

**HaRe Group newsletter: 16 January 2018**

**Subject: Ditch or pitch Performance Management**

During 2017, I was drawn into a few debates about the value of Performance Management (PM). In many organisations for many years, there have been loud advocates for deep changes to traditional PM processes. Some Human Resources leaders would be happy to ditch PM altogether, arguing that the appraisal process is disruptive and completely unproductive – others just wish that performance ratings would disappear.

In my experience, there's a solid business case for a common PM process in most organisations, but PM usually fails because of bad design, or poor alignment to the strategic needs of the organisation and its employees. Too often, HR departments have accepted a "one size fits all" PM process that's pushed onto employees without sufficient consultation. This is becoming easier to do with the advent of complex PM systems that are combined with an organisation's ERP and payroll systems. (Dare I say, "the tail is wagging the dog"?)

The best solution involves developing a strategy driven PM process that is facilitated by a tailored PM system (of which there are an abundance). I have listed below some fundamentals of successful PM development.

Articulate PERFORMANCE – to achieve enduring success, publish the required:

- Skills within each job family
- Outcomes for each business segment/ function
- Culture (eg. ways of working together)

Engage with STAKEHOLDERS:

- Learn about real situations direct from the participants
- Develop and test options
- Prepare for alternative solutions

Address the PROBLEM(S):

- Don't be distracted by popular/ easy solutions
- Ensure the PM process supports the strategic purpose of PM

Incorporate CONVERSATIONS:

- Ensure that managers and employees have meaningful interactions
- Remove obstacles that distract from PM intent

Relevance of PERFORMANCE RATINGS:

- Determine if employee pay differentiation is required to support organisation culture – if it's meaningful, establish a supporting rating/ score system
- Determine if employees would benefit more from a manager's written explanation
- Consider adopting shadow ratings to underpin quantitative differentiation

Define PAY-FOR-PERFORMANCE:

- Establish if (and what type of) performance should lead to base/ fixed pay differentiation
- Identify the job families and work levels that would benefit, and how
- Align to market practice and business strategy

Define INCENTIVES:

- Establish if (and what type of) performance should lead to variable incentive pay
- Identify the job families and work levels that would benefit, and how
- Align to market practice and business strategy

Invest in IMPLEMENTATION:

- Consider the desired organisation culture and the timing of any changes
- Ensure the full endorsement of business leaders
- Pitch the benefits of the PM program and thoroughly communicate its new features
- Plan for adverse reactions and have business leaders respond in detail with tailored information

PM program failures will often damage remuneration effectiveness, and consequently corrode employee engagement. The development fundamentals above will help rejuvenate and improve PM program design.

Of course, my particular interests include employee performance measurement and the impact of PM design on remuneration management. Therefore, I focus on an organisation's genuine need for [base/fixed pay differentiation](#) and variable incentive pay, which should always be developed for each job family and work level.

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