

Designing Performance Management Process: By Shailesh Deshpande

INTRODUCTION

It can be argued that 'performance management process' (PMP) is one of the most critical, if not 'the most critical' HR processes for any organization. This article is an attempt to comprehensively capture the design dimensions and key considerations related to PMP. It will provide a conceptual framework for organizations who wish to review or redesign their PMP.

This article is organized under following main sections

- A. What are the attributes of an effective PM process?***
- B. What should the PM process measure? : Defining the elements of PMP
(Elements: Basic Job Responsibilities, Goals & Objectives, Qualitative Attributes and Capability and Potential)***
- C. Choosing the main guiding assumptions behind PM process***
- D. Operationalizing the PM process elements***
- E. Integrating the PM process elements for holistic assessment***
- F. Additional aspects related to PM design : Relative ranking and pre-requisites for effective PMP roll out***

This article covers discussion about many of the key dilemmas and issues faced in PMP design. A few examples include:

- Should the PM process measure qualitative aspects of performance? If yes, how should these be integrated with the quantitative aspects of performance?*
- Should the PM process include measurement of potential?*
- Is it possible (and desirable) to have a PM process that is entirely objective and quantifiable?*
- Is it a good practice to have weights associated with goals? Is it desirable to use standard goal templates?*
- Is forced ranking a good tool of Performance Management? What precautions should be taken while implementing forced ranking?*
- Is it worth investing lot of efforts in training supervisors on having effective appraisal discussions?*

It also covers examples of PMP practices adopted at organizations such as Accenture, Unilever and Marico.

A. WHAT ARE THE ATTRIBUTES OF AN EFFECTIVE PMP?

It is helpful to view the attributes of PMP from perspective of various stakeholders. **From the perspective of the organization**, PMP can be said to be effective and successful if:

- It helps the organization in channelizing efforts of the employees for delivering on short term as well as long term expectations from all it's stakeholders
- It helps the organization define and communicate it's performance management philosophy in a manner that is most aligned to the organization's ethos and mission.
- It helps the organization create the most appropriate work culture – by effectively signaling to its employees, the aspects of performance that are valuable and attributes that are not welcome in the organization.
- It helps the organization in continuously improving it's performance, and keeping it well ahead of its peers and competitors
- It helps the organization build unique and distinctive capabilities , identify and nurture right kind of leaders that help in long term value creation

From the perspective of line managers

- If it gives them a systematic, easy to use framework and set of tools with which they can help each of their team members understand the organization's expectations.
- If it gives them a fair and logical framework that helps them take a considered judgment on the performance of their team members and which is helpful in providing high quality feedback to their team members for performance improvement and career enhancement.
- If it gives them a reasonable opportunity to influence and fine tune the various rewards (and retributions) given for their team members.

B. WHAT SHOULD THE PMP MEASURE? : DEFINING THE ELEMENTS OF PMP

Since the entire PMP is built on the foundation of definition of performance, it is very important that the organization spends adequate time and efforts in defining the elements of PMP. In fact I have often felt that the word 'performance' does not fully capture what is at issue here. **I think PMP is about taking a holistic view of the results delivered, contributions made and potential demonstrated by an employee and covers multiple interrelated elements.** At a granular level, these elements can be represented as follows:

Sr. No.	Element	Scope	Significance
1	Base level role delivery	- The bare minimum results and process adherence expected from a given role.	- Helps articulate the base level expectations. Sends a signal that doing your core job well is a basic expectation and superior performance needs to be demonstrated through achievement on critical goals.
2	Goals and Objectives	- Time bound, specific, significant and stretch deliverables identified for a given role.	- Ensures that the results critical for organization get specific focus and attention. - Helps in continuously raising the bar
3	Qualitative Attributes	- Qualitative manner in which the employee conducts herself, works with other members and contributes to the organization	- These help in defining the many important qualitative expectations that organization has from its employees: E.g. – customer centricity, commercial acumen, excellence orientation, ability to develop team members etc.
4	Capability and Potential	- In addition to the consistency of performance in the current role, this element measures the capabilities (functional as well as generic) and potential that the given employee has, to take on a wider range of roles at the same level and /or higher order responsibilities.	- All other elements being equal, the employee who displays higher capabilities and potential is more valuable. - Given the criticality of succession planning and development of talent pipeline, it is important that the organization has the ability to measure this element.

