

on results rather than competencies a bit unsettling, line managers and professionals found the approach far more in tune with the reality of their work situations and refreshingly free of process complication and jargon. In particular, people found the concepts and language easy to embrace. Initial signs were hopeful.

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## PERFORMANCE MANAGEMENT SYSTEM DEVELOPMENT

The core element of the new talent management implementation was to be a completely revised performance management system, and this application is therefore our focus. The CTO felt the key business drivers of revised, specific, and reinforced role definition, significantly strengthened operating concepts of personal accountability, and a clear definition of the management and leadership roles were best covered by this first step. In addition, new cash compensation designs being anticipated were more heavily dependent on a robust performance management process. The other executive committee members agreed.

### Design Considerations

The existing, competency-based system was not widely used. There were several reasons for this. Generic competencies were applied, creating the challenge of relating each behavioral definition to each staff member's level and role. The process itself was quite complicated, and the formats were long and daunting for busy managers and their staffs to use. Training and reinforcement had not been adequate to overcome these shortcomings.

As a result, the challenge was to re-introduce performance management as a core management discipline with the new approach. Reaction to the announcement that the old system was being discontinued was universally positive. As the new system needed to be as user friendly as possible, the process design needed to simultaneously:

- Align with Leadership Pipeline principles;
- Provide both specificity and flexibility in defining job requirements and personal accountabilities; and
- Be as easy to understand and use as possible, for people new to both goal-setting-based performance management as well as the results-oriented approach. This last requirement proved to be the most difficult to achieve.

### Chosen Approach, Format Development, and Introduction

The new system was titled "Results Based Performance Planning and Appraisal." The business context for this approach was made clear: clients paid the firm for results, not for competencies, capabilities, activity, or effort. Therefore, the new "true north" on management's compass would be the results that individuals, teams, and the firm delivered to clients, staff members, and investors. This message had great resonance with people at all levels in the firm.

Instrument development took the CTO in a different direction than previous pipeline-based performance management applications he was familiar with. The results profile for a client-facing manager (Figure 12.1) provides the rich detail a pipeline definition provides for role clarity, but can introduce a significant amount of process burden when literally applied to performance planning and management. Rather than compromise the comprehensiveness and detail of the results profile, the approach the CTO eventually chose used the results profile as a reference document with a separate instrument driving individual performance planning and review discussions. Both formats are for use by client handlers at the manager-of-managers level.

The CTO elected a simple goal-setting approach to provide individual role specificity to the general performance standards by level. A total of fourteen formats, conforming to the pipeline leadership levels for both client-facing and specialty/support functions, were created using the full performance standards as source content. There were multiple formats for several leadership levels, conforming to differentiated job categories within the lower leadership levels:

- The Manages Self or individual contributor level included forms for administrative support positions, junior individual professional, and senior individual professional positions.
- The Manager of Others level included forms for supervisors/project managers as well as managers. The supervisor/project manager position was a particularly important threshold management role and required some differentiation from the full manager position.

While this number of formats could be difficult to navigate the first time around, the introduction was supported with two-hour orientation and training workshops for managers and staff as well as an easy-to-use, step-by-step tutorial posted on the company's intranet. The overriding advantage of multiple, job-type-specific formats was the ability to use general full performance definitions as individual employee guidance, with specific goals being required in only a few results areas. This ease of use factor was considered very important in gaining early adoption.

The objective of the introductory orientation sessions and online support materials was to familiarize people with two fundamentally new concepts for them: first, the focus on results in defining jobs and performance within them, as opposed to competencies or activities, and second, the use of goal setting to further reinforce personal accountability. It was anticipated that two to three years would be required to achieve full adoption with associated skill mastery for the new system. The formats and process would be refined after the first and second performance management cycles were complete and feedback from managers, staff members, and human resources managers was analyzed.

The rating scale used, which followed the Pipeline approach, was also new for the firm. The three-point scale was created for developmental purposes and was comprised of "exceptional performance," "full performance," and "less than full performance."



The preponderance of ratings—75 percent—would be in the “full performance” range, consistent with the philosophy that virtually all staff should be delivering full performance if properly managed and engaged. “Exceptional performance” was defined as not only significantly superior to full performance on an ongoing basis, but unique and different. Exceptional performance was the qualifier for promotion to significantly greater accountability.

This simple rating system avoided much of the “fluffing” of ratings prevalent in most traditional systems that was caused by managers wishing to avoid demotivating good employees by assessing them as merely “average” or “meeting expectations.” Lake Wobegone, that place where everyone is above average, was therefore avoided.

The CTO added an additional performance point, establishing two levels in the full performance category, for base salary planning and administration purposes. This was subsequently implemented and worked well in reinforcing the pay-for-performance approach.

