Development-Driven Performance Management

The Path from Once-a-Year Performance Management to Ongoing Employee Development

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Introduction

Each year, organizations around the world go through the ritual of performance appraisal. Many see it as the company’s main event, in terms of performance management – the time at which most, if not all, feedback and guidance to employees is given. Progress is evaluated. Rewards are distributed. Goals are set. Then that is it, until next year. Managers often open the process with a mixture of resignation, dread and the question, Why are we doing this again?

This is a valid question. While business leaders generally have a clear idea of what they want annual performance appraisals to achieve, the effectiveness of these appraisals is dubious. When performance management relies too much on infrequent goal-setting and appraisal, it does not drive better performance.

Smart organizations are moving toward year-round, development-driven performance management. In this research bulletin, we will explain some of the reasons behind that evolution. We will also detail some of the impressive results being achieved by some organizations and share insights to help you guide your company’s transition.

For example, you will learn:

- Why performance management too often fails to meet organizations’ expectations;
- How year-round development and coaching help employees to meet expectations; and,
- The five keys to integrating development and coaching to increase organizational performance.

Ultimately, we believe that performance management is management. As such, it must be done on an ongoing basis and be rooted in supporting employees in achieving their goals. HR’s role is to both set the right tone in terms of how it communicates about performance management and to provide managers with development-focused performance management tools. This report is a guide to doing this, with the ultimate goal of improving business results.
The Purposes of Performance Management

Any time you reexamine how best to do something, it is helpful to revisit why you do it. In 2008, we asked more than 700 HR leaders why they make performance management a priority. A breakdown of their responses appears in Figure 1.

As you can see, the primary business aims behind performance management fall into three categories – compliance, equity and business result improvement, at both the individual and business level.

**Figure 1: Business Drivers for Employee Performance Management**

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>To create a high-performance culture</td>
<td>54%</td>
</tr>
<tr>
<td>To equitably tie compensation and rewards to performance results</td>
<td>50%</td>
</tr>
<tr>
<td>To evaluate employee and organizational performance</td>
<td>50%</td>
</tr>
<tr>
<td>To support employees in meeting their performance goals</td>
<td>42%</td>
</tr>
<tr>
<td>To create aligned goals</td>
<td>39%</td>
</tr>
<tr>
<td>To determine the employee development needs</td>
<td>27%</td>
</tr>
<tr>
<td>To increase engagement</td>
<td>21%</td>
</tr>
<tr>
<td>To enhance retention of top performers</td>
<td>17%</td>
</tr>
<tr>
<td>To identify future leaders</td>
<td>14%</td>
</tr>
<tr>
<td>To fairly evaluate employees for promotion</td>
<td>12%</td>
</tr>
<tr>
<td>To comply with regulatory requirements</td>
<td>10%</td>
</tr>
<tr>
<td>To fairly evaluate employees for discharge</td>
<td>8%</td>
</tr>
</tbody>
</table>

• **Compliance** – Companies want to monitor individual compliance with overall business directives and policies, as well as with government regulations.

• **Equity** – Companies want to ensure that compensation, promotions and other benefits are equitably distributed in accordance with each employee’s performance.

• **Business Result Improvement** – Companies want to align individual and overall business goals to ensure employees understand the kinds of contributions expected by supervisors.

While it is, of course, necessary to ensure compliance with directives and regulations, forward-thinking organizations know that performance management can and should accomplish more than that. These organizations believe that the underlying purpose of performance management is to improve business results.

Unfortunately, performance management efforts too often do not make the grade. As shown in Figure 2, a survey of HR professionals reveals that the performance management process in place at many organizations is ineffective at helping them to execute business strategies, to make strategic operational decisions and to align goals.

![Figure 2: Assessment of Performance Management’s Effectiveness at Supporting Business Performance](source: Bersin & Associates, 2008.)

<table>
<thead>
<tr>
<th></th>
<th>Strong Agree</th>
<th>Agree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>PM Plays a critical role in executing our business strategy</td>
<td>13%</td>
<td>49%</td>
<td>38%</td>
</tr>
<tr>
<td>PM Helps managers make strategic operational decisions</td>
<td>11%</td>
<td>43%</td>
<td>46%</td>
</tr>
<tr>
<td>PM Helps employees align goals with business strategy</td>
<td>19%</td>
<td>54%</td>
<td>27%</td>
</tr>
</tbody>
</table>
What is going wrong?

Let us start by looking at how organizations currently think about performance management. Most organizations’ approach to performance management resembles one of two models that dominate the field today. As you decide whether and how to modify your organization’s approach, it is helpful to take a close look at each of these models, as well as why companies choose them.
The Two Models of Performance Management

Organizations typically use either a “competitive assessment” or a “coaching and development” model of performance management, detailed as follows.

- **Competitive Assessment** – The belief behind this model is that, by evaluating employees against their goals and against one another, the company will encourage competition and foster high performance. Currently about one-third of companies (36 percent) use this approach, typically employing such tools as forced ranking or forced distribution. Efforts are aimed at rewarding top performers and weeding out poor ones.

- **Coaching and Development** – This model focuses on identifying employees’ strengths and weaknesses, with the aim of coaching and developing them to improve performance and retain the most talented. The underlying belief is that ongoing coaching will reveal strengths and weaknesses and enhance performance. Currently about two-thirds of companies (64 percent) use this approach.

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2 “Forced ranking” (or “forced distribution”) practices direct managers to evaluate their employees’ performance against other employees and distribute ratings into a prespecified performance distribution ranking (e.g., 1 through 10; A, B, C; top 20 percent, middle 70 percent and bottom 10 percent). This approach is used to ensure rater reliability and avoid grade inflation. Organizations use this information to compensate and develop employees accordingly.

