The Ten Commandments of Performance Management

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Imagine that, instead of being a personnel manager, you are a regular employee in a company that has installed a new compensation program that is scheduled to take effect immediately. Instead of an annual salary increase based on a percentage of your current salary, your raise will now be determined by using a large envelope with your name on it that is currently filled with ten $1,000 bills.

Each time you do something exemplary, your boss will add another $1,000 bill to your envelope. Each time you make a mistake, however, you forfeit one bill. At the end of the year, whatever is left in the envelope is yours to keep.

Now imagine that the year is over and that it's time for you to meet with your boss and receive your envelope. He has given little indication of how you or your colleagues are doing under the plan; based on your careful mental recordkeeping, however, you are positive that you have added at least ten more $1,000 bills to the ten you started with.

Your boss is seated behind his desk with a broad grin on his face, holding a thin stack of bills. Sliding it toward you, he tells you how pleased he is to present you with four thousand dollars. This, he quickly points out, is far beyond what most of the others have received. "Some people," he tells you, "received nothing!"

You feel your blood rise. You've worked awfully hard this year and thought everyone realized it. You're angry with yourself for getting duped into such a program. The meeting ends with your boss congratulating you again and informing you that the envelope program has been such a success that it will be repeated next year. As you head for the door, you pocket your little stack of bills and thank him. You return to work and never think again about that envelope with your name on it.

Sound far-fetched? The truth is that situations like this happen all the time. There may not be any salary programs that use envelopes and $1,000 bills, but there are a variety of other systems, most of which have roughly the same discouraging effect on employ-
ees. Is it any wonder that so many workers spend half the year trying to forget their last performance review, and the other half dreading their next one?

But even a simple program like the $1,000 bill scheme could work if it were built around the important (but frequently forgotten) tenets of effective performance management. I call these guidelines "the ten commandments of performance management." Let's look at how each one contributes to the success of any performance program.

1. Thou shalt involve thine employees in the design of the performance management program. A mediocre program designed by employees is better than an ideal program designed by management. By giving employees the opportunity to play a meaningful role in designing their own performance management program, you build commitment and support into the program, instead of merely adding these qualities as an afterthought.

This does not mean, however, that employees should be given carte blanche to design the program any way they choose. Besides, employees don't necessarily want that level of responsibility—they only want evidence that their involvement influenced the program's outcome.

Employees can be directly involved in the design process in a variety of ways: defining performance standards, designing forms, drafting instructions, and reviewing communication and training materials. Management can address the broader issues: articulating organizational mission and values, defining annual goals and objectives, and approving performance standards.

2. Thou shalt go out of thy way to recognize top performers. "We are an organization that tolerates nothing short of excellence, and all of our employees are above average!" Does this sound familiar? Being called "average" in many organizations is tantamount to being labeled a failure; as a result, performance ratings often fail to make clear distinctions between the exceptional and the ordinary.

If your company has a clearly articulated notion of excellence and all or most of your employees are achieving it, then there's not enough "stretch" in your goals. Every undergraduate at a first-rate university may have been at or near the top of his or her high school class, but that doesn't mean that every student at that university automatically gets all As.

Thus an organization with many excellent employees will have many "excellent" employees who are average. How do you avoid discouraging such employees or losing them to companies where they can be bigger fish in smaller ponds? There are two strategies that you can follow. First, show people that being average in such an organization is itself an accomplishment. Good, solid performers are the backbone of successful organizations; they should be valued, nurtured, recognized, and rewarded.

Second, remember that achieving excellence in an excellent organization calls for a stretch. Measure excellent people on a different scale; expect more from them, and when they deliver, be prepared to offer commensurate rewards. Without these rewards, what incentive is there to make the extra effort?

3. Thou shalt allow thy employees to fail. No matter how much we desire success, and no matter how much effort we exert to achieve it, even the best of us experiences a setback now and then. Babe Ruth may have hit 714 home runs in his career, but he also struck out 1,330 times!

Because failure hurts two ways—both personally and professionally—it must be handled sensitively by authority figures or it will become debilitating. Consider the company president who called the young salesman into his office to reprimand him for a pricing mistake that cost the company a million dollars. When the salesman asked if he would
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be fired, the president replied, "Fire you? Are you crazy? I just invested a million dollars in your development!"

The president realized that failure is critical to the learning process and must be considered in the context of the individual’s potential for future success.

Each person will react in one of three ways to failure: by learning from his or her mistakes, by continuing to fail, or by becoming reluctant to try again.