In addition to the four core aspects above, the fit with organizational values and culture is also an additional dimension that has a bearing on evaluation of people .It usually gets measured through evaluation on 'Qualitative Attributes' and 'Capability & Potential '

The above table is a very detailed representation of various elements that are relevant for PMP. Some of these elements are interrelated and also contain overlaps. But in the PMP design process, it is desirable to consider them separately to ensure that all significant dimensions related to people measurement are captured.

We will discuss the role of Area Sales Manager in a Consumer Product organization - as an example to understand these core elements better. (Presented here in a very simplistic manner only to illustrate the principles)

Let's consider imaginary individuals A, B, C, D, E and F compare them across the four elements:

	Element	Comparison	Comparison	Comparison	Comparison
1	Base level role delivery	A&B			
2	Goals and Objectives		B&C		
3	Qualitative Attributes			C&D	
4	Capability and Potential				D & E D & F

1. Mr. A and Mr. B (Comparison on Base Level Role Delivery)

For this role, base level expectations would be:

- a. Meeting targets
- b. Ensuring that inventory and commercial norms (recoveries) are maintained
- c. Visiting the market and customers as per defined norms
- d. Adherence to all company policies and procedures
- e. Responding to customer complaints appropriately and in time

-The critical ones from this list (such as a and b) may feature in 'Goals and Objectives' if stretch targets are set. But at the base level they form part of core job delivery.

-Let's assume that Mr. A does not even satisfy many of the above expectations – but Mr. B does meet all these expectations in a very satisfactory manner.

- Mr. A needs to be severely reprimanded and be told to ensure satisfactory delivery on these parameters with immediate effect. Failing which, his placement in this job needs to be reconsidered.

2. Mr. B and Mr. C (Comparison on Goals and Objectives)

Let's compare Mr. B and Mr. C now. Mr. C also meets all the aspects of Base Level Role Delivery very well. We will compare their performance on the next parameter, i.e. Goals and Objectives.

Parameter	Mr. B	Mr. C
1. Overall sales revenue target	Exceeded by 15 %	Exceeded by 15 %
2. Collection target (Recovery of dues from dealers)	Met 100 %	Met 100%
3. Network expansion target (Measured as number of new outlets added)	As per plan	Exceeded by 10%
4. Sales target for new and focus products	As per plan	Exceeded by 12 %

From the above table it can be seen that while both Mr. B and Mr. C meet the 'Base Level Role Delivery', Mr. C performs better on Goals and Objectives.

3. Mr. C and Mr. D (Comparison on 'Qualitative Attributes')

Mr. D's performance on Goals and Objectives is identical to that of Mr. C. We will compare them on few of the qualitative parameters:

Parameter	Mr. C	Mr. D
1. Initiative and Ownership	-Does not show high initiative – does not participate in special projects or tasks beyond regular work	-Shows very high level of initiative – actively participates and contributes to national level projects (such as sales capability building, IT system implementation etc.)
2. Developing and engaging team members	-Engagement levels for Mr. C's team are below the organization's average. -Has not taken any specific efforts to build team's capabilities	-Engagement levels for Mr. D's team are among the best in the organization -He has implemented many actions to build capabilities of his team. Many of his team members have been selected in other geographies for senior level roles.
3. Customer Centricity	-Does not demonstrate good understanding of customer requirements	-Shows great understanding of customers and uses it effectively (e.g. execution of special schemes)

This comparison makes it clear that while on Goals and Objectives, the performance of Mr. C and Mr. D is identical, Mr. D's role delivery is qualitatively superior to that of Mr. C.

4. Mr. D & Mr. E (Comparison on Capability and Potential)

Mr. D and Mr. E are identical on aspects such as Base Level Role Delivery, Goals and Objectives achievement and Qualitative Attributes – **with reference to their existing roles**. However Mr. E clearly demonstrates far better potential to take on higher order responsibilities and grow to senior levels in the organization. Mr. E scores higher than Mr. D on the following core indicators of potential –

(a) Motivation – Mr. E is highly motivated to take on more, larger and complex challenges (often beyond the regular scope of job) and is highly tenacious.

