

A problem worth fixing

Identifying, rewarding and retaining top performers is vital to an organisation's success. Why then, asks Leanne Markus, are most performance management systems so ineffective? She examines the role of technology in supporting HR initiatives but warns that over-simplification and standardisation can be counter-productive.

A generally accepted definition for performance management is the alignment of individual work effort to contribute to the goals of the organisation. Recent research shows that in practice this doesn't often happen. For example, in a 2004 international survey by consultants Aberdeen Group, only 13 percent of respondents saw their performance management system as a constructive process, and only 25 percent said it gave a clearer view of expectations. For the most part performance management consisted only of performance appraisal, viewed as "organisational wallpaper"; a once a year chore, immediately relegated to the archives.

This is a problem worth fixing. On a national level, people productivity is a key factor in creating a successful economy. New Zealand labour productivity growth is well below the average for the OECD. At the level of the firm, there is an evident skills shortage. Technology has automated routine jobs, raising the stakes in terms of role complexity and skill requirements. Demand for skills is outrunning workforce capability. It is vital to be able to identify, reward and retain top performers.

Why are most performance management systems so ineffective? One reason is that, despite the acknowledged and much quoted importance of people to organisations, the human resources func-

tion is under resourced. Organisations invest in systems for automation, to improve utilisation of materials, machinery, and facilities, and they invest to cut inventory costs. They invest relatively little in improving people productivity.

In part, this is because the technology to make a difference has not been available. The software industry focused initially on the accounting and operations areas where business processes are relatively standard. In marketing and human resources there is a greater diversity of activity and so it is much harder to design supporting software systems. As a result, and especially in human resources, there has been a proliferation of specialised applications. On the one hand core HR vendors offer limited functionality in up to 28 different modules, and on the other hand specialised vendors offer richer functionality in stand-alone limited purpose systems that must then be integrated with others.

In late 2003, the IT consulting firm MetaGroup surveyed North American and international firms of all sizes to assess the utilisation of such systems (see table). They found that many firms had adopted at least some specialised applications in the previous three years, that the adoption rate is accelerating, and that a major source was low cost; spreadsheets or small custom applications developed in house.

Has this limited investment in technology delivered results?

Table 1. Adoption of specialised HR applications (from MetaGroup research report 2004)

Specialist application	Usage	Systems implemented within last three years
Time and attendance	69 percent	63 percent
Labour scheduling/planning	51 percent	61 percent (25 percent over five years old)
Employee self service	49 percent	96 percent (77 percent within last two years)
Manager self service	45 percent	82 percent
HR knowledge management	49 percent	71 percent (55 percent within last two years)
Competency management	55 percent	76 percent
Learning management	47 percent	82 percent
Recruiting	57 percent	66 percent
Performance management	59 percent	67 percent
Contingent workforce tools	36 percent	69 percent
Workforce planning	43 percent	73 percent
Compensation management	75 percent	61 percent (50 percent within last two years)
Workforce analytics	43 percent	70 percent

A focus only on key result areas, broad ‘citizenship’ competencies such as teamwork and communication, plus a drive for standardisation, leads to generalised descriptions that are often not directly relevant to the day to day work of individuals.

Unfortunately in many cases it has not. Overall the majority of survey respondents (51.5 percent) reported that the systems implemented, from application vendors as well as in house developments, had not met all objectives. In the case of performance management, this means that many systems have failed to align the efforts of individuals to the aspirations of the organisation. There are two major reasons for this.

Firstly most performance management systems do not adequately communicate performance expectations. A focus only on key result areas, broad ‘citizenship’ competencies such as teamwork and communication, plus a drive for standardisation, leads to generalised descriptions that are often not directly relevant to the day to day work of individuals.

The relevance of citizenship competencies has not been established by independent research. No link has been found between citizenship behaviours and job performance. Only four very limited studies have been reported on the relationship of citizenship behaviours to organisational success suggesting only a very small association. No causative relationship has been established. In fact, rather than establishing significant positive effects of citizenship behaviours, research has demonstrated a clear adverse effect of counterproductive workplace behaviours, such as absenteeism, theft and harassment.

