled intervals (e.g., mid-year and year-end). However, management involvement is necessary in order to better understand how the company's strategies and goals can tie to employee performance. This not only supports company success but also promotes employee satisfaction by enabling alignment of rewards to the appropriate participants. In addition, management involvement can encourage a sense of ownership and thus generate participation in and support for the PMS. As such, not involving management in the development and implementation of PMS can have severe repercussions for the system's overall success.

SUGGESTED SOLUTIONS

The problems noted above present a daunting challenge in providing solutions towards developing a more successful performance management system. In our evaluation of the problems and generation of solutions, we try to incorporate four broad themes. First, given the increasing demand for talents, we suggest that PMS should be designed to identify and develop talents necessary for long-term business goals. Second, we propose that PMS should be perceived as a tool

for continuous improvement rather than an annual, discrete, event. Third, we also propose that PMS is a conversational process where employees and organization share opinions about performance goals and career plans. Finally, we encourage upgrading the technological infrastructure which will enhance the end-to-end PM process as well as enhance stakeholder and end-user satisfaction. At the end of each section, we also briefly discuss the ways to measure the effectiveness of our approach.

PMS as Talent Identification and Development Tool

One of the most persistent and widely cited challenges for firms and HR professionals is how to acquire and develop talent. Manpower Group's annual survey^{vi} reveals that employers in the U.S. continue to struggle in identifying and acquiring the right talent, and that employers believe the lack of available skilled talent is impacting business performance negatively. Similarly, the Global Talent 2021^{vii} report conducted by Oxford Economics in conjunction with Towers Watson, American Express, AIG and others, note that, even in the face of high unemployment, executives and managers often complain about the difficulty of finding people with the skills necessary to fill vacancies. The report also projects that attracting and retaining quality workers will continue to be challenging as global competition increases and technological development advances.

From our perspective, strategically designed PM may assist in solving this talent shortage issue. Instead of relying on external labor markets, firms can build an internal talent pool for the right talent. First, based on business strategy, firms need to identify key skills for both short-term and long-term goals. Then, firms need to incorporate those key skills into current performance management systems. In this sense, talent management and PM should be closely integrated. For example, if our firm is aiming to introduce a new product line in two years, then, one goal for PMS is to expand internal research & development (R&D) capabilities. Identifying key R&D skills and incorporating them into current performance assessment criteria would be the first step. In this

way, our firm will be able to identify who has the skills, or has the potential to develop the desired skills and develop internal capabilities accordingly. In addition, this PMS may serve as a guideline for employees to proactively develop KSAOs (knowledge, skill, abilities, and others) if they wish to advance their career within the firm.

By closely linking PMS and career management system, we would be able to leverage workforce diversity. As earlier discussed, increasing workforce diversity (e.g. surface-level, functional, expertise diversity, etc.) is another challenge for PMS. As employees with different characteristics (e.g. age, gender, race, preferences, etc.) have heterogeneous needs and career aspirations, one-size-fits-all PMS model is no longer effective. The concept of mass career customization (Benko & Weisberg, 2007) provides a good illustration. It departs from the traditional corporate ladder, where the direction is only upward, and presents a new career path with dialing up, down, and moving laterally. For example, an employee in earlier career stages may participate in a fast-track career progression initially with a larger workload but may subsequently desire a lighter workload when personal life stages evolve and family obligations increases. Similarly, when the employee reaches a life stage with fewer family responsibilities, he or she may be able to increase the workload and be more flexible in terms of travel and work pace. This customization of career track has resulted in higher employee productivity, lower turnover costs, and strengthened organizational loyalty. Additionally, another way of meeting these objectives is through job sculpting, which entails matching employee's jobs to their personal values and embedded life interests (Bulter & Waldroop, 1999). These efforts can ensure that our employees are working on challenging, interesting, and meaningful assignments at various life cycles.