The challenge for management is to remove the punishing effects of failure and to help employees avoid the reluctance to take further risks. By helping employees visualize success and the means to achieve it, a manager can channel them toward learning and success and away from additional failures.

4. Thou shalt tie a large part of managers’ own performance appraisals to how well they plan for, encourage, and assess the performance of their employees. People who manage others have a tremendous obligation both to their company and to their employees. A company depends on its managers for the performance of the entire business, while employees trust these same managers for much of their professional development, financial security, and future success.

Here are several activities that contribute to good management and provide a healthy environment for employee development: articulating goals; developing standards; monitoring progress; providing feedback and support; coaching, counseling, and motivating; appraising performance; promoting staff; directing activities; assisting with professional development; teaching skills and techniques; and conferring rewards. Effective managers spend a great deal of time on these activities.

Unfortunately, not all managers understand that the time they spend developing employees can have a direct impact on the performance of the company as a whole. If managers are to value developmental activities and incorporate them into the workings of the organization, their personal success must hinge on proper implementation.

5. Thou shalt base performance decisions on actual work results, not on personality traits. Performance appraisal can be a difficult and confrontational undertaking, largely because we place so much value and importance on what we do at work. For most of us, it is exceedingly difficult to separate criticism of our job performance from criticism of ourselves.

To complicate matters, most performance-appraisal systems actually measure factors that are more reflective of our personalities than they are of our accomplishments on the job. Here are some personality traits and abilities that frequently appear in performance-appraisal systems: commitment, enthusiasm, attitude, cooperation, responsiveness, responsibility, motivation, discipline, follow-through, ambition, and leadership.

Even though these attributes may be reliable predictors of job success, one must remember that they are not necessarily synonymous with success. A person can possess them and still accomplish nothing of value. Furthermore, rating people on such personal characteristics presumes that these characteristics can be readily changed. The truth is that such traits are deeply etched into our personalities and can only be changed slowly and with great difficulty.

Within certain bounds, what really matters is results, not the style that is used to achieve them. For example, a sales representative can be evaluated for the number of proposals that he or she has written; an accountant can be evaluated for the timeliness and accuracy of reports; and a nurse’s performance can be rated by measuring infection rates and medicine errors.

Once results like these are coupled with specific desired levels of achievement, success is no longer subjective. Each individual knows what is expected of him or her; what’s more, each individual can plan his or her performance. This kind of control is both satisfying and reassuring.

6. Thou shalt link each individual’s goals to the organization’s overall goals. The real goal of effective performance management is to improve performance, not merely to measure it; furthermore, such improvement must be related to overall company goals. Without the perspective of a uniform set of these goals, a company tug-of-war will occur; employees may be pulling as hard as they can, but in opposite directions.

Clearly, if all this effort could be redirected to get everybody pulling in the same direction, the force would be very powerful. Sir Joshua Reynolds knew this when he said, “Nothing is denied to well-directed labor, and nothing is ever to be attained without it.”

There is a risk, however: Many businesses redirect employee efforts to get them pulling in the same direction, only to discover that the pull is in the wrong direction. To avoid this problem, plan your goal setting from the top down, and link each individual’s goals to those of the overall organization. In this way, you as managers can make sure in advance that everybody is pulling in the same (and the right) direction.

7. Thou shalt explain to managers and employees what a salary range is and how to use it. Whoever decided to start using salary ranges to pay different individuals different amounts based on their job performance must have intended that better performers would be paid more; however, they probably never intended for them to receive higher percentage increases. The higher percentage increase was merely the means to move better performers to higher pay levels.

This simple fact has gotten lost over time, and now top performers are upset if they don’t get the highest percentage increase, regardless of their current pay level. Few employees stop to realize that they should compare the actual dollar difference between their salary and the salaries of others, not the differ-

Most salary programs have a discouraging effect on employees. No wonder so many workers spend half the year trying to forget their last performance review and the other half dreading their next one.
ence between the percentage increases. Exhibits 1 and 2 dramatically illustrate the difference.

There are three reasons why employees continue to focus on percentages. First, managers perpetuate the percent-increase fallacy because they themselves don't understand (or can't explain to others) how salary ranges really work. Second, because cost-of-living and inflation statistics are presented in percentages, employees have become accustomed to evaluating their raises as progress or slippage against inflation. Third, while employees like to share information in order to compare their performance, they are reluctant to share actual salaries. Sharing percentages, however, is acceptable, so this activity becomes grounds for comparison.

Contrary to popular belief, every job in the company is not worth an infinite amount of money if it is performed well enough. If you continue to give the highest performers the highest percentage increases without considering their current level of pay, you will eventually raise their salaries beyond reasonable levels.

