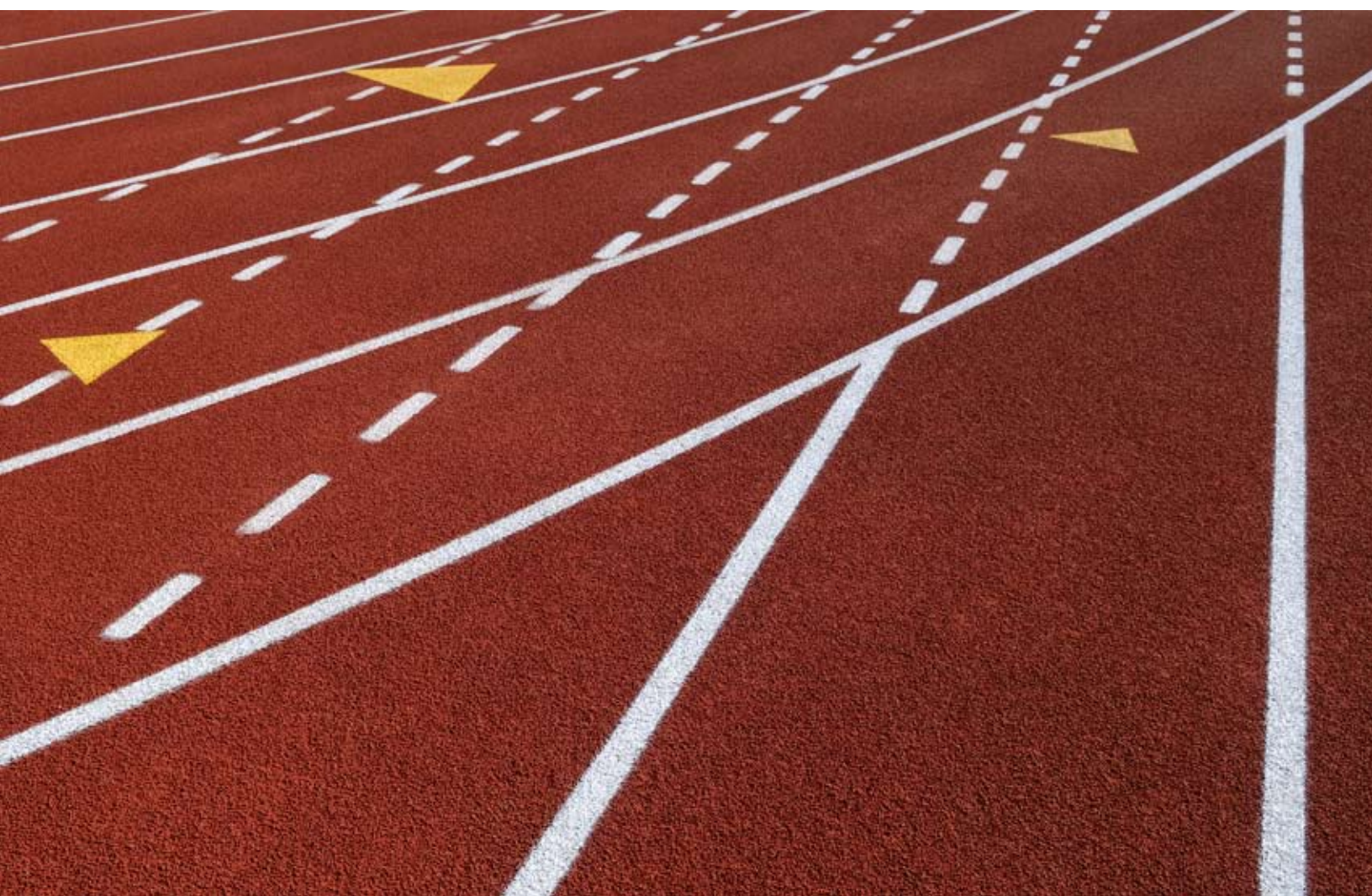


Position Paper

Rethinking Performance Management as a Business Tool to Spark a High-Performance Culture

Scott Cohen, Hewitt Associates
Nidhi Verma, Hewitt Associates



About the Authors

Scott Cohen is a Principal in Hewitt's Talent and Organization Consulting Practice. He's Hewitt's North American leader for providing high-performance workforce solutions, helping organizations create high-performance environments aimed at producing key business results.

Nidhi Verma is a senior consultant on Hewitt's Insights and Innovation team, a thought-leadership group dedicated to cutting-edge research on people and business issues. She conducts innovative research and consults in the area of talent strategy and management.

Creating a High-Performance Culture Is a Business Imperative

Henry M. Paulson, Jr., U.S. Treasury Secretary and former Chairman and CEO of Goldman Sachs, has said, “I don’t want to sound heartless, but in almost every business, 15 percent to 20 percent of the people add 80 percent of the value.” While it may be true that we’ll always get great performance from the best, in today’s competitive environment, we also need great results from the rest. Are you ready for that challenge?

Organizations today are facing new, aggressive growth targets and renewed pressure to get the best from their existing workforce. Our competitive and global business landscape requires nothing less. This means that many companies are striving to become high-performance organizations—those that attain results at or near the top of their industry peers. Not all organizations will succeed.

Those that do succeed employ leaders at all levels who are passionate about two key concepts: They drive achievement through the support they provide to others who are pursuing aggressive goals aligned to the business, and they drive engagement by creating an environment where people feel successful, valued, and an integral part of what the greater team is trying to accomplish. Hewitt’s recent *Top Companies for Leaders*¹ study once again highlighted the competitive importance of leaders who have an unrelenting focus on talent, and who instill feelings of commitment versus compliance in their workforce. They’re able to channel the energy and spirit of the workforce into an unwavering focus on results that matter to employees and shareholders alike. At the end of the day, employees who work in high-performance cultures go home feeling proud of their accomplishments and enthused by the wealth of opportunity for personal and professional growth—all of which makes a measurable impact on their businesses.

Business Context

Heightened pressure on organizations to maintain financial transparency and meet compliance standards has increased the momentum of business performance-management initiatives. At the same time, the speed and agility with which a company manages performance in today’s fast-paced environment can determine its market position and profitability. Businesses are driven by competitive pressures to reach higher standards, capitalize on the interactions of their people and processes, and optimize these to generate better outcomes—essentially, what performance management is all about.² Best-in-class organizations realize that the goal of profitable growth and world-class performance cannot be fulfilled without a high-performance organization.

Already an ambitious goal, it can be achieved by having a robust performance management system geared toward building a high-performing workforce and being a powerful driver of business success. This task is particularly challenging as a result of the overwhelming number of approaches to performance management and the lack of consensus and understanding as to which strategies effectively drive performance.

