



EMPLOYEE PERFORMANCE MANAGEMENT

How to cultivate, manage and measure employee performance.



Here's a story that is likely more than familiar to you. After months of searching, you finally fill an important open position within your organization. The new employee's start date comes and their first week is filled with orientation tasks, new hire paperwork, setting up their workstation, meeting coworkers and having their first 1:1 with their new manager, where they briefly discuss shared hobbies and the first project the new hire will begin. For the first few months, things go well. The new hire is motivated and seems to be a great culture fit. But a couple more months go by and you notice their overall performance is starting to decline. They are missing emails, dropping the ball and failing to meet important deadlines. Their annual review is scheduled but then canceled due to a last-minute client deadline. A few more months go by and things continue to deteriorate until the employee either resigns or is terminated. How did an employee with so much potential slip through the cracks?

To many people, performance reviews are just another daunting task they must undertake in order to tick a box for HR. But in reality, the lessons we learn when measuring employee performance can be key indicators of employees' overall job satisfaction and the health of the business. Performance reviews also help aid in decisions about career development, compensation, transfers, promotions, termination and more. When your organization prioritizes effective employee performance review strategies, you will have a much more accurate read on the pulse of your company.

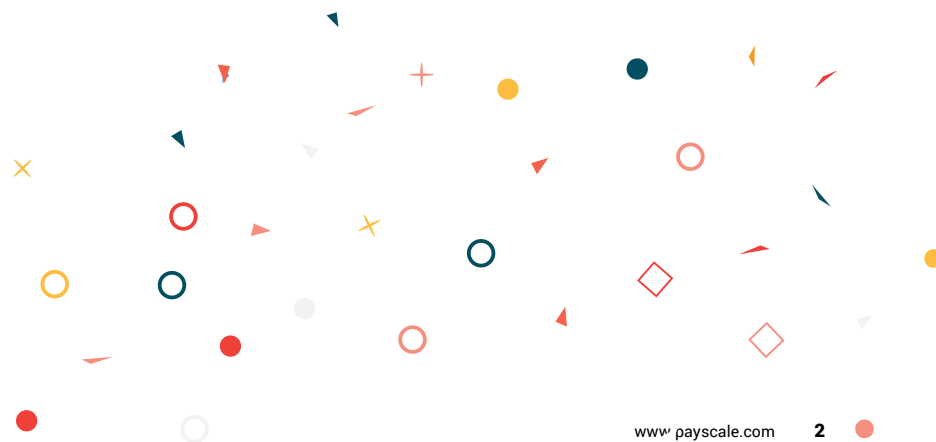


Unfortunately, many organizations waste money by not being strategic about performance management. Gallup [estimates](#), “the cost of poor management and lost productivity from employees in the U.S. who are not engaged or actively disengaged to be between \$960 billion and \$1.2 trillion per year. The cost of lost time spent on traditional approaches to performance evaluations alone is estimated to range from \$2.4 million to \$35 million per year for a company with 10,000 employees.”

The smartest executives understand the need to shift from a performance measurement mindset to a performance management mindset. Performance management goes beyond an annual review and is an ongoing assessment of an employee's contributions to the company, their personal job satisfaction, how well they work with others and much more. Armstrong and Baron [define](#) performance management as “a process that contributes to the effective management of individuals and teams in order to achieve high levels of organizational performance. As such, [performance management] establishes a shared understanding about what is to be achieved and an approach to leading and developing people which will ensure that it is achieved.”

Additionally, an effective performance management strategy can help decrease employee [turnover](#) by recognizing when an employee struggles with overwork and is on the verge of burnout, lacks necessary skills and requires additional training or support, or feels underpaid or unrecognized and is on their way out of your organization.

In this whitepaper, we will discuss the importance of employee performance, who is responsible for performance management, how employee performance can be tied to compensation and the different ways to measure and manage performance.





THE FIVE BENEFITS OF PERFORMANCE MANAGEMENT

1. FOSTER OPEN AND TRANSPARENT COMMUNICATION.

Pay transparency is a spectrum of choices organizations can make about how much information they want to share about pay practices. However, there isn't a one-size-fits-all approach. Some organizations voluntarily make all of their employee salary numbers public, like [Buffer](#). [Starbucks](#) takes an altogether different approach to pay transparency: sharing pay equity data with everyone, and pay ranges with candidates when asked (a requirement in some states, but not all). Every organization can approach transparency differently but the key is to communicate your pay philosophy so employees understand how their compensation is determined.