The new formats were tested in several large offices, and these pilots provided valuable feedback regarding changes to process instructions and on-line support content. The formats were introduced in early fourth quarter of 2005 for 2006 performance planning. Managers and employees were given the option of using the new formats for 2005 reviews if they had not had any performance discussions for the year. A number took the CTO up on the offer.

### **Experience and Action Learning**

For performance year 2006, formats were posted as downloadable Word documents in a new suite on the company’s human resources intranet site. Support tutorials were also posted. Take-up varied from office to office; however, reported participation and completion rates were significantly higher than with the old system.

An early problem that developed was difficulty in understanding and applying goal setting for many managers and staff members. The CTO, having come from environments with long-established performance management practice, had fallen into the trap of assuming too much familiarity with basic performance management concepts. Follow-up remedial workshops addressed the issue, and for performance year 2007 a performance management workshop focused on skills in creating SMART goals and cascading goals from manager to subordinates in a work team was offered ahead of the performance planning period.

The workshop also provided guidance on completing the performance appraisal step by covering the gathering of performance evidence to properly justify and document assessments. It was offered throughout the course of the year as well as at the commencement of the 2007 appraisal preparation season.

2006 was a year of significant change in other areas of human resources and talent management. The CTO had gained management approval to move to a common base salary review date as well as a common appraisal schedule that supported a pay-for-performance approach. The introduction of the new results-based approach was

advanced and reinforced with a more disciplined pay-for-performance process; however, more simultaneous change was heaped on managers already under pressure to maximize personal billability. The CTO had hoped to lessen this impact with an employee-initiated planning and review process; however, both planning and appraisal periods were lengthened and made more flexible to accommodate overloaded managers.

Strong positive feedback was received regarding the effectiveness of the process in clarifying and prioritizing job expectations, as well as structuring development discussions on more specific, quantifiable work requirements for different job levels. The previous competency-based approach had been roundly criticized for its ineffectiveness in specifying differences in performance expectations and standards from job level to job level in career hierarchies.

For 2008, the president had led an effort to update and focus the company’s strategy. The strategy coalesced into three results areas (the results concept had been thoroughly embraced and was a prominent part of the operating vocabulary): serving and growing clients; developing people; and cultivating new client prospects. The CTO and his staff updated the core results by level definitions and performance standards for client staff, grouping them into these three strategic buckets to map the strategy goals to every staff member’s job. For functional and support staff, the three buckets became professional work product; developing people; and integrating the functional work into the business strategy.

In addition, the 2008 performance management process went to a fully online format for enhanced accessibility and ease of use. Training was further evolved to address reported concerns as well as to orient new managers and staff members in the process. The company entered 2008 having attained an over 95 percent appraisal completion rate and a virtually 100 percent on-time salary adjustment administration performance for 2007—unprecedented in the firm’s history.

## **EVALUATION**

### **Business Results**

It is frequently difficult to connect talent management practice directly with business results. Intermediate measures such as unwanted turnover, survey trends, and the like provide more credible evidence of efficacy. Overall, the company produced the best two financial performances in its history in 2006 and 2007, no doubt aided by the strong economic environment that existed in the United States and Western Europe through mid-year 2007. The focus on results, as opposed to activity or effort, and the strong emphasis on personal accountability can certainly be cited as contributing factors.

### **Employee Climate Survey Results**

Survey results are considered proprietary and cannot be cited in detail. However, it is notable that a pulse survey administered in late 2006 showed significant positive trends in all thirteen measured organization climate dimensions. Particularly significant

improvements were shown in Morale and Loyalty (the key engagement measure); Quality (that includes performance communication and management practice); and Leadership.

#### **Turnover Results**

Overall turnover decreased 24 percent from 2005 to 2006, before rising 14 percent in 2007, amidst a particularly competitive labor market. Turnover of identified high-potential managers stood at virtually 0 percent for 2006 and 2007.

#### **Anecdotal Evidence**

The professional services audience easily and enthusiastically embraced the Pipeline concepts. While performance management is still no doubt seen as a difficult and time-consuming process, this is in comparison with very little prior subscription to any performance management activity. Leadership feedback is consistent with other feedback that Droter has received from other companies: that there is a strong connection with business context and a refreshing absence of professional "jargon." It is viewed as conceptually elegant and easy to embrace. The language of results and accountability, as reported earlier, has become a core part of the leadership language.

Beyond the scope of this paper are the additional applications of the Pipeline concepts for selection, talent inventory, and training planning that were put in place, as well as new management variable compensation plans dependent on the results-based performance management system.

#### **REFERENCE**

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