An ineffective performance-management system is at the root of many chronic problems that can cripple an organization. To name a few, issues such as an inability to identify and clearly communicate poor performance, sending conflicting performance messages, failure to recognize and reward high performers, and inequitable distribution of rewards are common roadblocks to a successful employee performance system. Despite such challenges, for many companies performance management remains the foundation of talent management and, when effectively executed, can address these issues by aligning the behavior of the workforce with the strategy—and much more.

¹ *Top Companies for Leaders*, Hewitt Associates, 2007.

² Risher, Howard, “Refocusing Performance Management for High Performance,” *Compensation & Benefits Review*, Sept. 2003.

Rethinking Performance Management: An Emerging Direction

Many human resource programs, especially performance-management processes, are not designed to instill the levels of commitment one needs to fuel a high-performance culture. Instead, they instill feelings of compliance—forms that must be completed by a certain date with little or no perceived relevance to the business. Employees, particularly in the U.S., often have the same feeling they had back in the fourth grade, when they waited for the teacher to give back their exam and hoped and prayed that they didn't see a big, red "C" at the top—or worse. It doesn't have to be that way—and it isn't that way—in high-performance cultures. Instead, business-focused discussions and decisions are reframed in a performance and development framework.

Now we'll share the design elements that leading companies incorporate into their performance-management programs.

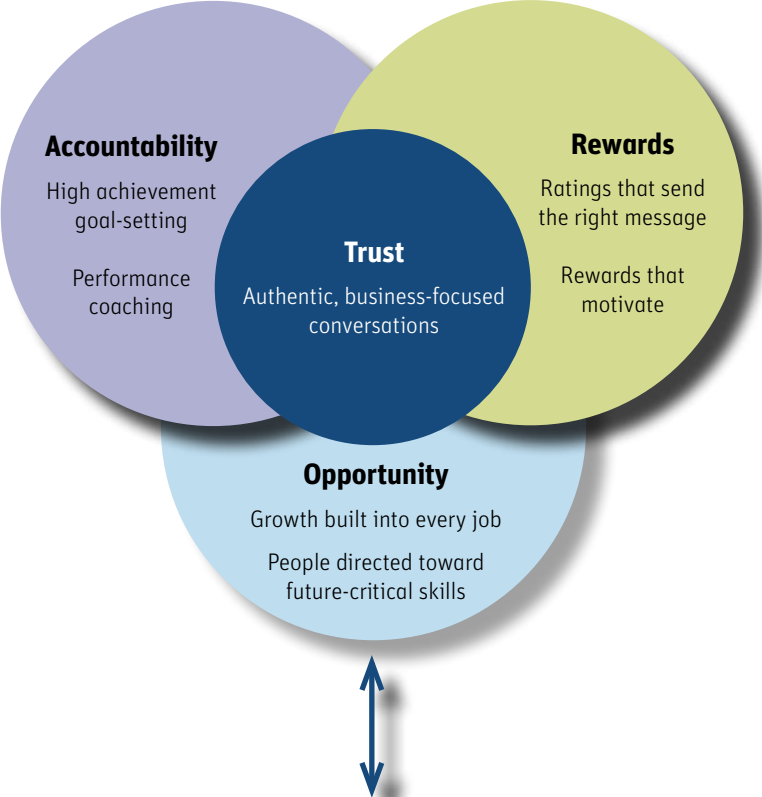
Organizations with high-performance cultures answer a resounding "YES" to the following four questions:

- Is there accountability for the right results, where everyone is working on what's important, getting it done, and playing by the rules?
- Do people perceive that we provide the right mix of rewards that reinforce great work, in the form of monetary incentives and nonmonetary recognition?
- Is trust earned one person at a time, where people we depend on feel valued and confident, ready to give their best?
- Do we provide opportunity for impact and growth, where there's skill-building in every assignment and job, guided by business needs?

These four questions form a backdrop for a new framework illustrated on the next page.

**Building a high-performance workforce:
A performance and development framework**

**Design
Elements**



**Execution
Elements**

1. Build manager capability and cross-cultural competence
2. Develop HR business partners as high-performance consultants
3. Introduce user-friendly tools and automation
4. Measure continuously and improve

By following the design and execution elements highlighted in the framework, leading organizations have turned traditional performance-management programs on their head, and have provided a pragmatic and practical approach to redesigning performance and development frameworks that creates the conditions for people to excel through seven logical elements that fall into four categories:

Accountability

- Set high achievement goals
- Provide real performance coaching

Rewards

- Provide ratings that send the right message
- Offer the “right” rewards to motivate sustained performance

Opportunity

- Build growth into every job
- Direct people toward future-critical skills

Trust

- Conduct authentic, business-focused conversations

In essence, an effective performance-management framework is able to focus employees on the right priorities; make them feel accountable to deliver great results; energize, engage, and position them to give their best and feel that their best will be appreciated; and build skills key to the business going forward. No doubt, performance management has become an absolutely critical component of success if a company wishes to deliver outstanding, world-class performance.

Design First, Then Execute

It’s important to note that while all high-performance organizations share these design elements, the business payback is less about design and more about execution. A well-designed program with little commitment to effective implementation and execution can take you only so far. Four key execution elements are particularly important to enable the success of performance and development frameworks:

- A commitment to building manager capability and cross-cultural competence
- Development of HR business partners as high-performance consultants
- User-friendly tools and automation
- Ongoing measurement and improvement

In the rest of this paper, we’ll explore each of these design elements punctuated with examples of how a few companies are leading the way in building and sustaining a high-achievement, high-engagement environment. As we do this, we’ll also illustrate different ways in which the execution elements have been deployed.

Unpacking the Design Elements

1. Accountability: Set high achievement goals

Goal-setting has become such a mainstream activity in business that one may wonder if it's worth covering at all. Indeed, one of the most basic premises of motivation theory is that we select goals that will satisfy our psychological needs. Nowhere is this truer than in an achievement-based business environment.