2. COMMUNICATE YOUR ORGANIZATION'S MISSION AND VALUES TO YOUR EMPLOYEES.

Online clothing retailer Zappos is known as an innovator in performance management. The company prioritizes the importance of values and culture. According to the Zappos culture [document](#), "Interviews and performance reviews are 50 percent based on values and culture fit." Many workers find job motivation in contributing to the bigger picture and doing work they find meaningful. Help your employees understand the connection between their work and the overall mission of your organization in order to boost job performance and morale.

3. CLEARLY DEFINE JOB PERFORMANCE EXPECTATIONS AND ALIGN PERFORMANCE METRICS TO ORGANIZATIONAL GOALS.

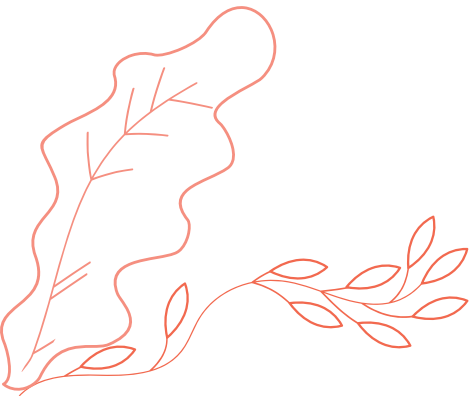
This should be the first thing you do with any new hire, any time you set new goals with an employee, and at the beginning of every new project. Yet, according to Gallup only 30 percent of employees strongly agree their manager includes them in goal-setting. You can't expect workers to meet your expectations if they do not know what your expectations are in the first place. When having these conversations, you must be as specific as possible. What are the metrics of success? How will these metrics impact the success of the organization overall?

4. REGULARLY CHECK-IN WITH EMPLOYEES ABOUT PROGRESS TOWARD MEETING GOALS.

By meeting regularly with your team, you will be able to identify potential skills or knowledge gaps. These meetings can reduce frustration, move projects along more efficiently and give you the opportunity to demonstrate your organization's commitment to helping employees grow and achieve their own professional development goals.

5. ENSURE EMPLOYEES HAVE THE SUPPORT THEY NEED TO MEET EXPECTATIONS.

Gallup also says only 19 percent of workers agree they've talked to their managers about steps to reach their goals. You can support your employees by providing access to extra training, mentorship and anything else that will help fill in the gaps. Your employees will feel engaged and their [professional growth](#) will benefit your organization. On the flip side, by not paying attention to your employees, they could get frustrated with the lack of training and support and seek new work where they feel capable and supported.



A stylized graphic on the left side of the page. It features a large, vibrant red leaf-like shape that curves upwards and to the right. From the base of this red shape, several smaller, yellow and green leafy branches extend outwards and downwards, creating a sense of growth and organic form. The entire graphic is set against a dark teal background.

THE LINK BETWEEN COMPENSATION AND PERFORMANCE



According to PayScale's 2019 Compensation Best Practices Report ([CBPR](#)), most organizations gave increases to their employees. In fact, 80 percent of organizations gave pay increases. And, the top reason for giving a raise was performance, which was ranked even higher than employee retention and cost-of-living.

2018 was a record-year of job growth, with businesses adding 2.6 million jobs in 2018. Michael, Farren, a research fellow at the Mercatus Center at George Mason University, noted that employers hired more than 40 percent more people than generally expected. With demand exceeding the supply of labor, nominal wages ticked up 3.2 percent year over year. Demand for workers is strong and has reached levels where workers are feeling empowered to make moves. Workers are [job-hopping](#) in record numbers in 2018. The Bureau of Labor Statistics (BLS) says that employee quits in 2018 are on track to exceed 40 million. Global HR consulting firm Mercer surveyed 163 large employers in 2018 and found that voluntary turnover the year before, not including retirements, accounted for 15.5 percent, up from 14 percent the previous year. Additionally, employees who have not already quit are likely evaluating their opportunities.

Some survey results show money is the biggest motivator driving employees to seek other jobs, while others show career growth to be the primary incentive. And, not only are workers empowered to make moves, it's easier than ever for them to research and evaluate employers. Workers are sharing every aspect of their work experience online – including compensation, benefits packages, company outlook, their opinions of leadership and more.