Taken together, the contents and processes of PMS should reflect our firm's talent development strategies and employees' career development plans. We will be able to measure its effectiveness by employing HR metrics including the ratio of key talents developed internally, the

rate of high-performer turnover, and top executive and line managers' assessment regarding the quality and quantity of current talent pool.

PMS as a Continuous Improvement Tool.

Although our PMS has been traditionally managed as a discrete event (Latham & Mann, 2006), it should be viewed as a continuous process of identifying, measuring, and developing the performance of individuals and teams (Aguinis, 2013). As earlier discussed, given the rapid changes in the workplace, implementation of the “continuous process” component of the PMS definition will be critically important to its overall success. Today's dynamic work environment requires that both our individual employees and team members as a whole possess the knowledge, skills, and efficacy that will enable their adaptability (Chen, Thomas, & Wallace, 2005). This recent focus on the importance of adaptive performance (e.g., adapting to complex, novel, turbulent, or unpredictable work environment) is recognized as an important and critical aspect of job performance (Chen et al., 2005; Kozlowski & Ilgen, 2006). Thus, we further examine how PMS can capture not only our employees' objective and task performance but also their on-going adaptive performance.

Ideally, PMS is an on-going process of setting goals and objectives, observing performance, and giving and receiving coaching and feedback (DeNisi & Kluger, 2000). We should view our PMS as a continuous process of improvement; thus the ratings and timing of PMS should reflect this objective. Moreover, given the increased idiosyncrasies in employee jobs and career stages, the contents and processes underlying the PMS also should vary. More specifically, we encourage managers to incorporate fluid work cycles and/or dynamic employee-manager interactions into PMS. For example, in the case of an employee participating in multiple project teams, performance evaluation should be conducted multiple times a year (ideally right after the project is finished) by

multiple raters (preferably by the project manager) using different evaluation criteria (depending on the outcome of the project). In the case of mass career customization, employees who are in a fast-track should be evaluated differently from employees who are temporarily dialing down.

Additionally, our PMS should be closely linked to our HR practices such as training, development, talent management, recruitment, and compensation. As discussed earlier, PMS will be an important input for our future talent identification and management strategies. It will also be a critical input for our employee training and career development practices. The relationship between PMS and compensation, however, is contingent upon several factors. It should be noted that there is very limited research on the consequences of linking pay to performance and we do not have a consensus on the effectiveness of pay-for-performance at multiple levels (e.g., individual merit pay, team incentives and profit sharing) (Heskett, 2012; Rynes, Gerhart, & Parks, 2005). However, both managers and employees view PMS as linked to the compensation distribution. As such, we advise that our company promotes a culture which does not view money as a primary motivator; rather, status, autonomy, intrinsic value of work, and relationships among co-workers should be integrated as a multi-faceted effort to motivate employees^{viii}.

We can measure the effectiveness of this revised PMS by following-up on employees' or teams' performance trajectory. When PMS is designed as a continuous improvement tool, then we expect performance levels will continue to advance towards either individual or collective performance goals. By keeping track of the continuous PM progress, our HR managers will be able to find any bottleneck or obstacle that requires further attention.

PMS as a Conversational Process.

We have established that PMS is an on-going conversational process between employees and organization. Through such a PMS process, our firm will be able to convey strategic goals and

desired behaviors to employees while simultaneously employees will have the opportunity to convey their performance goals and career plans. From this perspective, employees are involved throughout the end-to-end process, from identifying performance goals to setting development plans. We expect this involvement will improve our employees' acceptance of goals and results of PMS. Moreover, given the increased diversity within our organization and cross-organizational task requirements, it is important that our PMS capture the needs and perspectives of our entire workforce and reflect their multi-faceted priorities and career trajectories.

Our workforces' perception towards PMS is one of the most critical conditions for its successful implementation. Research has shown that when employees are satisfied with their organization's PMS, they are not only more productive not also more committed to their organization and less likely to leave (Kuvaas, 2006). As PMS serves as an important input for most of the other HR practices (e.g., training, development, compensation, etc.), the process of PMS may shape employees' overall perception of organizational fairness. Additionally, by soliciting employees' participation throughout the PMS process, we can ensure due process and equal opportunity.