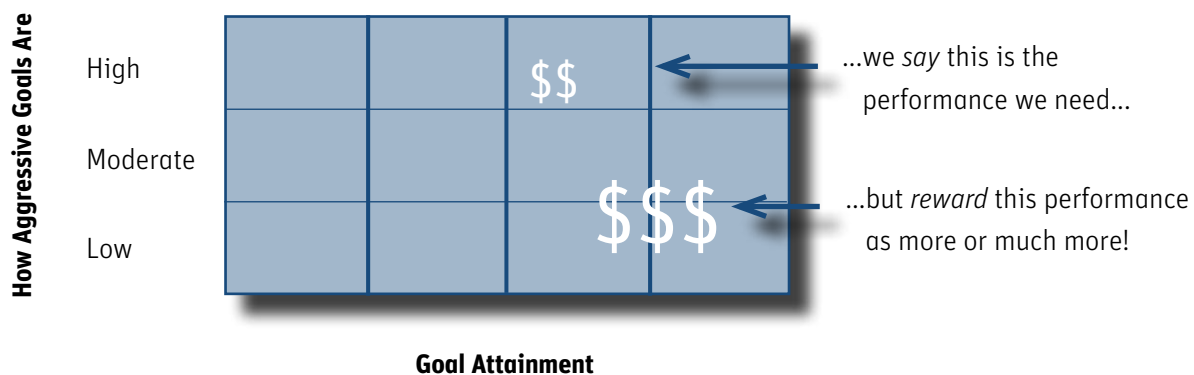
Hewitt's *Talent Pulse*³ study confirms this logic. The findings show that the number-one driver to inspire high performance is job challenge and fulfillment. High performers are most driven when working in intellectually stimulating settings where they're forced to think critically, creatively, and in a strategically impactful way. They're most interested in projects that stretch their intellect and fulfill their desire for challenge.

Describing the importance of stretch goals, former CEO of General Electric (GE), Jack Welch, has said, "We have found that by reaching for what appears to be the impossible, we often actually do the impossible; and even when we don't quite make it, we inevitably wind up doing much better than we would have done." While most organizations focus on ensuring that all employees have goals in place, and those goals are defined in a specific format, the real challenge is in the nature of the goals themselves (i.e., the degree of stretch and alignment with desired business outcomes). To achieve substantially greater results, goals should go well beyond what is currently attainable in a way that stimulates innovation and calculated risk-taking. Leading companies like GE are known to set aggressive goals for their top talent and give them wide latitude to pursue these targets. This not only allows them to be profitable, but also makes them innovative and original in their products and services, customer experiences, business models, and processes. GE is a pioneer in institutionalizing the concept of stretch. Little wonder, then, that the company is also ranked number four in a 2007 *BusinessWeek* Most Innovative Companies,⁴ and was ranked number one in Hewitt's *Top Companies for Leaders* study.⁵

Promoting or penalizing stretch goals?

Sending the wrong signals?

When people are paid more for caution than courage...



³ *Taking Your Talent Pulse: How Motivated Is Your Top Talent to Deliver Top Performance*, Hewitt Associates, 2006.

⁴ *BusinessWeek*—Boston Consulting Group 2007 Most Innovative Companies survey of senior executives, May 2007.

⁵ *Top Companies for Leaders*, Hewitt Associates, 2007.

The chart on the previous page illustrates how performance is rewarded in many organizations. The highest reward goes to those best at predicting what they can achieve rather than to those who achieve the greatest contribution impact on business results. So, the performer who sets tough targets and misses some but still achieves great results is, in effect, penalized for setting those tough goals. These work environments encourage people to set low goals—to increase their chances of meeting their goals and thereby getting a reward. This behavior, which supports low goal-setting and conservatism, is at odds with a high-performance environment. Put simply, high-performance organizations need to move to a model where the courage to aim high is not penalized.

In an \$8 billion manufacturing organization with 30,000 employees, tougher competition demanded more aggressive thinking and action to drive desired business results. To meet these demands, the organization needed to change behaviors across levels and functions and particularly needed top managers to modify their behavior and lead the way. But the senior managers themselves had become conditioned to avoid the types of behaviors needed because of what was measured and rewarded in the past. When we drew the graph on the previous page for the executive team to show what was happening, they acknowledged, “We’re rewarding comfort-zone effort more than the ability to take risks needed by the business! We’re telling people to play it safe and if you’re smart, there’s no premium for reaching higher and, in fact, you might lose if you do!”

Managers used this chart throughout the organization, communicating this powerful message about goal attainment. By refining objectives, managers illustrated the importance of rewarding truly valuable behaviors. This, of course, needed to be reinforced with appraisal and pay actions, especially during periods of change. The task ahead was clear to the senior management team: Managers needed to understand and act on a new set of rules. First, they needed to topple the sacred cow of goal completion as the ultimate criterion. Second, managers needed to buy into a broader way of looking at performance that not only stressed completing goals, but also included the courage to take risks, tackle the toughest issues, and strive for superior performance.

True performance improvement is the result of proper goal-setting. By setting specific stretch goals, breakthrough performances occur. Some companies achieve these extraordinary performances by setting a one-time, highly specific stretch goal that is difficult and almost unachievable. At Procter & Gamble (P&G), high-potentials are offered “crucible roles”—demanding and challenging assignments (across business units, countries) that are based on business opportunities and challenges (e.g., acquisition). Being totally in charge of these stimulating settings, employees are forced to think critically and creatively and allowed to challenge the status quo. This is perhaps one of the reasons why P&G is regarded as an innovation powerhouse. To achieve this, organizations should be able to deploy effective tools and processes to help build managers’ capability up and down the organization to enable everyone to build this required level of stretch in their jobs and perform successfully. On the next page is an example of real-world guidelines developed by Hewitt to train managers of a leading software company in setting high-reach goals.



2. Accountability: Provide real performance coaching

“If you can find people who are good at motivating others and getting the best out of people, they are the ones you want,” says Richard Branson, Chairman of the London-based Virgin Group.⁶ High-performance organizations build a capability in their managers that goes far beyond managing for compliance, to managing for performance. In high-performance cultures, the role of the manager is fundamentally different from what might be observed elsewhere. Managers do not work in a traditional, command-and-control mode, hoarding power or micromanaging. On the contrary, managers are performance coaches—or invested partners responsible for unlocking each individual's natural strength, knowledge, and creativity. They help people deliver their best by offering direct, helpful, and motivating feedback.

Hewitt's *Making Performance Management Work*⁷ survey shows a clear picture of practices and prevalence in the “blocking and tackling fundamentals” of performance management. The survey reports that the biggest challenge to an effective performance-management system is a manager's lack of coaching skills for effectively conducting performance discussions. More specifically, companies say managers need stronger skills and motivation to actively improve employee performance and to deliver straightforward and honest feedback.

A recent report sponsored by WorldatWork found that the inability of managers to conduct “difficult conversations” is a key reason why performance management processes are ineffective. The reluctance of managers to discuss employee performance shortcomings is “really the root cause” of why performance management is so difficult, says Lise Flores-Reed, manager of surveys and research for WorldatWork.

⁶ Rifkin, Glenn, How Richard Branson Works Magic, strategy+business, Fourth Quarter, 1998.

