

## How to Design a Performance Management Policy

Author: Milton Jack . January 2020

Entirely all companies differ wildly in their business goals and requirements, and in their definitions and *measures of success*. Despite this variance, it is a little odd that most still use the same conventional approach to *plan* and *monitor* the performance of their employees and the company as a whole. The seemingly ubiquitous annual ratings-based *staff appraisals* and quarterly company *performance analyses* are often relied upon simply because they are the methods most familiar to employers and feel easiest to implement by HR and Managers (Boratis, 2018). But ease does not always equate to effectiveness. *Performance management policy's* overall goal is to set targets that are derived from and linked to the corporate objectives and monitor performance levels and development activities in a structured way so that issues are addressed in good time and with a clear purpose. When implemented well, it drives *employee engagement* in the company's overall goals, which leads to improved performance of both employees and the company.

Contrary to popular belief, employers have many choices when it comes to designing the best *performance management system* for their organization- reflective annual versus continuous real-time practical appraisal; backward focus on past performance versus forwarding looking focus on potential; ratings-based versus rating-less; individual-centered versus team-centered; and so on (Boratis, 2018). But with so many options to choose from, how can a company determine which is best for its purposes? Taking a close look at staff preferences alongside the goals, priorities, and resources of a business can bring the answers needed to create a tailored system that meets the unique goals and requirements of an organisation (Boratis, 2018).

### Defining the best performance management policy for your organisation

An analysis of research into *performance management systems*, published in the journal Management Accounting Research, suggests that four key areas should be explored by companies looking to develop a truly effective and company-specific *performance management system*:

- Identify the objectives of the organization- what are the corporate goals and strategic priorities and needs of the business?
- Consider how easily and effectively any system developed can be implemented- what resources do you have within HR? What level of skills and training do existing managers have in performance evaluation? How capable are managers and HR of adopting new systems that require new skills?
- Determine how you wish to set performance targets- is the focus on individual or team performance, or on the company as a whole? Do these targets cross over several functions or geographies?
- Look closely at the company's performance reward system- how is the workforce competitively rewarded, best motivated and engaged? Are their needs focused on feedback or on recognition

for work done?

## **Why strategic implementation is vital for successful designing of the performance policy**

While tailoring a *performance management policy* design to address the exact needs and objectives of a company is the first vital step in transforming the performance of a business, it's a move that's essentially futile unless the system is communicated and implemented effectively. As employees are the life force of a company, the implementation must begin with clarifying the link between employee performance and the overall desired business outcomes. Indeed, research published in *Applied Psychology: An International Review* highlights that in order to manage individual performance, employees need to understand the organisational context of their role, tasks, and performance. As such, a well-*implemented performance management system* must be clearly communicated to employees, with business priorities highlighted and the relationship between individual employee goals and the company's larger goals identified.

Organisations can also significantly improve the efficiency of their *performance management* approach by scrutinizing the existing system and eliminating or redesigning processes that are repetitive, achieve no real goal, or require a disproportionately large amount of time and/or manpower. This is something that is best achieved with input gathered from HR, managers, and employees. Ask them which processes they struggle to execute, which they feel serve no real goal and which they feel are excessively time-consuming or are not given enough attention. It's also important to ask them how they think these shortcomings can be improved.

## **The employee engagement factor in performance management policy design**

Many companies suffer from staff who are disinterested when it comes to performance management and view activities like appraisals as little more than box-ticking exercises. There are a number of ways to change this attitude:

**1. Identify what motivates the workforce:** In most companies worldwide, employee performance is rewarded via an annual pay rise, with top-performing employees given a larger increase than poor performers. Yet, very often the pay rise has little real-world meaning and is not truly motivating. Findings from Willis Towers Watson's 2016 Global Talent Management and Rewards and Global Workforce Studies show that 99% of employers use annual pay increases to incentivise staff, yet only 40% believe this approach truly drives their employees to perform better. Employers can avoid falling into this trap by asking their employees how they wish to be rewarded for work well done. You may find that better benefits, career advancement opportunities, or external rewards are a more potent incentive.

**2. Reward employees fairly:** Any reward quickly loses its shine if it is found to be less generous than those given elsewhere. Employers should, therefore, stay aware of market rates for the different employment sectors relevant to their company and make sure their performance management philosophy rewards performance at a level that is fair across the industry. Feeling fairly rewarded for your efforts is a key driver of employee motivation and retention, yet it is something that figures from the aforementioned Willis Towers Watson study show are lacking. Just 51% of workers worldwide feel they

are fairly paid compared to others- a figure that drops to 38% in the UAE.

