How Should You Measure Employee Performance?

Two schools of thought on using performance measures to manage people in organisations.

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Overview

Performance Appraisal, Individual Performance Review, Personal Performance Development Plan. There are numerous names for this artifact of the post-1990's organisation, but they are names for basically the same concept: the measurement, review, evaluation and management of the performance of an employee. And it is one of the most contentious management processes of them all!

Why organisations do it.

There are many reasons why managers continue to use individual performance appraisals, despite their love-hate relationship with them:

- to motivate staff to perform better, to contribute more to the organisation's results
- to reward and recognise great performers
- to validate decisions to get rid of (or manage) poor performers
- to give staff the opportunity to continually learn and develop
- to make the organisation and its processes perform better
- to inform succession planning and promotion decisions

The intentions behind almost every employee performance management system are good and just. It's about making things better. But are they really making things better, the way most organisations currently design and implement them?

Why people are asking for help.

It seems that the majority of organisations will claim they have some kind of individual performance evaluation process, but that it doesn't work the way they want it to. There are some very common criticisms about it.

For one, when they come to doing the evaluation or appraisal, managers don't have much objective evidence about how the person performed, what they really produced or the size of their contribution to team or organisational outcomes. In such cases, the appraisal process leans to shaky subjective impressions of the boss, or a tick-and-flick review of the actions that the person was supposed to take. Objectively isolating the value the person contributed to the organisation is impossible.

Another common criticism is that the appraisal process drives the wrong behaviours. People know they can only be judged on how much they do or contribute, so they try to do a lot, or try to do things alone in order to isolate their contribution from the contributions of others. Outcomes and team work are not the focus, and the organisation actually suffers as a result. Resources are wasted on activities that don't improve business growth or customer service. Conflict and competition arises between employees that should otherwise be collaborating for the betterment of the organisation. This can result in performance actually getting worse, not better. There is a lot of activity, but not much in the way of results. There are a lot of people striving to get quick, local results, but often at the expense of the larger organisation or the long term.

Then there can be the problem where people can't agree on what the performance standards are or should be. They have different ideas about what is possible, about what is achievable, and therefore what can be judged in the performance appraisal process. People don't want to be held accountable for the results they contribute to, because they are not in complete control of those results. And in many instances, the performance appraisal reduces to a check of whether or not activities were completed, as opposed to the size of the impact those activities had on organisational performance.

And, in general, we just don't like criticizing each other, or taking anything away from others. Especially when performance reviews are tied to remuneration, managers can find themselves in an ethical quandary when the numbers say that someone doesn't get their bonus, but their gut feel is that the numbers are missing something more important. People who stick to their performance plans are rewarded, and those that stray from the plan and produce innovative solutions to organisational problems are not able to be rewarded. People who follow the safe road of predictable results are rewarded, and those that make mistakes that contribute to organisational knowledge and learning are "performance managed". People whose performance measures achieve targets despite their inaction are rewarded, and those that have diligently monitored, analysed and managed root causes to turn around a bad trend (but which hasn't yet achieved its target) are not rewarded.

Managers conducting performance appraisals are not finding it to be a meaningful process—they are just jumping through the hoops (especially if their organisation has a KPI like % of performance appraisals completed on time). One of the objectives of individual performance appraisal is to develop people, but very few examples exist of where it dignifies people.

Because of all this criticism about performance appraisals, some have put their thinking caps on and tried to come up with improvements or alternatives. What I have found interesting is that the different schools of thought regarding the measurement of people are tied to very different world views, or belief systems. And this affects the success rate of different approaches to performance appraisal in different organisations.

The first school of thought: make people work better for the organisation.

People are our most expensive resource. People are our greatest asset. These are the catch-cries of organisations with what Colins and Chippendale (1) might refer to as having an "institutional" worldview.

With this worldview, the leaders of the organisation collectively instil such values as patriotism and loyalty, self-worth, upholding tradition, achievement and success, administration and management, family and belonging. And employee performance management is about making sure that employees are managed just as other organisational assets need to be managed. Just as other organisational assets are owned, so too are the people. The organisation is the subject, the priority organism, and the people are objects, the servants to the organisation.

These organisations, even if with the best of intentions, adopt a controlling relationship with their workforce. At one extreme, employees are almost a consumable, bitten off, chewed up and spat out when they are no longer needed, become difficult to handle or when they are so burned out they can no longer endure the organisation's impact on their lifestyle and health. This dynamic is glaringly obvious in many sales oriented businesses, small businesses whose owners are not capable managers and leaders, or any bureaucracy that is lead by a

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tyrannical productivity maniac that believes the only information he needs to manage the organisation is this month's and last month's financial results.

At the other extreme of the "institutional" worldview organisation, employees are taken under the organisation's wing and nurtured, supported and developed, but still in a way that serves the organisation's greater purpose. Something like a "father knows best" philosophy presides, and the higher a person is in the hierarchical ranking of the organisation, the more wisdom they are assumed to have, and the better placed they are to know what is best for everyone under their care or command. The military comes to mind as an example of this kind of organisation, and organisations like the mafia, and organisations that are based around a profession like engineering or medicine or law.