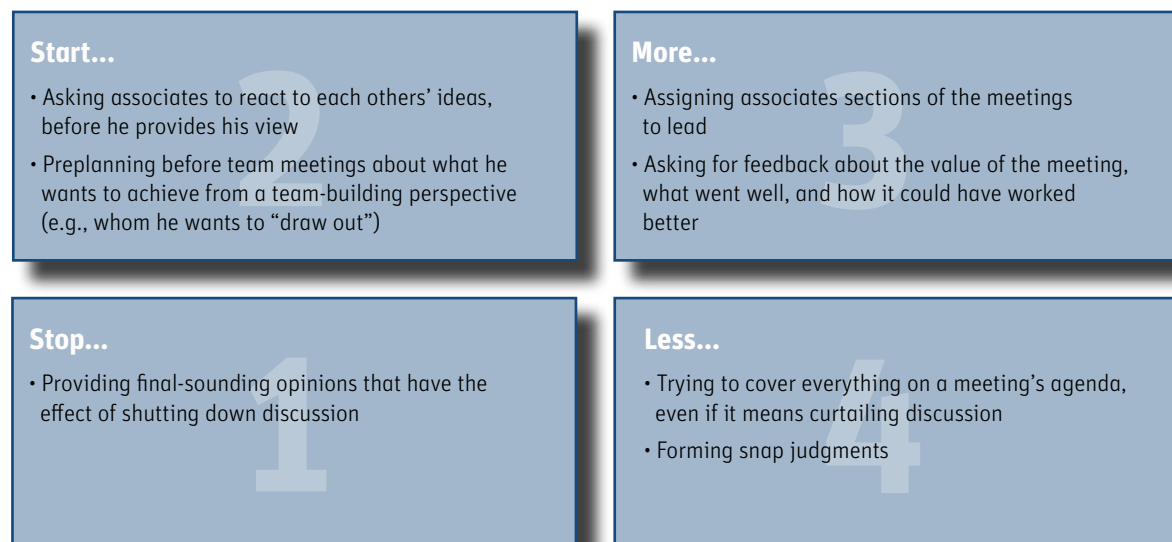
⁷ Timely Topics Survey—*Making Performance Management Work*, Hewitt Associates, March 2005.

Managers are in a bind—they're told to coach people and help them grow, but they're often stressed and stretched Leader-Doers. They need practical and usable guidance to help them do all of this successfully. The strongest companies create very practical real-world approaches to building solid coaching skills. They don't create lofty academic programs steeped in theory and concepts. Instead, they equip managers from executives to team leaders with concrete, usable job aids. These come in the form of techniques that bring sound coaching methods to the level and language of rushed managers who need simple ways to have effective performance discussions that tell it how it is yet are constructive and motivating.

One simple coaching tool valued by managers is a 2×2 “windowpane” as illustrated below. It's a simple but effective device that helps managers prepare their thoughts and comments prior to a conversation. The tool ensures that accurate as well as balanced feedback is conveyed and desired changes are understood. It helps managers determine what exactly they want to ask the employee to **stop** doing, **start** doing, **do more of**, or **do less of**. In the example below, this tool helps the manager clarify and share expectations with the employee “Chris,” so that Chris can foster better team dynamics and inclusion. This tool helps the manager provide more focused feedback.

The Stop/Start/More/Less grid for planning what to say to help someone improve

Chris often closes down his team's discussions with a forceful opinion; what should he do to be more effective?



3. Rewards: Provide ratings that send the right message

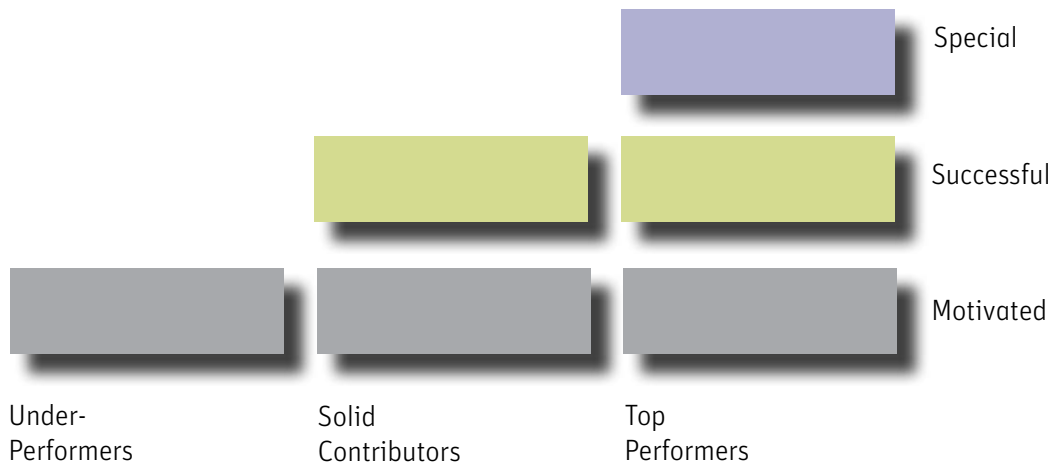
Rating and ranking distributions are sometimes wrongly applied at the small-team level. Distributions are often imposed across the board as an “easy solution” so that when these are rolled up, budgets can be achieved. However, statistically this practice is often inappropriate and unfair. Forcing a distribution across a set of ratings only works when the group is large enough to eliminate the distortions that arise in smaller groups. It feels arbitrary with the reward tail wagging the performance rating dog. The end result is apparent: Many employees feel disenfranchised and de-motivated.

Ratings also can send the wrong messages. Appraisal systems based on a traditional, usually five-point scale typically rate the majority of employees two scale points below the top performance rating. Employees perceive this as receiving a “C” grade even though they’re strong performers. As a result, companies inadvertently deflate the employee and de-motivate their workforce. Steve Bennett, former CEO of Intuit, aptly describes this phenomenon when he says: “We hire A students and give them C grades.”

Further, sending the right messages to three types of performers at the same time is what makes performance messaging so difficult. It’s not difficult to make everybody feel successful. The difficulty lies in making the majority of the population feel successful and at the same time make underperformers clearly not feel successful because they need to step up—and at the same time also make the top performers feel special without diluting the message to the majority of solid contributors. Doing one of the three is not that difficult, but doing all at the same time is not only a worthy goal—it’s critical to keeping top talent and motivating underperformers. So, what are some rigorous and motivating ways of measuring contribution that is meaningful to all? Use a rating scale, rating guidelines, and a calibration process that helps underperformers feel motivated to improve, solid contributors (the majority of your workforce) feel successful, and top performers feel special by showering them with special attention and recognition that demonstrates how much they’re valued.