(b) Ability to influence others – Mr. E has shown astute ability to work with and influence people across the hierarchy as well as across the functions. He has also shown an ability to develop a productive network within and outside the organization.

(c) Organizational, managerial and functional intellect: Mr. E has consistently demonstrated a superior intellectual capability to identify key issues in any given situation, to deal with very complex problems and the ability to devise and implement effective solutions.

On many occasions Mr. E has given effective suggestions on and successfully participated in projects related to high level functional and organizational issues. Hence, on the element of Capability & Potential, Mr. E is rated highly as compared to Mr. D.

Mr. E's example brings out the point about 'Potential'. We can also look at Mr. F, who is comparable with Mr. D on the first three elements (Base Level Role Delivery, Goals & Objectives achievement and Qualitative Attributes) but scores higher than Mr. D on 'Capability'. Mr. F scores higher on the Capability element because he also possesses Marketing and Commercial capabilities, due to which he can also take up roles in the area of Brand Management or Sales Commercial Operations. This results in Mr. F getting a higher rating than Mr. D on the element of 'Capability and Potential'

Before moving on to the discussion about rating scales and operationalization these elements, (Base level role delivery, Goals & Objectives, Qualitative Attributes' and Capability & Potential) it will be helpful to consider the some of the assumptions that influence the PM process.

C. CHOOSING GUIDING ASSUMPTIONS BEHIND THE PMP

It is of great help if the organization transparently defines the fundamental assumptions guiding the design and implementation of its PM process. A lot of confusion caused due to misalignment on these assumptions can be avoided by a clear statement of the assumptions. Described below are the two fundamentally different assumptions that the organizations need to typically choose from:

Assumption 1: 'The PMP MUST be objective and quantifiable'

- ***The final ratings should be derived using a mathematical algorithm.***
- ***It is the organizations responsibility to make the PMP so objective that the process should not have any element of ambiguity.***

For PMPs designed under this assumption every percentage point given to weight of a particular goal becomes a critical matter of discussion because it is believed that performance of an employee whose weighted goal rating is say 83.5 is necessarily better than that of an employee whose weighted goal rating is say 78.7

These assumptions usually give rise to very high amount of focus on mathematics of PMP – with each decimal point of rating and weight getting debated at length. It also gives rise to a battle of wits played between the employee and supervisor – with employee on one side arguing for weights and ratings that will 'maximize' her score and the supervisor on the other side trying to keep the score in the range that he thinks that the employee deserves.

Assumption 2: 'The PMP is about facilitating exercise of good managerial judgment based on valid and relevant data, under well defined governance principles'

- ***Given the complex and dynamic nature of work, individuals and organizations, element of judgment can never be eliminated from PMP. In fact PMP should aim at facilitating good managerial judgment by defining clear principles and governing mechanisms such as multi rater moderation processes.***
- It is believed that employees as well as supervisors have the requisite amount of good sense and wisdom to implement a PMP that is based on fundamentally sound principles
- Helping employees understand the essence of organization's expectations is a very important responsibility of managers
- The leaders in the organization can be trusted (and are required to have the capability) to exercise appropriate judgment to do what is right for the organization as well as its employees.
- Governance processes in the organization will prevent any misuse of leadership authority and biased behavior.

I am a firm believer in the value of second assumption. The leadership team needs to build an organizational culture that can operate on the principles consistent with the second assumption. In any case, the first assumption (performance can be represented in simple mathematical form) is so far removed from reality that a process designed on that assumption invariably gives rise to gaming behavior.

D. OPERATIONALIZING THE PMP ELEMENTS

To quickly recap, we have identified the following four core elements of PMP: (1) Base level role delivery, (2) Goals & Objectives (3) Qualitative Attributes and (4) Capability & Potential. This section deals with considerations that go into operationalization of each of these elements.