It will prove increasingly difficult to attract and keep the right people without ensuring your compensation philosophy, strategy and practices are in close alignment with your values as an organization. The best way to focus on cultivating a strong [pay brand](#), and employer brand overall, is to genuinely focus on your employees as much as you focus on customers, profit and investors. This focus needs to be reflected in the way you invest in your people, including your comp and benefits plans. Employers seeking to be employers of choice will do well to link their pay raises to performance and market rates for their jobs. Today's savvy high-performers don't only want to see they are paid well for their efforts. Employee satisfaction is driven by feeling the approach to pay is fair and transparent at the organization. To learn more, check out [PayScale's Employee Engagement Report](#).

THE PAY-FOR-PERFORMANCE CULTURE

One way to more closely align performance management and compensation is to consider moving toward a pay-for-performance culture. Simply put, a pay-for-performance culture rewards high performers. When you ask some people about [paying for performance](#), they immediately think of bonuses, incentives, commissions and the like. Others think of base pay and a [merit matrix](#). There are a lot of ways of connecting the dots between performance and pay. The right way will depend on the culture of your organization. For more information, download [PayScale's Modern Pay for Performance](#) whitepaper.

One final consideration for variable pay has to do with how organizations decide to reward their high-performing employees. While many do so with cash by giving larger pay increases to those with better performance, base pay is just one tool among many.

According to the CBPR, organizations rewarded top-performing employees in a variety of ways, including bigger base pay increases (58 percent, up from 54 percent in 2017), promotions (48 percent), career development (35 percent), informal bonuses or incentives (34 percent) and awards/recognition programs (31 percent, up from 29 percent the previous year).

PayScale also asked organizations to tell us what they plan to do to help recruit and retain high-performing employees in 2019. The majority of organizations (61 percent) plan to use a merit-based pay plan – this tactic is more prevalent for top-performing organizations (67 percent) as well as for enterprise organizations (74 percent). Providing learning and development opportunities is a close second (59 percent) and using a discretionary bonus plan came in third (34 percent).

Interestingly, top-performing organizations are more likely to use most of these tactics to recruit and retain high-performing employees. However, top companies are less likely to use non-discretionary, incentive-based pay plans. In other words, top companies are more likely to send the message to employees that bonuses aren't guaranteed -- they need to be earned.

So how can you connect performance to rewards? We understand budgets are limited – companies must spend their money in areas that provide the best results. Prioritizing competitive and fair compensation with incentives for higher performers is a smart way to improve your company's [pay brand](#). From an employee perspective, rewarding those who deliver the most impactful results just feels fair. Let's take a look at popular ways to link pay and performance.



BASE PAY

Using a merit matrix, you can provide higher increases to those who perform better, based on performance rating and position in range. With limited budgets available for the fixed cost associated with salary increases, this option has been losing a little traction. It's nice to differentiate increases for higher performers, but if your increases for your top performers only differ from average performers by a couple percentage points, should you even bother? Will your employees feel financially recognized if the increase only differs by the price of a daily cup of coffee? Consider this: you can ditch annual increases in lieu of market increases; put the rest of your budget into incentive pay.



INCENTIVE PAY

This is perhaps the clearest way of linking performance and results with pay. With incentives, companies and employees agree on the right goals to deliver results, then pay on delivery. Bonuses are another way of linking variable pay with performance. While they tend to be awarded after the fact, whether a specific goal was identified or not, a decently sized bonus can be an effective way of affirming some behavior or result you're hoping to see. The 2019 CBPR reports enterprise organizations are more likely to use individual incentive bonuses (**74 percent versus 59 percent**), spot bonuses (**56 percent versus 33 percent**), retention bonuses (**48 percent versus 14 percent for small**), hiring bonuses (**66 percent versus 15 percent**) and the employee referral bonus (**54 percent versus 26 percent**).



BENEFITS AND PERKS

Increasingly, the way to win the hearts of your employees is to have well-aligned benefits or perks. How can those be safely tied to performance, without risk of favoritism or discrimination? One perk that is becoming more and more common is the flexibility to work from home, contingent on good performance. Although the number of organizations offering unlimited PTO is still relatively low, its prevalence has nearly doubled in the last few years (**9 percent in 2018 versus 5 percent in 2016**). Additionally, organizations plan to offer benefits that enhance employees' financial, physical, and emotional/social well-being. Some new benefits organizations plan to offer in 2019 include paid family leave (**19 percent**), education or tuition reimbursement (**26 percent**), flextime (**24 percent**) and paid/reimbursed vacation (**11 percent**). Regardless of what most organizations are doing, in order to choose the benefits that will work for your organization, you'll need to have a pulse on your employees. Outline the biggest needs your employees have and use those needs to guide and evaluate the experience your organization is offering.