To build a winning team, it is essential to acknowledge the contribution of all our steady performers and make them understand that they’re highly appreciated and valued. The strongest organizations know that while this sounds logical and automatic, it’s rarely done well because of unintended things we do, such as give solid performers a rating they view as a “C” grade. So, these organizations are implementing new ways to rate and reward performance that drives the right messages to the right people. On the other hand, we sometimes see performance rating scale inflation where solid performers receive excessive ratings and rewards for their actual achievements. In these situations, it is vital to go back to the first and second Accountability design elements (high achievement goal-setting and performance coaching) to put in place the tougher targets and straightforward coaching that bring performance back into perspective relative to the results required and achieved.

Ratings: Send the right messages to each type of performer



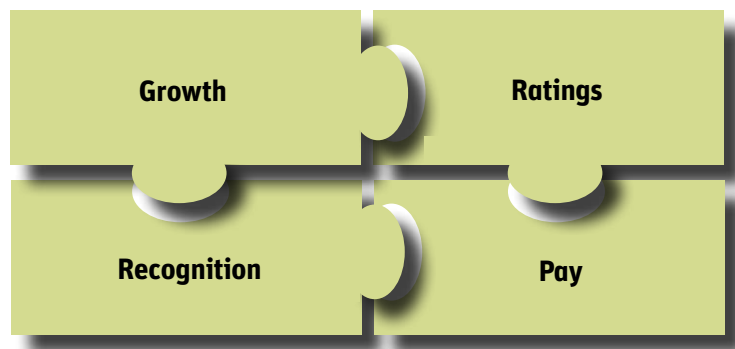
One U.S. biotech firm wanted to crack this problem to recapture the energy and spirit that filled the labs and offices in their start-up years. Conservatism and cynicism were starting to creep in as more formal appraisal and reward processes were introduced, and being honest with people about their performance was becoming an issue. It was time for action. So they rebuilt their performance ratings to eliminate the “C syndrome” by redefining their scale and giving solid contributors the new message that they’re doing great work that’s highly appreciated and valued. For this organization, that meant moving to a smaller set of ratings and renaming them to better describe the intent of the ratings: Leading Performance—for the employees who make a break-away contribution; Strong Performance—for those who are solid contributors; and Building Consistency—for those employees who show potential and need to contribute at the necessary levels. Those whose performance fell far below expectations receive a rating of: Not Building Consistency. Using these labels, the organization communicates to the majority of employees, those falling into the middle rating, that their performance is contributing to the success of the business and making a difference.

4. Rewards: Offer the “right” rewards to motivate sustained performance

There is no better way to encourage and motivate people to work harder, smarter, and more efficiently than to offer them the acknowledgment and recognition for hitting and exceeding their targets. This applies all the way up, down, and across the organization, from the C-suite corner offices to those working in smaller office spaces or cubicles. This principle seems self-evident, but countless organizations fail to invest the necessary energy and resources into showing appreciation for a job well done. Traditional approaches of rewarding top people at the expense of solid performers do not work in an era where top performers are in short supply. In high-performance organizations, investment is directed toward individuals who directly impact a company’s ability to be profitable—this means investing in star and solid performers and those in mission-critical roles.

The bad news is that most compensation packages do a poor job of linking pay to performance. Nearly 83 percent of companies feel their pay-for-performance programs are only somewhat successful or not successful at all in achieving their business objectives.⁸ In the face of budget constraints, organizations feel there isn’t enough pay differentiation between high, average, and low performers. It’s assumed that without significant differentiation in pay, motivation to continue achieving high results will suffer. Perhaps what’s really important is significant differentiation in rewards, because pay is just one component of a menu of total rewards that can be used to motivate talent.

Rewards encourage winning behavior to the extent that they’re contingent on that behavior. Although rewarding performance sounds simple, executing it effectively requires rethinking the traditional view and approach to rewards. The right mix of rewards for any employee depends on a variety of factors: Pay, Recognition, Ratings, and Growth. These are levers that managers should have at their fingertips to best meet the needs of their employees and help convey the value of staying with the organization. At the same time, the use and communication of these levers to recruits is a key factor in attracting them to the organization.



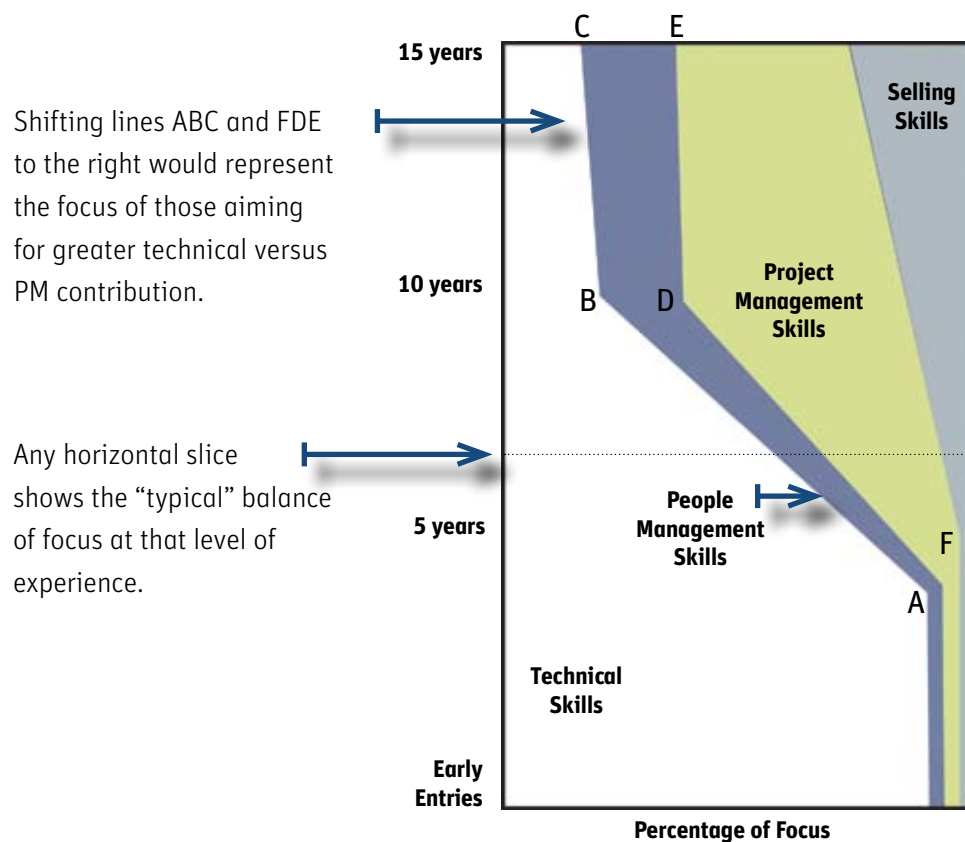
⁸ Hewitt Associates and WorldatWork, “Paying for Performance,” June 2004.

