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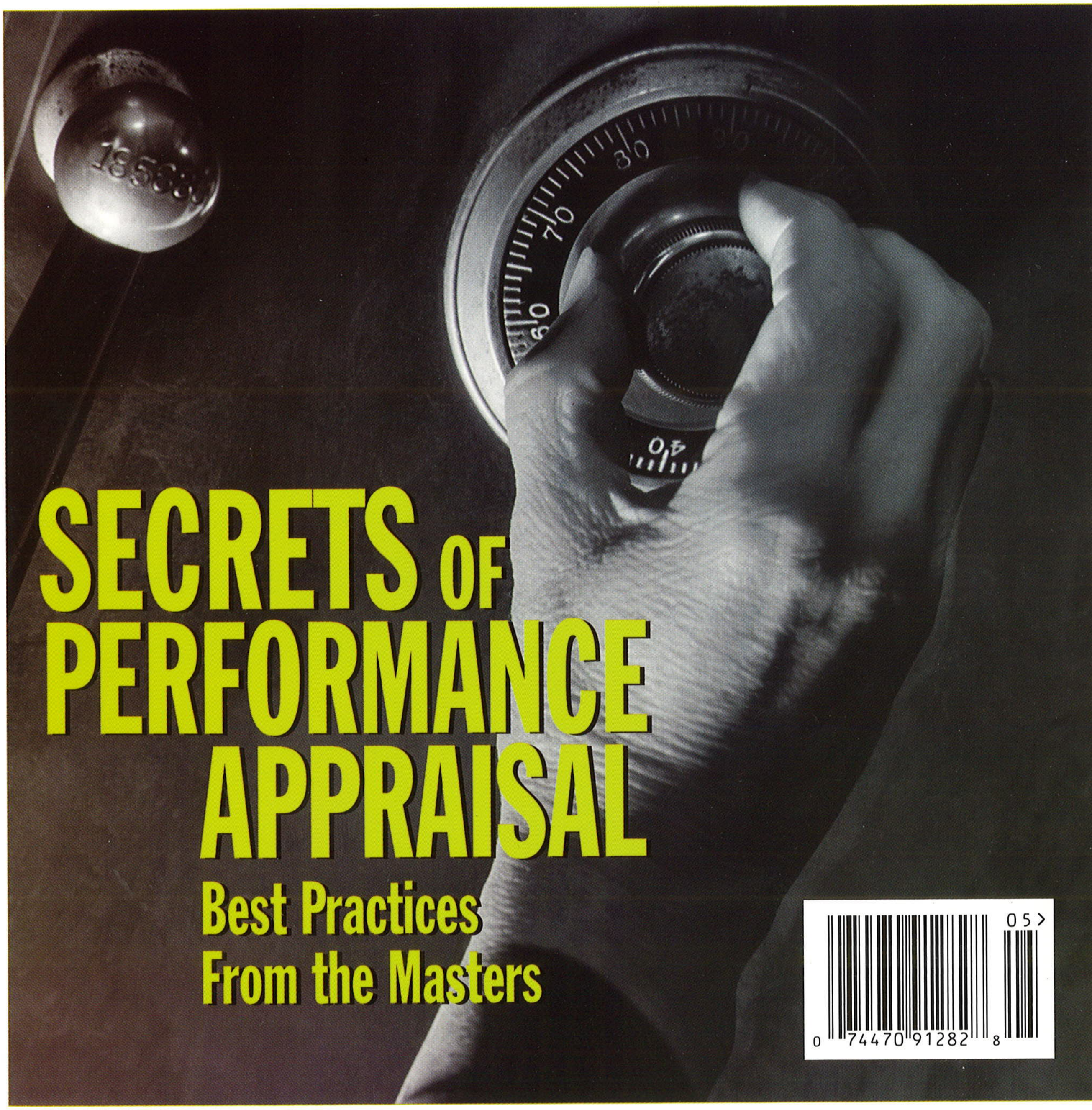

The SECRETS OF PERFORMANCE APPRAISAL

Best Practices From the Masters

By Dick Grote

Too many companies remain in denial about the benefits that a well-executed performance-management system generates. They may articulate the importance of transforming their stale "best-effort" culture into a tough-minded, results-driven one, but they fail to fathom that performance appraisal is the best tool available for muscle-building an organization.