D 1. Base Level Role Delivery: This element is important for two main reasons:

- A) Clearly spells out base level expectations from each of the role holders – employees do not get any extra credit for delivering on these expectations, but failure these calls for immediate corrective action.
- B) Clearly segregates basic role specific tasks from significant goals and ensures that the goals are not about routine tasks but mainly about significant stretch targets and initiatives.

Aspects that are covered in Base Level Role delivery usually include routine operational tasks and compliance to all policies and procedures.

Evaluation on Base Level Role Delivery usually has a binary scale – if an employee has not satisfactorily delivered on this element, he is automatically disqualified from above average performance rating. His performance rating is restricted to the bottom range of the scale.

D 2. Goals and Objectives: Most organization's PMP does cover Goals and Objectives. The main advantages of having a component of Goals and Objectives in PMP are

- a) Enables employees focus on results and initiatives that really matter to the organization
- b) Element of priority and element of stretch and continuous improvement can be built in
- c) Helps clearly distinguish between routine deliverables (most of which should not form part of the Goal sheet) and critical time bound objectives.

While implementing the Goals and Objectives component of the PMP, the following design elements need to be decided upon:

I) Whether to restrict the number of goals that a person can have in his goal sheet

Points to consider: It is desirable that at a given time, an individual focuses on reasonable number of critical goals – say 6 to 8. But during the entire PMP cycle (which is typically a year) – an individual may work on many more projects and goals. And hence ideally the PMP should not restrict the number of goals that the person can take during a year. The PMP design should allow the supervisor to evaluate goals as and when get completed and allow the employee to add new goals throughout the year. This is particularly important given the significant manner in which nature of work has changed in recent times – all employees across levels are now involved in various projects and assignments in addition to delivering on their core roles.

Example: The PMP at Accenture (www.accenture.com) does not have a system of weights for goals. An employee can add any number of goals throughout the year and as and when the goal gets completed, the employee can complete the self evaluation and send it for the supervisor's review. (Employee can choose different supervisors for different goals). At the end of the year the line supervisor of the employee takes into account all the goals completed by the employee in a year and the goal ratings to arrive at the final performance rating.

II) Whether to use standardized goal templates

Prima facie, use of standard goal templates appears to be very attractive proposition. Because it comes across as an easy tool to improve quality of goal setting and it takes away the hassle of discussion between supervisor and the employee on goal setting. But if we believe that the nature of work and employment relationship has significantly changed – and employee's value high amount of discretion and empowerment, then this straight jacketed approach may not be suitable. Also if we believe that the employee and the supervisor are in the best position to identify the most appropriate goals for the given position (because they know the context of that role the best) – then again standard goal templates are not an option. For certain standard jobs, a particular part of the goal sheet can be in form of a standard template – but for the rest of the goal sheet, the employee and the supervisor should ideally have the discretion to define most appropriate goals.

D 3. Qualitative Attributes: As mentioned earlier, having a qualitative component to the PMP is essential for balanced, holistic measurement of performance. While operationalizing this component, the main question that needs to be answered is: **What kind of reference framework to use – whether level specific competencies OR common principles across levels?**

At one end of the spectrum the option is to use a detailed ‘competency framework’ that defines competencies applicable across various job levels, with separate detailed description of ‘expected competence level’ for each step of the organization hierarchy.

The other end of the spectrum is, instead of defining level specific competencies to simply define certain core principles that capture the qualitative expectations that the organization has from its employees. Here, effort is taken to capture the core essence of the principle in the articulation – and the same descriptor is used across the organizational hierarchy. While evaluating an employee against these principles, the supervisors and other raters are expected to exercise appropriate judgment to calibrate the expectations as per the organizational level of the employee.

My belief is that detailed, level specific competency framework is usually far removed from the reality (desired competencies can never be segregated so clinically across levels) and invariably becomes an exercise in semantics. Lot of clever word play is deployed to artificially bring out the differences across levels. (In worst case, just to bring out the differences, the expectations from junior levels get watered down, defeating the main purpose of the exercise). Such frameworks typically tend to become very complex and employees have great difficulty in remembering and internalizing them. Many organizations increasingly appear to be adopting the second approach. **Two excellent examples of this are Unilever and GE – where they have stated very powerful core principles that apply to all employees across the hierarchy. Please refer to Annexure 1 for details of Unilever and GE frameworks.**

D 4. Capability and Potential: As per the basic definition, this element looks beyond the existing role being done by the employee and measures the employee on capabilities and potential displayed to successfully take up other roles at the same level and other roles at senior level.