5. Opportunity: Direct people toward future-critical skills

Today's flatter organizations need to help people recognize that their growth and increased value to the firm are not contingent on their climbing the traditional rungs of a career ladder. Instead, it's important to focus on the key skills they can acquire through different assignments and experiences. These newly acquired skills will help them broaden their own capabilities and marketability and provide even greater value to the enterprise.

High-performance workplaces simply do a better job than their competitors at defining and explaining where the real opportunities for growth are, and this helps them channel talent to both current and future mission-critical areas in the business. One of our clients now clearly identifies the key management experiences that employees need to acquire so they can continue to grow professionally. Another has developed diagrams, illustrated below, clearly charting how the organization's business strategy will require a shift in emphasis in skills over time in pivotal roles, such as engineers in certain disciplines, providing employees a picture of the increasingly key capabilities so they can focus on building the skills critical to the enterprise.

Career options in providing maximum value over time



6. Opportunity: Build growth into every job

Hewitt's employee engagement research shows clearly that the most prevalent issue affecting discretionary employee effort is perceived opportunity. Today's workforce realizes that continuous growth in their careers allows them to remain competitive and employable. However, as organizations have become flatter, opportunities for growth through the typical promotion route have disappeared. As a result, "career growth" needs to be redefined so it does not always refer to promotional opportunities, which are in short supply.

To tackle this, high-growth companies have learned to start by managing the opportunities available in one's present role, thereby helping employees develop and build critical business skills that don't rely on promotions. They're equipping managers with "development dashboards"—toolkits for high-impact yet low-budget strategies for building business-critical skills and steps to help people grow in place. At the same time, they're equipping employees to take charge of their own development by providing practical assessment and development resources to support this growth agenda at both remote and central locations, and at all levels in the organization.

To enable this growth and development orientation, high-performance workplaces again turn to their managers as key enablers, holding them accountable for the development, engagement, and retention of their employees, and making sure they have the tools and know-how to fulfill this crucial role. It's helpful to consider the following four questions as a guide to how work is approached, and perhaps reengineer work as needed to help people grow:

- **Is the job "complete" enough?** Does the job encompass a comprehensive enough set of tasks so those doing it can at least periodically see an identifiable work product or outcome of their efforts?
- **Is there a customer of the work?** Are there internal or external individuals/groups—other than the manager—whom the person in the job can regard as a customer he or she needs to satisfy?
- **Can the individual obtain direct feedback?** Can the employee get information on work quality directly from the work itself and/or his or her customers in order to adjust and improve?
- **Does the individual have adequate control?** Does the job afford him or her the level of decision-making latitude and authority necessary to determine best ways to get the work done and handle situations that arise?

7. Trust: Conduct authentic, business-focused conversations

In all settings, successful individuals and teams have managers who act as trusted advisors and help them become passionate about their goals and priorities so that they can perform to their fullest. In high-performance environments, managers build an open relationship with their employees. Two-way trust is integral to this relationship: The manager trusts that the employee is capable, and the employee trusts that his or her manager provides the environment and support needed for his or her success.

Building a trusting manager-employee relationship is like filling a bowl with water—a single drop at a time. Once the bowl is filled, any push or knock can spill the water and it has to be filled back up again—one drop at a time. What is of utmost importance is to remember that there are no shortcuts or substitutes in this effort. Managers determined to build trusting and credible relationships should be aware that it’s not only the actions that fill the bucket, but also the perceptions of true intent. In building a trusting relationship, we consider the 5Cs—**Clarity, Candor, Commitment, Caring, and Communication**—to be critical to success.

- **Clarity** is being crystal clear about the expectations and what needs to occur. It’s understanding how one’s work aligns to the objectives of the organization.
- **Candor** is directly sharing what you’re thinking and not operating with a hidden agenda.
- **Commitment** is doing and following up on what you said you were going to do.
- **Caring** is “being present” for the person—not treating the person as an item on one’s “to do” list, and certainly not multitasking when having an honest, sincere conversation with someone.
- **Communication** is providing the right amounts of relevant business information to employees at all levels, to make them feel like insiders. They need to not only know the business objectives of the organization, but also understand the financials in order to recognize where to prioritize their efforts. At AES, financial and strategic information is freely shared throughout the organization and employees are encouraged to share their perspectives. Google asks employees to participate in weekly “Thank Goodness It’s Friday” (TGIF) meetings where co-founders inform them about everything from finances to marketing to product development efforts. Employees make use of blogs to document work activities, discuss issues, and share information.

Some factors to consider when determining the right information-sharing in each situation are shown below.

Factors to consider when determining the right information-sharing in each situation

Why might it be **important** to share information with employees in this situation?

They:

- Have important input directly bearing on the issue
- May offer perspectives and suggestions valuable to incorporate
- Can do their particular job better if more fully aware of the issue
- Will be able to coordinate their or others’ efforts to sync with this initiative/message
- Will be less distracted or more confident (if you answer or preempt their questions, asked or not)
- Will appreciate being kept informed

Why might it be **problematic** to share information with employees in this situation?

They:

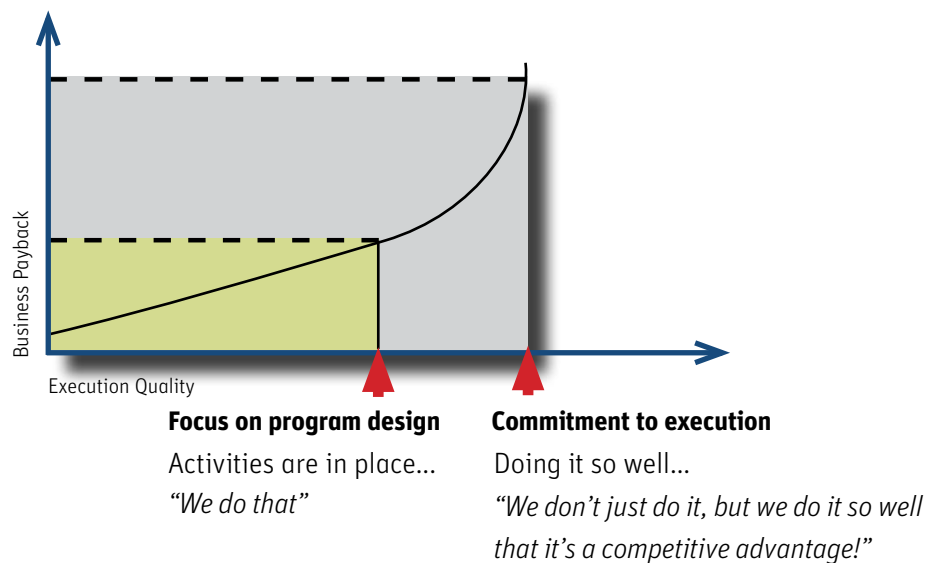
- May misinterpret or get distracted by what they’re not “ready” to hear in the right context
- May “spread the word” too far ahead of planned or phased dissemination of the information
- May share the information with the wrong unauthorized people inside or outside the organization