So, understandably, those companies that have learned to wield this tool effectively don't want to talk about it. I came to realize just how tightly such secrets are held when I began work on a performance-management benchmarking study conducted last year by the American Productivity and Quality Center (APQC) and Linkage Inc. (see "Hush, Hush," page 16). Several "best-practice" companies—organizations that have developed genuine performance-management breakthroughs and are forcing rigorous assessments of talent and potential—turned me down, but many others agreed to give us a glimpse of the performance-appraisal secrets they guard so carefully.

So, you ask, what are these secrets? What are America's best organizations doing in performance management that the rest of us can learn from?

1. They Get Tough

There's probably no management process that has been the subject of more *Dilbert* lampoons than performance appraisal. But at America's best-managed corporations, performance appraisal is no joke—it's serious business.

Organizational expectations of the performance-management system have been upgraded. Where in the past the system may have been used merely to tell old Joe how he was doing and justify his annual increase, organizations now see performance-management systems as having tremendous power to transform the culture of the corporation.

One way that culture is being transformed is through a growing emphasis on identifying and assessing competencies. Sprint Communications Co.'s commitment to corporatewide competencies guides the company's performance management, says Bill Stansbury, director of Sprint's University of Excellence. "People at Sprint talk in competency language. The definitions for each competency are clear across the company, and people know exactly what it takes to get a 1 [Sprint's highest rating]. People may not like being rated in the middle, but they know what it means."

One organization that agreed to participate in the benchmarking study only on the assurance of anonymity recently changed the name of the function responsible for compensation, training, and management development to reflect the new emphasis. The new name: "Performance Management and Rewards." Why the change? "We were too nice in our desire not to hurt people's feelings," the head of PM&R explains. "Our forced turnover was less than 1.5 percent, and we had too few occurrences of people getting an MP—a 'Marginal Performer' rating. We were terrific at managing mediocrity. We needed to learn how to manage and reward excellence."

Probably no one exemplifies the tough-minded manager better than General Electric's Jack Welch, and there's no stronger advocate of demanding performance appraisals. He's known for his insistence that managers rank all of their people according to their talent and potential—and then weed accordingly.

Andrall Pearson, CEO of Tricon Global Restaurants, Harvard Business School professor emeritus, and former PepsiCo president, takes a similar approach: He used to engage every manager in the soft-drink giant in frank, tough discussions of each subordinate—and insisted that the same demanding discussion process be carried down. Pearson recommends sorting your population into four groups, ranging from poor to superior, and then asking for a specific plan for the people in each group. "Always focus first on the bottom group," he told *Harvard Business Review*. "Rooting out the poorest performers will foster a climate of continual improvement. If everyone in the bottom quartile is replaced, the third quartile becomes the new bottom group and the focus of subsequent improvement efforts."

Find the best; cull the rest. Many of the organizations that perennially make *Fortune*'s Most Admired list take that blunt approach. Microsoft annually weeds out

DICK GROTE is president of Grote Consulting Corporation in Dallas and adjunct professor of management at the University of Dallas Graduate School. More information on this topic is available at www.performanceappraisal.com.

about 5 percent of its workforce through its employee-appraisal system. Intel Corp. also has a tough succeed-or-get-out program. In 1998 Ford put in motion a plan to offer a buyout program targeted explicitly at poorly performing salaried employees or those "average/solid employees with limited potential." About 10 percent of Ford's 55,500 white-collar workers were marked.

But no performance-management process is more fiercely resisted than the rank-and-remove method. The recently hired vice president of HR at Electronic Data Systems abruptly left the company last year when the CEO instituted a quartiling plan despite much employee resistance. Spotlighting also-rans can destroy the congenial environment that many organizations enjoy and strive to maintain. Managers complain that ranking systems, like EDS's quartiling approach or Texas Instruments' 10-10 system, in which supervisors have to finger their best and their worst, are inherently unfair, particularly if they've already cut the unit's fat and are now expected to lop off bone and muscle.