Most progressive organizations have clearly defined broad bands that represent distinct level of responsibilities in the organization. These bands represent the significant changes in capabilities required to move from one band to another. Given below is a simplified example of broad bands and associated capability levels:

Broad Band	Critical Capabilities
Level 1 - First Level Managers	Manage own work area effectively , display good operational knowledge of and execution skills for functional processes , collaborate well
Level 2 - Function Heads	Manage work of team members effectively , display good conceptual and design knowledge of functional processes, ability to influence senior stakeholders

Level 3 - Top leadership	Create vibrant organizational culture , create an effective and capable organization , set and execute long term department / business unit agenda
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If we consider measurement of Capability and Potential of an employee at Level 1, the base level check will be whether she is delivering well on the Goals and Objectives as well as Qualitative Attributes relevant for her current role. If the answer to this question is positive, then her capabilities will be reviewed with reference to those required for next level, i.e. Level 2. As it can be clearly seen that the main differences between the two levels are as follows

- At Level 2 , the employees are expected to effectively manage performance of others
- At Level 2 , a deeper functional expertise , ability to design functional processes is required
- At Level 2 , a distinctly superior capability to influence senior stakeholders is required

The rating on Capability & Potential will be proportionate to the extent to which the employee displays these Level 2 capabilities. Cross functional projects, special initiatives and task forces provide the employees opportunity to demonstrate the range of their functional capabilities and potential to take on higher order responsibilities.

(The key distinction between broad band capabilities and competency models is that the broad band model focuses on the step changes in capabilities required across levels. The broad band model is also focused more on defining the specific results expected at a particular level, as against defining the traits or input elements.)

Example of Capability & Potential rating scale:

Rating	Description	Norm
Very High Potential	Employees who in addition to having a consistent track record of exceptional performance (on Goals as well as Qualitative Attributes) have clearly demonstrated <u>most</u> of the Capabilities required at the next level (e.g. – already made contributions at the next level , through projects and initiatives).	Not more than 5 to 8 % of the total population
Strong Potential	Employees who in addition to having a consistent track record of excellent performance (on Goals as well as Qualitative Attributes) have clearly demonstrated <u>many</u> of the Capabilities required at the next level (e.g. – already made contributions at the next level , through projects and initiatives)	Not more than 10 to 15 % of the total population
Solid Contributors	Employees who in addition to having a consistent track record of satisfactory performance (on Goals as well as Qualitative Attributes) have clearly demonstrated necessary Capabilities at the current level.	Represents the bulk of the population (70 to 75 %)

Review cases	Employees who are not meeting the performance standards (either Goals or Qualitative Attributes) and / or not demonstrating required capabilities at current level	Around 5 to 8 % of the population
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E. INTEGRATING THE PMP ELEMENTS FOR HOLISTIC EMPLOYEE ASSESSMENT

This section deals with the considerations related to integrating the four key elements of PMP to devise appropriate holistic rating scales. It is presented as a hierarchy of approaches, with increasing order of sophistication.

Approach No. 1 - Having a performance rating scale (typically 5 / 4 point) that takes into consideration only the Goals and Objective element.

This is possibly the most primitive of the approaches. Most often it is associated with following features

- A) Aggregate goal scores are tabulated to determine the final performance rating.
 - B) Process of moderation / normalization is followed to ensure that the final ratings follow a certain predefined distribution pattern
- E.g.

Range of goal scores	Performance Rating	Mandated % Distribution
100-80	Outstanding	10
79-60	Very Good	25
59-40	Good	50
39-20	Moderate	10
19-0	Not Satisfactory	5

This approach is fraught with following significant challenges -

1. Since the relationship between the Rating and Goal Score is mathematically defined , the employees find it very difficult to accept the toning down of ratings that happens in the moderation process
2. Since goal score becomes the sole determinant of the rating, there is tremendous amount of focus on the mathematics (weightages, ratings etc.) of the goal sheet.
3. In absence of stated principles about importance of qualitative aspects of performance, the managers find it difficult to differentiate between an employee who has only met his numbers and another employee who has in addition to meeting the numbers, contributed to the organization in many more ways.