Performance management of people in the "institutional" worldview organisation is usually to avoid the risk of carrying people that just don't produce results for the organisation. People will be judged by the results they individually produce, such as sales or on-time project completion or keeping to budget or case loads, and for doing what they were told. But this is not the only type of organisation that exists, and not the only way to manage people's performance.

The second school of thought: make the organisation work better for people.

Leadership coach Shelley Holmes, from The Centre for Breakthrough Leadership (2), says "organisations need profit in the same way that humans need oxygen, but it's not their reason for existing". Their reason for existing is to help people fulfil their potential. So are people really another asset or resource of the organisation? Or are they its purpose? If we treat people as assets (even if we say they are our greatest asset) or as resources, we are treating them as objects that need to be controlled by the organisation. Assets are owned, people are not. (I personally prefer the point of view that people control organisations in a way that makes their lives, and the lives of others, more meaningful.)

An organisation whose leaders instil these values might be said to have a "collaborative project" worldview. What is important is equality, actualisation, service, autonomy, dignity and justice, ethical accountability, personal authority, empathy and generosity. And this puts performance management into a very different light. If performance management was instead value management, it would be about how the organisation can better serve the needs of the humans for which it exists.

You can see this kind of worldview in organisations like The Body Shop, which designs it processes around the social needs of its employees, customers and suppliers. They have crèches for their working mothers, they develop their products from resources that don't harm the planet and that support local communities. The organisation's purpose is not to make skincare products, it's to enrich and dignify the lives of all people that choose to associate with it.

These organisations don't make the fundamental assumption that each individual's impact on an organisational result can be isolated, singled out, independently and objectively assessed. How can this be so, when each of us interacts constantly with each other, sharing knowledge, sharing ideas, helping each other out, working on the same activities, collaborating to produce the same results? This line of thought gives rise to some other ideas about how to better motivate and reward people for the value they add to the organisation. Role-modeling, coaching, encouraging, rewarding and celebrating behaviours like sharing knowledge, sharing ideas, helping each other out, working on the same activities, collaborating to produce the same results, seeking regular feedback, acting on feedback to improve results, are more the flavour of performance management in "collaborative project" worldview organisations.

Borrowing from the second to improve the first.

The one-size-fits-all approach to managing the performance of people clearly doesn't work. And there is enough research suggesting that traditional approaches are certainly not working for everyone. At best, there are some basic flaws in how those 'people measures' are designed. And at worst, the whole concept of measurement of people performance is completely a waste of time.

The debate shouldn't, in my opinion, be about which people performance management approach is the correct one. It's more about which approach achieves the intent you have for your organisation and your people, from the points of view of all stakeholders. And this means understanding the diversity of values that people in your organisation have, and the worldview that this collectively gives your organisation as a whole.

So you won't likely find an approach that does work for your organisation, unless you can answer quite thoroughly several important questions:

- Why do you want to measure the performance of people?
- What is the end result you want it to create?
- What are the unintended consequences, or risks, of getting and having this end result?
- What other ways could you create this end?
- What worldview does your organisation have, and hence how is the relationship of people to the organisation understood?
- What values do the individual people in your organisation have, and what does this say about what will really motivate them (and keep them motivated)?

References.

(1) *New Wisdom II*, Colins & Chippendale, Acorn Publications, 1995

(2) *The Centre for Breakthrough Leadership* is at http://www.breakthroughleadership.com.au

(3) *Abolishing Performance Appraisals*, Coens & Jenkins, Berrett-Koehler Publishers, Inc., 2002

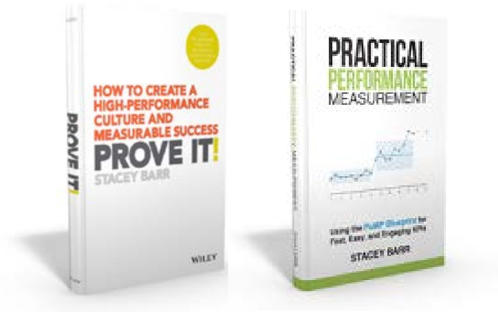
About the author

Stacey Barr

Stacey Barr is a globally recognised specialist in organisational performance measurement. She discovered that the struggles with measuring business performance are, surprisingly, universal. The biggest include hard-to-measure goals, trivial or meaningless measures, and no buy-in from people to measure and improve what matters. The root cause is a set of bad habits that have become common practice.

Stacey created PuMP®, a deliberate performance measurement methodology to replace the bad habits with techniques that make measuring performance faster, easier, engaging, and meaningful.

Stacey is author of Practical Performance Measurement and Prove It!, publisher of the Measure Up blog, and her content appears on Harvard Business Review's website and in their acclaimed ManageMentor Program.



Discover more about Stacey and practical performance measurement at www.staceybarr.com.

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