Glenn Lovelace, president and CEO of Austin's rapidly growing TManage Inc., a technology company that provides end-to-end management of corporate telework operations, argues that the appropriate model for top organizations is Harvard Medical School: "Harvard Medical School is incredibly difficult to get into . . . incredibly selective. But once you're in, you're in. Nobody gets flunked out, because you've got the best—it's a collegial environment."

But most companies aren't Harvards, and muscle-building the organization is becoming recognized as a necessary, legitimate survival tool. To overcome resistance, CEOs must confront the human tendency to avoid confrontation and accept that the process will unavoidably be emotionally charged. Look at your people the way you look at your products. Few managers would urge retaining a non-performing product simply because it had acquired years of tenure and once delivered stellar results.

Leadership Darwinism it may be, but Welch, Pearson, and many other CEOs argue that a merciless push to upgrade human capital is vital. No one enjoys delivering bad news, but good managers understand that doing so is critical to an organization's long-term success. Does it demoralize employees? Actually, just the opposite. Top performers relish working in an environment free of non-contributors, and what genuinely demoralizes is a climate that openly tolerates mediocrity.

In the best-practice organizations identified in the APQC/Linkage benchmarking study, along with many others that take the process seriously, performance appraisal is the acknowledged spearhead for changing corporate culture. Traditional approaches to performance management and people development—like promotion from within based primarily on job tenure—are no longer good enough. A company that uses experience as its primary criterion for worker advancement is encouraging organizational hardening of the arteries.

"Culture change" is a term commonly bandied about, but at these organizations it's serious business. In the past, as long as Charlie was diligent and dependable and Jane was loyal and industrious, that was all that a company felt it could ask. Now loyalty and diligence are viewed as threshold factors—taken for granted, the price of admission—and continued tenure with the organization is contingent upon employees' delivering the goods. Both behaviors and results are assessed in the performance-management systems of top-tier organizations.

The importance of performance appraisal in changing a best-effort corporate culture into a results-driven one was one of the chief findings of the APQC/Linkage best-practices study. Another finding used tough

Hush, Hush

I was in for quite a challenge when I agreed to serve as subject-matter expert for the national benchmarking study of best practices in performance management being conducted by the American Productivity and Quality Center and Linkage Inc. My first task was to identify those companies that were doing stellar work in performance appraisal, and then convince them to share their processes and techniques with the 17 sponsor organizations that were each ponying up $16,000 to learn the secrets.

Identifying the companies that are performance-management masters wasn't difficult. But convincing them to reveal what they were doing was a different story. Some of America's most-admired companies just said no when offered the chance to be recognized as best-practice models in performance management. (And several of those that did agree requested to remain anonymous.)

Each of the companies that refused gave the same reason for declining to share its forms and procedures: It sees its performance-management process as a genuine source of competitive advantage and is unwilling to let any outsider peek. One VP of HR put it bluntly when he turned me down: "We would no more show our performance-appraisal form to a bunch of outsiders than the Coca-Cola Co. would let you come in and look over the secret formula for Coke."

—D.G.

language to make a similar point: "Best-practice organizations are using their performance management systems to directly target poor performers for termination."

2. They Cut to the Core

Over the past several years, one of the significant advances in performance appraisal has been the identification of specific "core competencies" by organizations. Limited in number and critical to organizational success, competencies define the critical behaviors, skills, and attributes that every organization member is expected to possess and display.

The performance-management system plays two roles here. First, creating a new performance-management system may force the organization to determine just which attributes or factors are truly *core* to the organization's success. Second, the performance-management system can be the primary mechanism for assuring that these competencies are fully understood and institutionalized. One of the key differences between the best-practice companies in the APQC/Linkage study and the 24 others that served as a control group was the significantly greater emphasis placed on the identification and assessment of competencies by the former.

The process for determining which competencies will be assessed is remarkably different from the one used to set goals and objectives. In setting goals and objectives, the manager and the subordinate are the key players with an enormous amount of work to do. They must determine the specific accountabilities of the subordinate's job and identify the various roles she is expected to play. For each of those roles or accountability areas, they must determine the goals and objectives to be achieved. In some cases, the objective will be merely a maintenance one: to keep things running as smoothly in the future as they have run in the past. In other cases, the objective will involve significant stretch and growth.

Having determined goals and objectives, they will set checkpoints along the way and determine what satisfactory performance will look like. Then, over the course of the year, they will revise objectives as missions are accomplished and strategies change.