Conducting an employee survey regarding their satisfaction and perceived fairness of PMS can be an effective measure. This will provide employees with an opportunity to not only evaluate their continuous PMS but also provide real-time thoughts on necessary improvements. In addition, we suggest communication of the survey results by publishing them on our company website and encouragement of management and employee discussions of the findings. These efforts will attest to our company's value and commitment to our employees' performance, satisfaction with the PMS, and overall well-being.

PMS with Technology Upgrades

The ways in which advancements in technology have changed the relationship between employees and their jobs have been examined by various media outlets^{ix} and researchers alike (Burkhardt & Brass, 1990; Zamuto et al., 2007; Dunne et al., 1997). Practitioners, journalists, and researchers have witnessed and documented a variety of changes due to the evolution of the relationship between employees as well as their jobs due to technology. For example, advancements in technology have created a demand for increased job skills, allowed for greater diversity in communication methods, and permitted greater flexibility in location and schedules for workers (Zamuto et al., 2007; Vorhauser-Smith, 2012).

However, it appears that while the jobs and requirements themselves have changed due to advancements in technology, many organizations, including ours, have not kept pace with this progress regarding PM systems. Our company is not alone in receiving complaints regarding the lack of real-time feedback, assessments from irrelevant parties, and the absence of follow-up. An important way in which our company can combat this issue is by considering technological upgrades to its PMS.

These upgrades can be done in a variety of ways. One way is by implementing a more integrated PM platform. For example, in order to solve complaints regarding the timeliness of feedback and development direction, PM systems should be set to remind employees about tracking their performance on a weekly or monthly basis instead of semi-annually or annually. While this is often done in a conventional manner through email reminders in less technologically advanced companies, as our organization strives to be innovative we suggest that this be done through software applications which employees could upload onto their work phones. This app could be created in an entertaining manner such as framing it as a game or as a tangible way to track development which encourages employees to engage actively with PM as opposed to avoiding it.

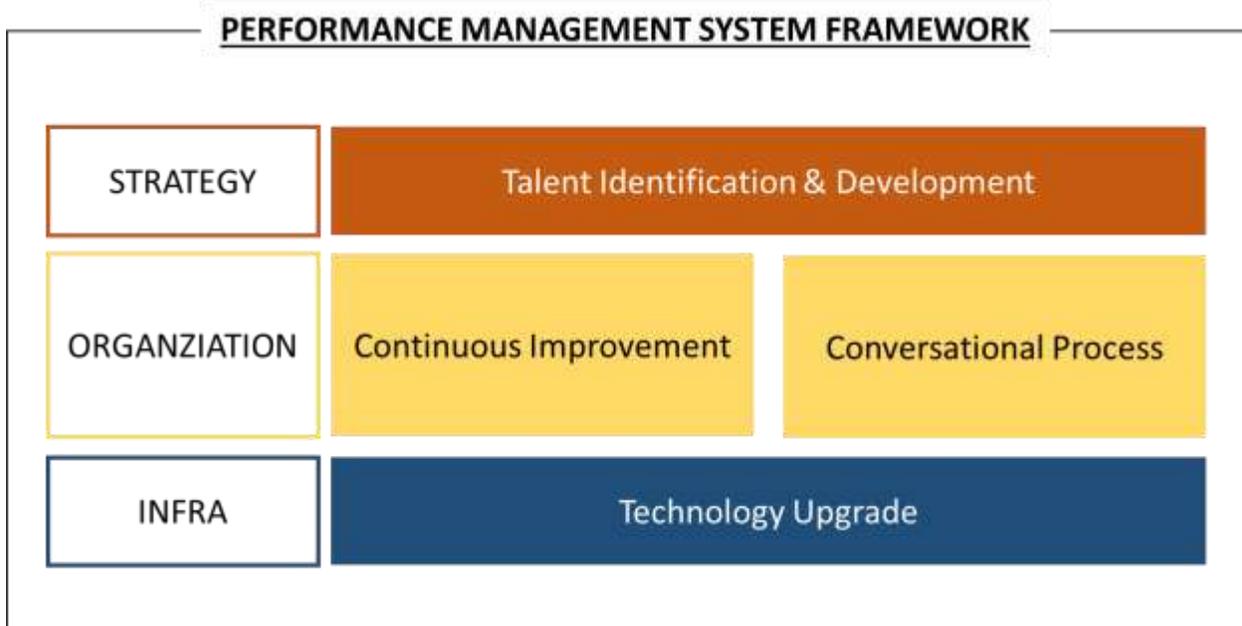
Another innovative way in which PM could become more technologically advanced is through the implementation of avatars in an overall PMS. Organizations have demonstrated that PM can, in fact, be fun and engaging by creating avatars for employees and framing the system as a type of game to track performance^x. It encourages feedback from various sources while allowing the appropriate personnel access to track performance. Companies that have implemented such avatar systems have found that it reduces the time involved in performance appraisal, encourages real-time feedback, and significantly improves employee satisfaction with PM.