4. Absence of these principles also makes it difficult to have moderation / normalization discussions in a structured and consistent manner.

Approach No. 2 – Having a performance rating scale that combines the Goals and Objectives component and the Qualitative Attributes component.

This approach, when designed properly can eliminate the challenges mentioned above with Approach No. 1. It helps the organization clearly communicate that in addition to the expectations related to Goals and Objectives, it also has a set of qualitative expectations from the employees. **Because even for the simplest of jobs, it is impossible to capture all the dimensions of performance and contributions just through goals.** Also, there is a limitation on how many goals can be set for an individual at a given time. Hence the most appropriate way to factor this in is by stating broad, qualitative expectations (in addition to specific Goals) – and looking at performance holistically – by taking an integrated view of achievement on Goals and Objectives along with review of contributions on qualitative expectations. For example, at middle and senior managerial level, ‘ Engaging with and Developing team members’ is a very important qualitative expectation – and irrespective of whether or not this is captured in the goal sheet, each individual at this level must be assessed on his contribution to this area.

Important design choice in this approach is manner in which the two elements are integrated to arrive at the final rating -

Option No. 1 - Using a ‘weight system’ – by assigning mathematical weights to the elements and quantitatively deriving the combined ‘score’ OR

Option No. 2 - Using managerial judgment to integrate the ratings on these two components into a holistic, ‘final PMP rating’. Organization should provide the guiding principles, valid data and multi rater moderation discussions to aid this judgment process. *(Example of a guideline: A high goal score in itself will not be sufficient for a top overall rating. To qualify for a top overall rating, a high goal score must be accompanied by above average rating on Qualitative Attributes)*

In my opinion, the ‘weight’ system is too mechanical and would interfere with exercise of good managerial judgment – hence the second option is a preferred one.

Approach No. 3 – In this approach, the following two aspects are measured separately, through independent ratings:

- A. Performance in a given time period (say an year) – Which is measured through the integrated (Combining measurement on Goals and Objectives with that on Qualitative Attributes)performance rating.
- B. Capability of the employee to add value to the organization on an ongoing basis and her potential to take up roles of different kind and roles of increasing responsibility – Which is measured through a separate rating on Capability and Potential.

Example: Marico (www.marico.com) is known to use this kind of a two rating system.

As per the first principles of compensation, the fixed pay of an employee should be linked to the position and actual as well as potential continuous ongoing value added by an employee. The variable pay, on the other hand should be linked to business performance and employee performance for a specified time period. In the conceptually pure form, Approach 3 can be integrated with compensation process as follows:

Rating	Linkage with compensation
Performance Rating (Integrated view of Goals & Objectives and Qualitative Attributes	Used to determine payout of variable pay
Capability and Potential rating	Used to determine merit increments in fixed compensation and Long Term Incentives

This is principally the most sound approach to link performance and potential with compensation.

(In Approach 2 described earlier, When Performance Rating (of a given year) is used to decide merit increments, an employee who has had couple of great years of performance (but is not necessarily a very capable and high potential employee) will land up getting very high increments in fixed salary, which permanently inflates his fixed salary. (Especially if the organization does not have well defined salary bands) Approach 3 avoids this issue – by ensuring that such an employee will get higher variable pay in recognition of superior performance of a given year but the increments are kept tied to capability and potential)

F. CERTAIN ADDITIONAL ASPECTS RELATED TO PMP DESIGN

F1. The debate about ‘relative rating’ (Also known as forced ranking / bell curve / vitality curve)

One of the most controversial subjects related to PMP is the practice of ‘relative rating’ – wherein the organization pre-defines a particular distribution pattern (in line with the broad principles of normal curve, but not the exact statistical normal curve) for the performance ratings – and demands that ratings for all employees must be fitted into this defined distribution pattern. This is also associated with the practice (once made notoriously famous by GE) of identifying and ‘weeding out’ the bottom 10 % of the employees every year.