Ensuring your reward system clearly differentiates between the different levels of performance is another way of increasing feelings of fairness among employees, particularly as the figures show that only 55% of employers feel that merit increases effectively differentiate pay based on individual performance. Noticeable differentiation in rewards can also help with motivating employees to improve their performance.

**3. Focus on clear communication and collaboration:** Employees tend to be more engaged and perform better when they understand the wider significance of their tasks and are given responsibility for assessing their performance. So, improving communication between employees and managers and giving employees a degree of ownership in the performance management process can help to boost engagement. This can be achieved by ensuring managers sit down with employees to discuss and clarify key objectives when they are set- objectives that must be SMART (specific, measurable, achievable, relevant and time-specific). Employees should also have input into what their key objectives are, what they need (skills or resources) to achieve these objectives, how their success is measured and how often their performance will be assessed.

Exactly how performance is rewarded should be spelt out too, including a clear definition of how the levels of performance are differentiated. Making a performance management system a two-way process, in which employees can request meetings and give suggestions about how to improve the way they carry out their tasks and are assessed, is also vital because an employee is more likely to remain engaged in a collaborative process.

**4. Challenging convention:** Other strategies worth considering for improving employee engagement include rating-less systems and spot performance reviews, rather than formal annual appraisals. When correctly executed, a rating-less system allows time to be reinvested into better and more effective ongoing communication between employees and managers, because both are no longer focused on quantifying past performance and completing forms. Instead, they are focused on discussing what the employee has done well and how to build on that. In short, the elimination of ratings turns the appraisal process into one that is forward-looking and motivating. However, it is important to bear in mind that for a company to effectively adopt a rating-less system, managers will need training on how to objectively and consistently appraise staff in this manner.

**5. Championing career development:** A literature review published in the European Journal of Business and Management has shown that continuous staff training develops employees and improves organizational performance by maximizing the abilities and engagement of the workforce. Employers looking to improve employee and company performance should, therefore, prioritize the provision of skill development opportunities for staff. Giving employees realistic opportunities for career advancement can also help to boost their performance by creating achievable goals that serve employees' ambitions and unleash their potential.

**How will a sample performance policy look like?**

A sample performance policy will have the following but not restricted to these as companies or organisations can tailor design their performance policy depending on their core activities and preferences:

The core of the policy

1. Introduction
2. Application of the policy
3. Definitions
4. Aim of the policy
5. Objectives of the policy
6. Conflict resolution
7. Policy control
8. Focus areas
9. CONTEXT
10. Principles of performance management
11. Definition of performance management
12. Goals of a performance management system
13. Performance management (implementation of the performance management process)

1. STEP 1: Goal setting
2. STEP 2: Individual role description
3. STEP 3: Concluding individual work agreements
4. STEP 4: Following the process of performance feedback and development
5. STEP 5: Conducting the final performance evaluation
6. STEP 6: Managing the outcomes of performance or underperformance

Policy for managing poor performance

1. Aim
2. Scope of application
3. Procedure

1. Counseling
2. Identification of poor performance
3. Action plan

1. Considerations at dismissal due to poor performance

### **Key considerations in performance policy design**

While all of the points mentioned in this article are important in the development of a system that truly engages staff, monitors performance and ultimately drives improved organizational performance, a *performance policy* will only achieve results if it is executed in an employee-centered way that follows

the spirit, rather than the process or letter, of the law. At a time when companies worldwide are eager to maintain a competitive edge, focusing resources on creating a clearly defined and effective performance management system, may seem relatively unimportant, especially if past *performance management* approaches have fallen short of expectations. However, past failure does not mean that *performance management systems* don't work, it simply signals a failure of proper implementation and a need to do things differently. And where management systems are concerned, this means placing more emphasis on being collaborative, easy to understand, fair, continuously motivating to employees, and focused on the future.

Milton Jack is a Business Consultant at Industrial Psychology Consultants (Pvt) Ltd, a business management and human resources consulting firm.

**LinkedIn:** [linkedin.com/in/milton-jack-9798b966](https://www.linkedin.com/in/milton-jack-9798b966)

**Phone:** +263 242 481946-48/481950

**Mobile:** +263 774 730 913

**Email:** [milton@ipcconsultants.com](mailto:milton@ipcconsultants.com)

**Main Website:** [www.ipcconsultants.com](http://www.ipcconsultants.com)

<https://thehumancapitalhub.com/articles/How-To-Design-A-Performance-Management-Policy>