How do you address this situation? You must teach managers and employees how salary ranges work and how to use them. This will eliminate the discouraging condition that stems from the current misunderstandings and realign employees' salary expectations so that they are consistent with the way the system is really designed to work.

8. Thou shalt not succumb to the temptation simply to design a form and call it a performance management program. One form does not a performance management program make; nevertheless, many managers spend far too much time trying to design the ideal form. As a rule of thumb, your program is much more likely to be successful if you spend about 20% of your program time designing the form and the other 80% implementing the program.

Of course, the form needs to be:
- Comprehensive so that it measures the correct factors.
- Clearly laid out so that it is understandable.
- Professional in appearance so that people will take it seriously.
- Appropriate to the levels and types of positions for which it will be used.

But it is the care taken in implementing the program, not the design of the form, that will assure the program's success. In particular, it is important to:
- Communicate the plan's purpose and intent.
- Acquire agreement and support at all levels of the organization.
- Train managers and supervisors (see Commandment #9).
- Provide guidance and support during program roll-out.
- Monitor early activities to make sure they are appropriate and consistent.
- Pilot the program to iron out the bugs before going "live."

Spending too much time and effort on the form sends out the wrong message: "Just follow the form, and it will produce the desired results." Remember—forms don't produce results; people do.

9. Thou shalt train managers to give
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and receive meaningful performance feedback. Performance feedback gives a person essential information about how someone else perceives the effectiveness of his or her work. Managers use feedback to refocus or redirect employees’ behavior and to help them achieve desired results.

Giving feedback, both positive and negative, often presents an awkward and difficult situation for managers. To be effective, feedback should be:

- **Clear.** Vague, poorly thought-out, or unnecessarily complex feedback can have unexpected and undesired impact.
- **Descriptive, not judgmental.** Offering examples instead of unsubstantiated opinions will help prevent defensive reactions.
- **Constructive.** Suggesting ways to improve performance—rather than just listing what’s wrong—will make the discussion future-oriented and productive.
- **Positive and negative.** Telling both sides of the story makes feedback more credible, palatable, and useful.

Knowing these basics is a good start; ordinarily, however, there are few opportunities to practice feedback skills. In addition, many managers feel uncomfortable about giving feedback, which keeps them from capitalizing on opportunities that do arise.

To help your managers hone their feedback skills, have them practice in nonthreatening situations—ideally in the presence of a knowledgeable individual who can critique them. Practice sessions can be recorded on videotape in order to show managers what kind of impression they are making on their employees. When this type of assistance is readily available, giving and receiving feedback can become an effective part of every manager’s repertoire.

10. **Thou shalt treat employees as adults and with respect, and not lose sight of the fact that they are people, not just human resources.** I’ve never felt comfortable with the term “human resources.” It reminds me of the little boy who thought “V.P. of H.R.” stood for “vice president of human race horses” because he heard his father talk so much about how hard he drove his employees. To me, the term equates people with other “resources” such as land, oil, and natural gas.

Unlike natural resources, people do not exist to be exploited and depleted. The surest way for a business to fail is to suggest, through its actions or statements, that people are nothing more than useful commodities. As managers, we must never forget that we are dealing with people—real human beings who deserve to be treated with fairness, honesty, and respect. In this regard, consider John Ruskin’s words, “God intends no [person] to live in this world without working; but it seems no less evident that He intends everyone to be happy in [their] work.”

In thinking through your approach to performance management, apply this simple test: How will this new program affect the quality of worklife for all employees? If the answer is “positively,” and you’re confident that the program is in the business’ best interest, go ahead and implement it. But if the answer is “negatively,” you should reassess the plan and your need for it. Other motives for implementing a program may outweigh employee dissatisfaction, but you should think long and hard before setting such a program in motion.

A Bigger Payoff

How would our “thousand-dollar plan” have fared if it had been built around the ten commandments of performance measurement? First, had an employee representative been involved in the program design, there would have been more buy-in, less skepticism, and a more workable overall design. Second, if the results the boss expected of the employee had been made clear in advance, and the boss had been better trained, the unpleasant surprises could have been avoided. The boss wouldn’t have waited until the end of the year to communicate results; he wouldn’t have been as guarded with information about employee performance; and he wouldn’t have been so blind to the discouraging effect the program had on the employees.

With a little of the same sort of careful planning that went into the ten commandments, the “thousand-dollar plan” could have had a happy ending. The commandments, after all, represent little more than old-fashioned common sense. Combined with your own good judgment, they can help make the difference between success and failure in your company’s performance management program.

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