Competencies, on the other hand, are determined on a corporate level and apply to all; individual raters and ratees may—at most—determine which ones to emphasize. Goals change; competencies do not. As a result, it is vital for the organization to choose its competencies wisely. In putting forth a list of competencies, the organization is telling its members that those few are the most important attributes that it seeks in members of its team. Of course, there will be other attributes expected of corporate citizens—no one would argue that any list of competencies, no matter how long, is exhaustive. But whatever items do not appear on the list must be less important than those factors that do make the cut.

Competency-identification is a powerful organizational exercise: It forces top management to determine what really is important for the company's success. Dozens of important attributes and proficiencies can be offered up for consideration. One study concluded that there are 67 discrete factors that correlate positively with job success; another found more than 100.

They asked themselves: Is people management a must, a should, or a nice?

One practical and highly enlightening method for an organization to use in identifying its most important competencies is the one used by TManage. Today a company of 75 people, by the end of this year TManage anticipates a payroll of 300. Since the company's employees will be telecommuters and only infrequent visitors to the corporate office, creating an effective performance-management system for the unique operation was one of the founders' top priorities.

For two hours one morning earlier this year, the eight senior TManage officers worked at their conference table. Each had been given an identical set of cards with 21 different competencies, such as accountability, customer focus, results orientation, and ethics/integrity. Their task: Sort the deck into three piles (*must*, *should*, and *nice*) of seven cards each. They asked themselves: Is people management a must, a should, or a nice? Is risk-taking most, middle, or least important for corporate success?

The results of the first round were predictable: Most cards landed in the *must* pile with only a few in *should. Nice* was empty. Each manager struggled to refine the piles so that only seven cards appeared in each one.

The challenge of identifying only a few crucial competencies forced serious discussion and decision-making. And the final result helped top management focus on what was truly pivotal to the fledgling organization's success—and recognize what was important but secondary.

Two other sophisticated techniques in the development of the TManage performance-management system added to its success: the use of mastery-level descriptions of performance for each competency selected and the creation of a behavioral-frequency rating scale.

3. They Seek Mastery

A glaring error on too many performance-appraisal forms is that desired performance is defined but not described. It's easy enough for a form developer to stick in a *Webster's* definition of *accountability*, *leadership*, or *teamwork*. But what does it look like in practice? How do you know it when you see it?

Far more useful than definitions are *mastery descriptions*—narrative portraits of the behavior that one who mastered the area would likely engage in. While they are much more challenging to create, mastery descriptions give the appraiser a benchmark against which to compare the actual activities of the individual she is assessing. Even better, they provide the appraisee with a clear picture of exactly what the organization expects. For example:

- *Customer Focus*: Dedicated to meeting the expectations and requirements of internal and external customers. Knows who every one of her customers is and can state what that individual's expectations are. Gets firsthand customer information and uses it for improvements in products and services. Speaks and acts with customers in mind. Takes the client's side in well-founded complaints. Is skilled at managing customer expectations. Establishes and maintains effective relationships with customers and gains their trust and respect. Actively seeks customers' feedback on the quality of service she provides.
- *Ethics/Integrity:* Is widely trusted. Understands both published and tacit values. Acts in accordance with values in good times and tough times. Rewards the right values and disapproves of others. Maintains confidentiality. Keeps promises. Shares complete and accurate information with others. Considers organization's mission statement when making decisions and taking actions. Doesn't blame others for her mistakes or misrepresent herself for personal gain or protection. Practices what she preaches. Honest in all dealings. Can present the unvarnished truth in an appropriate and helpful manner. Willing to take all necessary actions when serious ethical issues are at stake. Willing to put her job on the line.
- *Positive Attitude/Enthusiasm:* Displays a contagious optimism about the work to be done, her customers, her co-workers, senior management, and department policies. Is cheerful and energetic. Displays a beneficial and constructive sense of humor. Carefully chooses when to voice skepticism, recognizing the difference between skepticism and cynicism. Refuses to engage in gossip. Expects the best. Acts as a positive influence on others.

Who could object to being called a GSP—a good, solid performer?

4. They Check for Frequency

Once a company has identified its core competencies, an equally difficult challenge awaits: How should these competencies be evaluated?