All of these manager capabilities, in combination, build a trusting relationship. And the trusting relationship is the glue that holds together the other six design elements. Without this particular design element, the others are perceived as insincere and won't have the impact needed to build a high-performing workforce.

Delivering on the Promise

Larry Bossidy, former CEO at AlliedSignal and Honeywell, and the co-author of *Execution: The Discipline of Getting Things Done*, says: "Corporate strategies are intellectually simple; their execution is not. The question is, can you execute? That's what differentiates one company from another." While the design elements explained above are critical, without flawless execution, success is not guaranteed. High-performing companies focus on a lot of performance-related activities, but they pay particular attention to getting these design elements right—not just doing them, but doing them well enough to be a competitive advantage. Here's how we graphically depict a strong connection between execution and its payback to the business.

Execution payback curve



To successfully embed a high-performance culture, organizations will have to both "get it right" (design elements) and "do it right" (execution elements). On the following pages we explain the four execution elements necessary to make the design elements work.

1. A commitment to building manager capability and cross-cultural competence

Managers play a key role in the growth and development of individuals because the factors that drive employee engagement and performance are largely within the direct manager's control. These include providing recognition and feedback; challenging work; opportunity for development and advancement; and respect for employees' competencies, needs, desires, and work style. Consequently, managers must be adequately prepared to assess the needs of their team. This enables them to create an environment in which employees thrive and perform at their highest levels.

In a high-performing workplace, the role of the manager is fundamentally different from what might be observed elsewhere. Managers don't work in a traditional, command-and-control mode where they micromanage and pay little attention to employee development. High-performing organizations make an up-front investment in training managers to become trusted performance coaches and invested partners. Managers should be given guidance and easy-to-use tools and techniques so that they have the right skill sets required to fully participate in the performance-management process.

Additionally, heterogeneity and diversity across cultures and markets is a pervasive feature of today's global business landscape. Managers are constantly being asked to lead teams composed of individuals with different cultural characteristics, history, values, and belief systems. Those managers who have a closed mind-set clouded with assumptions of a single country, culture, and context tend to limit their point of view and fail to achieve optimal individual and business performance.

It's particularly important to groom and develop cross-cultural competence among managers. We define cross-cultural competence as the ability to discern and take into account one's own and others' worldviews—to be able to solve problems, make decisions, and resolve conflicts in ways that optimize cultural differences for better, longer lasting, and more creative solutions. Managers in highly diverse work environments should be aware of differences in styles, behaviors, worldviews, and values of their team members and avoid interpreting another's intentions from their own cultural biases and stereotypes. They should be able to differentiate between a performance issue and a cross-cultural misunderstanding. They should incorporate diverse perspectives and talents of others on their team to accomplish their overall performance goals and be skillful enough to coach diverse members of their team in a language and style that may be culturally different from their own.

To develop cross-cultural competence, some organizations offer expanded cultural and linguistic training programs for managers. This is indeed important, but not enough. Companies may assign their managers to key projects or positions that require effective cross-cultural communication. A few leading companies also go so far as to make it clear to their managers that to reach a senior management position, they must have obtained multicultural experience either outside of their local office or by managing a global business or process. In this 21st century global economy, it's not enough to know how to have effective performance conversations—effective managers need to appreciate and understand the backgrounds and diverse needs of their staff in order for those conversations to have meaning and relevance.

2. Development of HR business partners as high-performance consultants

In many organizations, line managers view performance management as a “necessary evil,” “an HR activity,” or a process required to remain “in compliance.” High-performing HR business partners help their line partners see the deeper and more meaningful value and business rationale of performance-management processes.

As performance consultants, HR business partners must create a climate where managers are completely committed and comfortable with the performance framework. To achieve this, HR business partners should:

- Involve managers in the design of the performance framework;
- Eliminate “HR-speak” in the performance-management process and replace it with business-friendly terminology;
- Help managers master the tools and techniques for implementing the performance framework;
- Act as credible experts who identify and remove implementation barriers (e.g., help managers frame the kinds of discussions they’ll have with different types of performers); and
- Maintain a constant dialogue with managers to introduce new thinking and innovative ideas.

The ultimate goal of the HR performance consultant should be to support and challenge managers to better deliver performance management. For example, HR should be asking managers whether set goals really are high reach or challenging managers on rating distributions that have little spread, and so forth. When engaging in these kinds of discussion from the perspective of improving the performance culture (not from the process compliance perspective), HR becomes a business driver. They do this to make managers more effective, not to meet their own HR process targets.

Of course, line managers should be held accountable for managing their people; however, HR should assume the role of consultant who champions effective performance-management practices at both the strategic and day-to-day levels.

3. User-friendly tools and automation

While it appears as if the market is flooded with stand-alone performance-management technology options, experts at Gartner project that the market for integrated employee performance-management software (including compensation and succession) is clearly in its early stages.⁹ Companies that traditionally preferred to use paper-based appraisal forms are seeking viable technology-based solutions to overcome issues related to cost and data privacy.

Use of appropriate technology can cut down the wasteful hours spent on administrative activities such as filling out paper-based forms and instead allow managers to focus on conducting meaningful performance conversations and coaching. Technology also saves on unnecessary costs resulting from printing, reprinting, and storage.