Technological advancements are changing the way employees perform in their jobs. As such, it is necessary that PM systems progress with these changes in the workplace. By integrating technological advancements into the PMS, we will be able to better measure performance, save employees' time, and make the feedback relevant to each employee and his or her needs. These types of improvements also encourage more employee involvement, in general, leading to greater participation and satisfaction and allowing for more transparency in the performance management process. In addition, the incorporation of technological advancements such as software applications and avatars will allow our company to access more descriptive and predictive analytics. Therefore, our company will be better equipped to measure employee satisfaction with the system, usage and participation, and alignment with overall company goals.

CONCLUSION

We agree with the CEO's view that the development of PM as a system has not been aligned with its importance to the company and its strategy. In this memorandum, we have identified three critical reasons why our current PMS became ineffective and four evidence-based solutions that will improve its effectiveness. Specifically, these solutions when implemented will help our organization select, develop, motivate, and retain a talented pool of extraordinary employees. Moreover, the global talent war requires firms across all industries and sizes to compete in order to select and hire the best human capital in their home country, as well as around the world. The operationalization of our recommended PMS will also prevent competitors from absorbing our critical human capital and aid our organization's fight to successfully win the talent war. In a world where flexibility and adaptability directly translates into competitiveness, a well-designed PMS will serve as a mechanism of organizational capacity for talent development and continuous improvements. Additionally, given the changes in workforce demographics (e.g., aging workforce, declining birthrates, deteriorating educational systems) and increasing financial costs associated with turnover it will be imperative that we implement our recommended PMS to maintain our competitive advantage.

Appendix



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ⁱⁱ <http://www.forbes.com/sites/sebastianbailey/2012/12/20/5-reasons-why-performance-management-fails/>

ⁱⁱⁱ <http://www.economist.com/news/business/21589866-firms-keep-grading-their-staff-ruthlessly-may-not-get-best-them-ranked-and-yanked>

^{iv} <http://www.americanprogress.org/issues/labor/report/2012/07/12/11938/the-state-of-diversity-in-todays-workforce/>

^v <http://www.businessweek.com/articles/2013-11-13/microsoft-kills-its-hated-stack-rankings-dot-does-anyone-do-employee-reviews-right>

^{vi} <http://www.manpowergroup.us/>

^{vii} <http://www.oxfordeconomics.com/Media/Default/Thought%20Leadership/global-talent-2021.pdf>

^{viii} <http://www.forbes.com/2010/04/06/money-motivation-pay-leadership-managing-employees.html>

^{ix} <http://www.economist.com/news/briefing/21594264-previous-technological-innovation-has-always-delivered-more-long-run-employment-not-less>

^x <http://www.astd.org/Publications/Magazines/TD/TD-Archive/2014/01/Game-Changing-Performance-Management>