Picking the scale values to be used to evaluate people generates more grief than almost any other aspect of performance appraisal. If a 1-to-5 numerical scale is chosen, people whine about being reduced to a number. If a comparison-against-standard system is used (*Failed to meet expectations/Fully met expectations/Greatly exceeded expectations*), low-ranking performers will demand that their hapless appraisers specify precisely what the expectations are. And if an absolute-judgment label scheme is used (*Marginal/Fair/Competent/Superior/Distinguished*), everyone will complain about the middle rating being a connotation of mediocrity. (Mike Vent, chief operating officer of TManage, still fumes over a "Wholly Adequate" rating he received 20 years ago.)

There is a better way: a behavioral-frequency scale.

Instead of forcing the rater to judge the individual being assessed, behavioral-frequency scales ask raters to indicate how frequently the appraisee behaved like a true master. To see how it works, read any of the three descriptions above. Next, think of someone whose performance you are responsible for assessing, and then ask yourself, "How often does she do all the things listed in the description? Does she do them *rarely*, *occasionally*, *frequently*, or *regularly*?"

That's the essence of a behavioral-frequency scale. It avoids absolute judgments, instead asking the rater to do the far more palatable job of describing how often true mastery is exhibited.

Another advantage of the behavioral-frequency approach is that it directly guides performance. Instead of having to figure out examples of each of the items on a corporate competency list, all the manager needs to do now is review the list with the subordinate and say, "Just do the things on this list, and you'll be a fully acceptable performer."

Seven Tips for Creating An Appraisal System That's World-Class

1. Design the form first

The appraisal form is a lightning rod that will attract everyone's attention. Design the form early and get a lot of feedback on it. Don't believe anybody who tells you that the form isn't important. They're wrong.

2. Build your company's values into your form

Performance appraisal is a means, not an end. Values become real only when people are held accountable for living up to them.

3. Assure ongoing communication during development

Circulate drafts and invite users to make recommendations. Keep the development process visible through announcements and house-organ bulletins. Use surveys, float trial balloons, request suggestions. Remember the cardinal principle—"People support what they help create."

4. Train all appraisers

Performance appraisal requires a multitude of skills—behavioral observation and discrimination, goal-setting, developing people, confronting unacceptable performance, persuading, problem-solving, planning. Unless appraiser training is universal and comprehensive, the program won't produce much. And don't neglect the biggest requirement of all: the need for courage.

5. Orient all appraisees

The program's purposes and procedures must be explained in advance—enthusiastically—to all who will be affected by it. Specific training should be provided if the performance-management procedure requires self-appraisal, multirater feedback, upward appraisal, or individual development planning.

6. Use the results

If the results of the performance appraisal are not visibly used in making promotion, salary, development, transfer, training, and termination decisions, people will decide that it's merely an exercise.

7. Monitor and revise the program

Audit the quality of appraisals, the extent to which the system is being used, and the extent to which the original objectives have been met. Provide feedback to management, appraisers, and appraisees. Actively seek and incorporate suggestions for improvement. Train new appraisers as they are appointed to supervisory positions.

—D.G.

Finally, behavioral-frequency scales make for easier, less defensive reactions when bad news has to be delivered. Instead of forcing the manager to label Sam a *1* or a *marginal* performer, the manager can say, "Sam, in this area of customer focus, only rarely do I see you doing the things listed here. What do you need to do so that the next time around I can report that I see you doing this all the time?"

Of course, there are some assessment items that just don't lend themselves to evaluation through a behavioral-frequency scale. Particularly when it comes to assessing how well the individual met her job-description responsibilities or achieved the goals that were set in the initial planning meeting, absolute judgments are required. But best-practice organizations work hard to come up with rating verbiage that reduces resistance. Alcon Laboratories calls its middle rating GSP—shorthand for "Good, Solid Performer." Who could object to being called a good, solid performer? Another highly palatable term for the center of the scale is "Fully Successful."