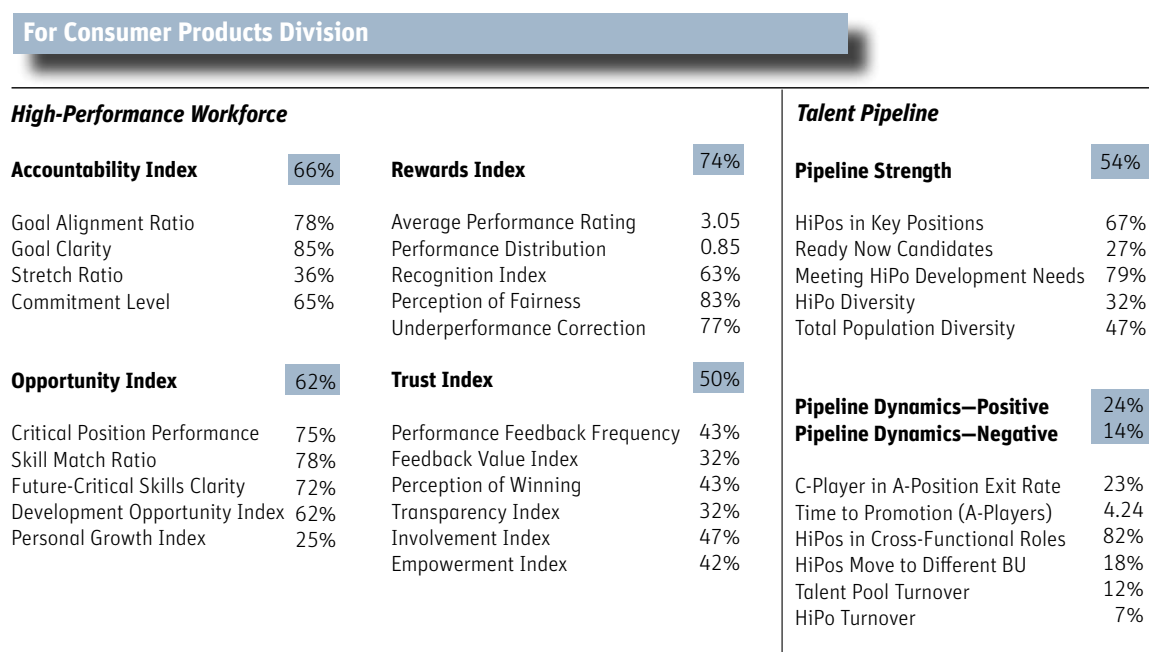
⁹ Gartner, “MarketScope for Employee Performance Management Software, 2007,” May 11, 2007.

In addition, it allows greater security controls concerning who can access the responses, requests, and recommendations by removing the easily accessible paper copies from the office and setting up systematic controls within the software. Web-based technology has revolutionized the format, appearance, and efficiency of performance-management systems. The portal solution allows organizations to capitalize on the efficiencies of documenting performance activities and expands its potential into integration with HRMS applications, financial reporting, payroll, and much more. A recent survey of 450 organizations found that 11 percent of respondents use a vendor-provided solution, while 25 percent created their own system to capture and analyze performance data.

4. Ongoing measurement and improvement

Although many organizations create a wonderful performance-management solution, many fail to review its effectiveness. While most companies use performance plans to measure their employees' success, few organizations measure whether these performance plans are positively impacting their business. Instead, many organizations simply measure their success by tracking whether paperwork is submitted on time (44 percent) or if their employees are satisfied with the program (36 percent). Meanwhile, nearly a third (30 percent) neglect measuring the success of these programs at all.¹⁰ Measurement is a valuable aid in creating a high-performance work environment. Measurement and tracking success are part of the DNA of most high-performance organizations. On an ongoing basis, they capture organization-wide proxy measures of the four elements we discussed earlier—accountability, rewards, opportunity, and trust—and track their success and areas where intervention is needed. The graphic below shows a talent dashboard with potential sample measures.

Sample Talent Dashboard



¹⁰ Hewitt Associates, "Paying for Performance." 2004.

The performance and development framework needs to be fine-tuned based on the changes in the culture of the organization and the needs of the marketplace. Based on the results of the periodic review of the performance-management process, the “vital four” measures should be adjusted. These adjustments should be communicated back, in turn, to line managers in a timely fashion. This communication is essential for reinforcing the employee accountability and behaviors required to achieve the goals and priorities of the organization on a continuing basis.

Preparing for the Future

Performance-management systems are critical in driving organizational performance and results. Discussions about talent management now focus on a very different set of issues representing a new direction, a new philosophy for defining performance expectations. One of the most distinctive developments is the increasing emphasis on creating high-performance work cultures.¹¹ In today’s knowledge-focused economy, people performance matters hugely, because their ability to execute is the key factor in creating value and driving results for the company. The seven design elements presented in this paper, along with the four execution elements, are central to embracing a high-performance environment and workforce. High-performing companies focus on a lot of talent issues, but they pay particular attention to getting these core building blocks right—not just doing them, but doing them well enough to be a competitive advantage.

A holistic and well-executed performance-management system has far-reaching effects. In a February–March 2007 *BusinessWeek* Research Services survey of more than 300 C-level executives from companies worldwide, roughly half the participants said the biggest benefits of performance management are driving a culture of accountability and aligning operations enterprise-wide. Successful performance-management implementations, participants indicated, led to better decisions about customers, better alignment of strategies and operational behavior, and more collaboration among departments.¹²

A strong performance-management system allows a company to compile a more complete picture of how it’s doing. This comprehensive picture enables executives and managers to learn from successes and mistakes, continuously improve the system, and make the smartest possible decisions. Drawing from an analogy between effective performance management and the operation of an airplane: To fly a plane, a pilot must look at many instruments—airspeed indicator, fuel gauge, altitude indicator, GPS map, and so forth—rather than rely on a single instrument that provides only one piece of information. Similarly, organizations seeking to navigate through a complex environment need a range of “instruments” to evaluate how they’re doing. Effective performance management provides that comprehensive range of information with which a company can gauge its performance.

To truly attract, develop, and retain talent, organizations will need to bridge the knowing-doing gap and effectively deliver on the core design and execution elements presented in this paper. These elements will not only help energize the workforce to perform well, but also ensure that their performance contributes directly to the organization’s success.

¹¹ Risher, Howard, “Refocusing Performance Management for High Performance,” *Compensation & Benefits Review*, September 2003.

¹² “SAS Delivers Virtuoso Performance,” *Business Wire*, May 2007.

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Making Performance Management Work—Timely Topics Survey

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High-Performance Workforce—Global Contacts

Bob Campbell

(203) 523-8287

robert.campbell@hewitt.com

Jacco Vrijland

+31 6 53944689

jacco.vrijland@hewitt.com

Scott Cohen

(781) 314-7677

scott.cohen@hewitt.com

Philip Wixon

+852 2877-8600

philip.wixon@hewitt.com

Insights and Innovation (Hewitt Research) Contact

Nidhi Verma

(770) 956-7777

nidhi.verma@hewitt.com

Mary Ann Armatys

(847) 771-5076

mary.ann.armatys@hewitt.com

www.hewitt.com

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