As it happens with debate around any controversial practice, the few lacunae or implementation challenges of such a practice tend to overshadow the core benefits that the practice can deliver. What is actually helpful is identifying the core benefits clearly and designing a process that removes the lacunae.

Why is relative rating required: In an ideal world, we could have devised a mathematically precise performance measurement system and the quantitative score on such a system could have been taken as the final score on an individual’s performance. (Following the laws of statistics, for large populations, the scores would have indeed shown a distribution closely matching the normal curve)

Fortunately we do not live in such a boring world ☺ – reality of performance is far more complex, messy and nuanced and it cannot be captured in a single number. There is also no mathematically precise way of ensuring that the volume, complexity and stretch levels of goals given to all the employees are within a comparable range. Hence at the end of the year, to decide the performance ratings in a fair manner, we need to rely on the human minds, which have the capacity of factoring in appropriately the various aspects and arriving at a balanced judgment. The soundest way in which this principle gets operationalized is as follows: The employee's direct supervisor provides the initial performance rating, after taking into consideration all the necessary factors. This rating is further reviewed (and refined, if required) by the skip level supervisor. An appropriate moderation / normalization panel is constituted to jointly review and calibrate such ratings based on relative review of performance.

Defining specific distribution norms for the ratings: Most organizations that use relative rating system also define the percentage distribution norms for the rating scale. These typically limit the % of employees that can get top ratings (@ 20-25 % for top two ratings) and also specifies the minimum percentage of employees that are required to be given the bottom ratings (say 10 to 20 % for the bottom two ratings). The employees and managers often find these numerical limits very stifling and harsh.

Actually the important principle here is to have a defined norm of distribution (a few percentage points here or there do not make a big difference). In a small organization, where all the Management Committee members have a good common understanding about how to classify the performance, even without defining the percentage norms, a reasonable distribution will emerge. However in large organizations, it is difficult to devise such common understanding – also, managers do tend to inflate the performance ratings of their own teams. Hence pre defining the norms brings in a great degree of discipline and rigor in the performance rating process. This ensures that only a handful of employees can qualify for top ratings, preserving the aspirational value of top ratings.

Defining distribution norms and consequences for low performance ratings: Mandating that 10% of employees must be identified as low performers and replacing them every year is indeed a very extreme practice. This practice, if not implemented well can cause more harm than good. However the important principle here is that unless pushed strongly, the managers may tend to condone performance that is marginally below expected levels. (Extremely poor performance is very difficult to hide and hence easier to identify). A reasonable percentage norm – say 10% for identifying the below average performers can be a very powerful management tool to identify cases that need immediate corrective actions. These could be either cases of wrong hiring (which are more common than we would like to believe) or cases where the operating environment of the employee may be in need for corrective actions (e.g. unsupportive supervisor, lack of understanding of the role, lack of information or skills required for the job, unrealistic expectations etc.)

Deciding the relative ratings approach: Each organization's leadership team needs to decide this approach based on their understanding of the talent landscape and performance culture of the organization. For example : An organization that believes that it needs a major improvement in the quality of talent pool, may, for a period of time (say 2-3 years) set higher norms for the bottom ratings.

An organization that believes that exceptional individual performance is very critical may set very aggressive norm (say only 5 % of the employees can qualify) for the top rating and have a policy of disproportionately rewarding such top performers. Such system, when implemented well can result in very healthy competition for top ratings and raise the performance standards of the entire work group. **(Example: It is interesting to note here that Unilever and Accenture, two organizations well known for their high performance cultures, have a 5 % norm for the topmost rating. 20-70-10 kind of distribution that GE followed is a possible result of the organization believing that there is no additional value to be gained by taking efforts in sub dividing the middle band of performance.)**

F 2: Necessary conditions for effective design and implementation of PMP:

<p>A. Conceptually sound design that is appropriate for organizational context</p> <p><i>(Does the PM process take into consideration organizational culture and ethos?)</i></p>	<p>B. Practical and intuitive operationalization</p> <p><i>(Do employees across the hierarchy find the process meaningful?)</i></p>	<p>C. Honest , transparent and rigorous implementation</p> <p><i>(Does the CEO also complete the appraisal format?)</i></p>
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1. Given the significance of PMP, it is the top leadership team of the organization that needs to own the design and implementation of the process.
2. Any process is only as good as the quality of its implementation – and hence the organization must take efforts to communicate the core principles and operating mechanisms to all employees and managers.
3. Employees should be encouraged to ask questions about the implementation details and design rationale behind the PMP. **HR function and top leaders must understand that they are answerable to the employees and must explain the thinking that has gone into the PMP design.** (It is not necessary that every employee will agree with the design decisions , but it is important that he is told about the logic that has gone into them)
4. If such efforts are taken, and all the employees and managers develop a common understanding about the core principles of the PMP, the system will get implemented in the right spirit, become an integral part of the way work gets done, influence the culture and deliver the desired results.

F 3: Trap of overinvestment in ‘appraisal training’

To improve the PM process, many organizations invest huge amounts of efforts to train supervisors on having effective appraisal discussions. While it is certainly a good skill to focus on, appraisal discussion in itself cannot deliver an effective PMP. Hence before focusing on appraisal skills, it is important that the organizations invest in PMP design and communication of key principles.

ANNEXURE 1: EXAMPLES OF QUALITATIVE ATTRIBUTES

A. Unilever - Standards of Leadership (SOL)

Growth Mind-set

1. Has a passion for winning – asks “how can we be better than the competition; how can we be the best?”
2. Seeks fresh opportunities – has a healthy dissatisfaction with the status quo, insisting on innovation; never settles for “good enough.”
3. Ambitious for growth – prepared to take on challenging work outside own comfort zone.
4. Constantly builds capabilities for Growth.

Consumer and Customer Focus

1. Has a passion for improving the lives of consumers – understands how own work helps to create better futures, everyday.
2. Brings the voice of the consumer into everything we do – sees things through their eyes, ensuring consumer insights guide all our decisions.
3. Externally focused – goes the extra mile in order to exceed consumer and customer expectations.
4. Whatever his/her work is, always looks for better ways to serve consumers and customers.

Bias for action

1. Brings a sense of urgency to getting things done – avoids over-debating or over-analysing issues.
2. Prepared to take tough decisions without delay – then galvanises people to move forward.
3. Results-focused, as opposed to just process-focused – keeps the end goal in sight at all times.
4. Drives simplification in the company – gets rid of non-value-added complexity.

Accountability & Responsibility

1. Makes commitments and holds self accountable for delivery – sees things through, even when the going gets tough.
2. Takes pride in delivering work to the highest standards – acknowledges when things are not up to scratch.
3. Lets people know clearly, on the front end, what he or she expects performance-wise.
4. Holds people accountable—doesn't let them off the hook.
5. Acts with courage – not afraid to step in early or stand his/her ground, even if it's difficult or unpopular.

Builds Talent and Teams

1. Inspires through action – leads by example rather than words.
2. Challenges people to do their best work and will settle for nothing less.
3. Invests in people – coaches individuals/teams to realise their full potential.
4. Drives effective teamwork – spots the links and connects the right people to create aligned teams and better solutions.

B. “Growth Values” at GE

External focus

Defines success through the customer's eyes. Is in tune with industry dynamics. Sees around corners.

Clear thinker

Seeks simple solutions to complex problems. Is decisive and focused. Communicates clear and consistent priorities.

Imagination

Generates new and creative ideas. Is resourceful and open to change. Takes risks on both people and ideas. Displays courage and tenacity.

Inclusiveness

Is a team player. Respects others' ideas and contributions. Creates excitement, drives engagement, builds loyalty and commitment.

Expertise

Has in-depth domain knowledge and credibility built on experience. Continuously develops self. Loves learning.

Author's note: *This article is an attempt to articulate my learnings and point of view about the performance management process. I am grateful to my colleagues and friends for all the wonderful discussions and debates, which helped me think through this very fascinating subject. Please do share your feedback and views at shaileshd.email@gmail.com*