5. They Realize That Objectivity Is a Myth

One of the primary reasons that writings about performance appraisals are such eye-glazers is that the advice proffered is so often either stale or wrong. Triteness abounds in performance-appraisal literature. "Listen to what the individual has to say" is advice that appraisers are perpetually given, but nobody tells them exactly what it is they should listen for. "Typist" is offered up as a job example—but the content of a typist's job rarely bears any relation to the real jobs a manager has to assess. The banal acronym *SMART* is ceaselessly served up, each time by an author who assumes that the idea of creating objectives that are *specific*, *measurable*, *attainable*, *realistic*, and *time-bound* is fresh and enlightening. Managers are continually admonished to present no surprises in the appraisal interview, but often the trigger of a performance-appraisal deadline crystallizes a manager's vague concerns about a subordinate's shortcomings and forces a conversation that otherwise would not have occurred.

Perhaps the worst advice that appraisers are urged to swallow is to be objective, to keep their judgments and personal feelings out of the assessment process.

The flaw in the objectivity admonition is the bogus notion that *objective* means *quantifiable*; that if something can't be counted then it isn't objective and therefore shouldn't be used. That's nonsense. The talent of a pianist is not measured by the number of notes she plays. The quality of a priest is not a function of the number of confessions heard.

The issue isn't whether or not behaviors can be quantified, it's whether or not they can be *verified*. Numbers just happen to be easy to verify. While numerical measures would be nice to have for every objective, the search for meaningful ones is often fruitless.

When I was designing the performance-appraisal system for the National Security Agency two years ago, we confronted the issue of "objectivity" directly. The NSA is one of the country's largest employers of linguists and translators. How do you evaluate the performance of a translator? Do you measure the number of words translated? Of course not. What the NSA really wants from its translators is the ability to capture nuance, and no quantifiable measure of that capability exists. But it certainly can be described and evaluated: A skilled native speaker can easily sort translations into those that read like machine-generated transliterations and those that capture the soul of an author's words. The NSA also employs an army of programmers. Should the quality of their performance be assessed by the number of lines of code they write? That's dangerous. What the agency needs from its programmers is the ability to write elegant and parsimonious code. There's no quantifiable measure, but a practiced systems analyst will know it when she sees it.

A glance in the dictionary reveals what *objective* really means: "uninfluenced by emotions or personal prejudices" and "based on observable phenomena; presented factually." Writing a person's performance appraisal requires the manager to be fair, objective, and unprejudiced. But the fair-and-objective requirement does not mean that the manager is restricted to quantitative resources in completing the assessment. The manager's feelings, opinions, and judgments are precisely what the appraisal process demands. Managers are paid to make judgments even when—or particularly when—all of the facts are not available. In every other area of managerial activity, the ability to act appropriately on the basis of limited and occasionally conflicting data is celebrated and rewarded. Only in the case of performance appraisal are we uncomfortable about the fact that qualititative, experience-based information is used.

Laughing Matters

"I'm leaving to spend more time with my family of mutual funds."

Actually, people don't want "objective" information. What they want is their boss's opinion, plain and unvarnished. Managers need training less in how to create and deliver an objective appraisal and more in how to summon the courage to tell it like it is—to talk straight from the heart. Performance appraisals are the Olympics of management. This is not day-to-day stuff. Very few people ever get to do it; fewer still do it well. Training is critical.

Organizations with world-class performance-management systems do things that the also-rans don't. They insist that all managers maintain consistent, demanding standards for everyone—and they keep raising those standards. They work relentlessly to identify their highest-potential managers and professionals and develop them quickly. They move marginal performers aside so they don't block the path of talent; they eliminate non-contributors swiftly. They treat their HR departments as partners, staff them with the highest-caliber talent available, and insist that they be active agents for change.

The best organizations create performance-management systems that are, as Einstein said the solution to any problem should be, as simple as possible—but no simpler. They decide exactly what types of performance they want to encourage and what they want to purge. They identify the competencies that are at the core of the organization's overall success and demand that everybody be held accountable for performing like a master. They willingly tolerate complex, multi-page forms and a process that demands frequent meetings.

Finally, they closely link their performance-appraisal system with their corporate strategy, mission statement, and vision and values, since they recognize that the performance-management system is the primary driver for ensuring that their mission, vision, and strategy are achieved. ■

Grote Consulting Corporation
2591 Dallas Parkway, Suite 300
Frisco, Texas 75034

972-335-6644

www.GroteConsulting.com