To learn more, check out PayScale's whitepaper, [Strengthen the Link Between Pay and Performance](#).



HOW TO MEASURE AND MANAGE PERFORMANCE

General Electric is a multinational technology organization with more than 330,000 employees in over 170 countries. But, even this behemoth of an organization understands the importance of performance management and listening to employees. The foundation of the company's performance management philosophy is ongoing feedback rooted in trust and vulnerability. In 2016, GE sought to update its Employee Management System (EMS), which had been in place since 1976. "The feedback we heard globally was that we need a more continuous, fluid process versus an event-driven one," said Sonia Boyle, vice president of human resources at GE Canada, in a Q&A with [Workopolis](#). The feedback GE received demonstrates the importance of shifting from traditional, annual performance reviews to a more ongoing performance management mindset. So, how did GE's new system work?

The company's new performance reviews, PD@GE (a.k.a. performance development at General Electric) works on a system of "Insights" that can be offered to employees by managers or fellow employees, both verbally and through a specially-developed app. There are two types of Insights: Consider Insights and Continue Insights. A Continue Insight encourages an employee when they do something good, while a Consider Insight offers constructive criticism. Insights are private; employees only share them with their management if they want to. At the end of the year, employees and managers set up a "Summary Touchpoint" to go over insights and set goals. There are no rankings – they removed them during the pilot phase and bonuses remained unaffected – and virtually no paperwork for employees or managers.

So what happened next? According to Boyle, employees who have embraced the system love it. "They feel there's a little bit of a liberty and a freedom with it. And there can be immediate feedback – you're not waiting six months, and then you forget about what happened at the beginning of the year."

ALIGN PERFORMANCE MANAGEMENT SYSTEMS WITH YOUR ORGANIZATION'S MISSION AND VALUES

Jeff Bezos, founder and CEO of Amazon, says, "good intentions don't work but mechanisms do." This philosophy is what drives performance management at Amazon. The company understands the importance of linking values with performance. One of the company's values is "constant learning." In the spirit of that value, the company took one of their decision-making processes, the [whitepaper process](#), and applied it to their promotion process.

To make decisions (when someone comes up with a new idea for a business or service), Amazon asks them to write a paper. Beth Galetti, SVP of WorldWide Human Resources, explained the process in an interview with Gallup. "This paper outlines their reasoning and approach, anticipates and addresses tough questions, and states what else the person has considered and rejected in developing this suggestion, and even includes a draft press release that showcases the customer experience at launch."

Amazon took the white paper process and applied it to the promotion and raise process in a similar fashion. When a manager is looking to promote someone, they are required to write a white paper that documents the employee's successes, failures and how the person has grown in the process. The manager sponsoring the promotion identifies people who have worked closely with that employee, gets specific feedback and incorporates it into the white paper.

According to Galetti, Amazon's review process "attempts to collect data on each individual employees' superpowers and areas of strength." The manager who is sponsoring a promotion must gather the "superpowers" for each individual employee as part of their peer and manager feedback, and request areas for growth for the employee to work on. To make sure this feedback isn't cumbersome to collect, they keep this process brief – 60 words or less each for the superpower and growth questions.



THE FINAL WORD

Switching to a performance management system can feel daunting at first, but in the end, you will likely find it the best way to ensure optimal growth for stakeholders, employees, and your company. Once you have an understanding of how your company's performance management strategy should look, you will be ready to find the tools you need to move forward.

Similarly, your compensation initiatives can be simplified - allowing you to be efficient and strategic for your organization. PayScale provides [compensation software](#) solutions, as well as salary survey data, for every organization and every comp situation. Get out of spreadsheets and do the true work of compensation, from crafting your comp strategy to managing your pay brand to training your managers on how to talk about pay with their employees. The work of compensation is due for a transformation. It can be better, faster, easier.

ABOUT PAYSACLE

PayScale offers modern compensation software and the most precise, real-time data-driven insights for employees and employers alike. Thousands of organizations, from small businesses to Fortune 500 companies, use PayScale products to power pay decisions for millions of employees.

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