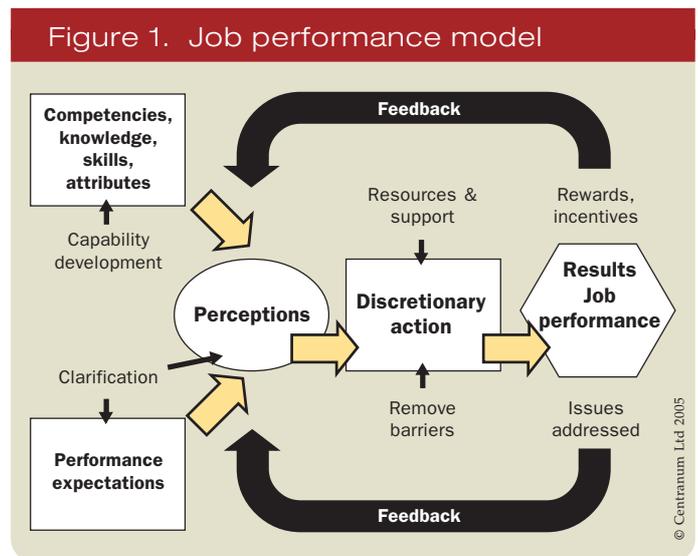
The second reason is that most performance management systems lack the measurement methodology and tools needed for valid evaluation. In the absence of objective data most are based on subjective evaluation. It’s not surprising that performance management systems lack credibility, and even risk alienating staff.

Effectively communicating expectations is a major challenge. This is especially so in today’s business environment, where there is more, not less, diversity in individual role requirements, and where change is constant. Nor is it easy to collect objective data about individual performance. Just because it is difficult does not mean it should not be done, or indeed cannot be done.

What is the answer? Performance management systems must be based on well researched and validated models of job performance and organisational effectiveness. Several decades of research in the field of organisational psychology have established clearly the factors required for successful job performance.

At the individual level it is job specific knowledge and skill, the opportunity to apply these, and the motivation to do so. While the drive to achieve is a personality attribute, it is important to provide an environment where personal motivation can flourish. No-one wants to fail.

The number one factor in providing a supportive work environ-



ment is clear expectations, clarified by frequent feedback. Secondly staff must have the tools and resources to do the job and to prompt removal of barriers to performance. Thirdly there needs to be recognition and reward for a job well done (see Figure 1). People must believe they are evaluated fairly and will be rewarded for top performance. There is no incentive to go the extra mile if someone who performs poorly will get exactly the same rewards. How many organisations de-motivate staff in exactly this way because individual performance cannot be evaluated accurately?

The well-publicised Gallup Organisation studies of employee engagement over the last two decades have demonstrated that the supervisor relationship is the key driver of the individual work environment, engagement and performance. Yet, despite the proliferation of excellent leadership programmes, many managers still do not have good people management skills.

Technology has the potential to provide a simple and highly cost effective solution. An electronic performance management system will quickly improve leadership and management skills if its use requires the desired people management practices. In addition, an effective system enables the capture and reporting of disparate performance data, otherwise scattered through filing cabinets and other systems. Finally, it enables the monitoring of people management activity itself.

An effective performance management system must:

1. **Communicate clear expectations.** Performance expectations must include the central part of the employment relationship—the job. It is patently absurd to employ someone for a specific

role and then not to evaluate their performance in that role. Electronic tools make it possible to easily create, update and immediately access job descriptions for every individual, detailing expected results against accountabilities. For key result areas, if meaningful information is to be produced, the system must be able to track quantitative data and trends as well as comments. If an organisational balanced scorecard is in use, the performance management system must provide the link between organisational and individual performance.

2. **Facilitate a motivating environment and frequent feedback.** An effective performance management system provides a 365-day communication channel so that staff can review and focus on what is expected, bring resource needs and performance barriers to the attention of their managers, as well as recording their achievements and receiving formal and informal feedback on their performance and competencies.
3. **Ensure people are evaluated fairly.** Staff must be able to participate fully in the performance management process. Evaluative criteria and rating schemes must be transparent. Performance means results, not behaviours (competencies) that may or may not produce results. Performance must be appraised with objective data, reducing the potential for conflict. Individual performance expectations, detailed performance data and notes for the entire period must be on hand during a formal performance review to ensure nothing is overlooked.
4. **Provide a sound basis for planning and evaluating development efforts.** Competency evaluation and development is vital for up-skilling the workforce, improving performance and productivity. Development planning is informed by detailed and specific, rather than high level, competency information. This includes analysis of the knowledge and skill components of technical as well as extra-role citizenship competencies. Accurate evaluation of competencies is difficult to achieve outside an educational setting, and as recent NCEA evaluations show, even within it. Therefore performance management systems must clearly separate competency evaluation from formal performance review. With clear separation, constructive informal feedback on competencies, and on counterproductive workplace behaviours, can be used to promote change.

Despite the potential for technology to support human resource initiatives, unfortunately development has largely followed the pattern of simplification and standardisation established for accounting and operations. This is appropriate for functions that deal primarily with materials, machines and money. Marketing and human resources are functional areas that deal primarily with

people. People are different, they have different ways of doing things, they want and need to be treated as individuals. In these areas, technology must not over-standardise. Instead we should capitalise on its potential to support complexity, while presenting a simple user-friendly interface. In the future, well designed electronic systems will support diversity and provide meaningful and valid information, enabling managers to work with different people differently. **et**

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