Which model is better?

As you can see from Figure 3, the two models have all of the same components. Both approaches begin with goal- and objective-setting to build alignment between individual goals and business goals. Both models include performance appraisal, development and coaching, although those components are prioritized differently. Despite these similarities, we have heard passionate arguments for each model. For example, proponents of the coaching and development model argue that it is not appropriate to compare employees against one another, as job activities, responsibilities and goals vary dramatically. Proponents of the competitive assessment model argue that it is impossible to create a high-performance culture without comparing employees. What does it matter if someone meets his / her goals, if the goals aim too low or are completely out of line with what colleagues are doing?

Interestingly, our most recent research\(^4\) indicates that neither model is inherently superior; similar results are achieved with each. Companies

using the competitive assessment model have slightly lower voluntary turnover rates and slightly higher revenue per employee. When survey respondents rate their organizations on effectiveness measures\(^5\), the results are roughly equivalent.\(^6\) So, if neither model is more effective than the other, what is the culprit behind performance management’s low impact on business results?

The real problem is that, regardless of performance management model, most organizations simply fall short on follow-through. It is not a matter of appraising employees against each other or calibrating performance scores. What matters is whether companies do enough year-round support of employees to facilitate improvement. Currently, there is a gap between the expected outcomes of performance management and the activities that support employees in reaching those expectations.

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**Figure 4: The Breakdown between Performance Management Activities and Expectations**

<table>
<thead>
<tr>
<th>We ....</th>
<th>... But We Fail to ....</th>
<th>... Yet Still Expect ....</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tell managers and employees that performance management should occur throughout the year</td>
<td>Structure performance management so there are relevant and important activities to complete year-round</td>
<td>Managers to make performance management a priority throughout the year</td>
</tr>
</tbody>
</table>
| Create aligned goals at the beginning of the performance cycle | Ensure ongoing conversations take place about progress and realignment / changing of goals | • The goals set out at the beginning of the year remain relevant  
• The organization has remained aligned across the year  
• The goals have been achieved |
| Conduct rigorous annual performance assessments | Provide ongoing performance and development support throughout the year | Improved individual performance |

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Our data indicates that organizations provide insufficient performance-improvement support to employees. Most do not place a high priority on the activities that help employees identify and overcome their performance gaps. Specifically, only 27 percent of organizations pursue performance management to determine employee development needs and less than one-half (42 percent) use performance management to support employees in meeting their goals.\(^7\)

In addition, we know that organizations which effectively determine employee-development needs and support employees in achieving goals have better business results. For example, organizations with high-quality development plans generate twice the revenue per employee as organizations with poor or ineffective development plans.\(^8\) Further, only eight percent of organizations have high-quality development plans, as shown by Figure 5. Most companies clearly have an opportunity to improve by integrating a year-round focus on employee development – an effort we know can have a significant impact. Performance management must evolve away from being just a standalone, annual event and become an ongoing process that is focused on performance.

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improvement. The goal is to close the gap between employees’ current skills and behaviors, and those they need to reach and even exceed their goals. Supporting employees in this effort will ultimately yield better business results.

In the coming sections, we will discuss the keys to better integrating ongoing development and coaching into your performance management process. We will discuss why each of these keys is critical and include examples of organizations that use them effectively.
Moving to Development-Driven Performance Management

Development-driven performance management often requires a change in how leaders and managers think about and actually manage their employees. Managers must shift their focus toward providing the ongoing support necessary to keep the talent side of the business in top operating order. Otherwise, organizations will continue to see suboptimal results, similar to those produced by an engine that runs on poor fuel and too little oil.

We spoke with a number of organizations that have made this transition successfully. Insights from their experiences helped us to identify five keys necessary to transform performance management from an annual, appraisal-focused event to an ongoing, development-driven process.

Keys to Transitioning to Development-Driven Performance Management

1. **Change the Organizational Definition of Performance Management** – Performance management must be perceived by managers and employees as an ongoing process. HR creates this perception through its communications about performance management and the activities that constitute the performance management process.

2. **Introduce Competencies** into Performance Management – By listing and defining the competencies needed to excel, managers give employees a set of clear objectives against which to measure current behaviors. This helps to determine what development is needed. When integrated across all talent management processes, competencies are a powerful tool for reinforcing what a company values, as well as driving business impact.

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9 “Competencies” refers to a set of clearly defined skills, behaviors and knowledge that are used to evaluate, assess and develop people.
3. **Create and Support High-Quality Development Plans for All Employees** – Development plans enable employees and managers to bridge employee skills or behavior gaps that are identified through the performance appraisal process. These plans prioritize the development needs most critical to achieving desired business results and identify specific action steps.

4. **Enable Managers to Coach** – Managers need to support employee development through coaching in addition to development plans. Managers need to understand the return on the time invested in coaching and also have the skills to coach effectively.

5. **Create Frequent Occasions for Reflecting on Performance** – When employees and managers discuss performance frequently, overall performance improves. HR has a role in making these conversations happen.

The following section will discuss each of these keys in more detail and provide examples of companies that have successfully implemented them.

**Key 1: Change the Organizational Definition of Performance Management**

This is a two-part process that starts with HR and a focus on perceptions. When employees and managers do not view performance management as an ongoing process, it is often because HR leaders do not talk about it that way. Statements such as, “The performance management process will start this November,” over-emphasize appraisals, thus making performance management seem like a single annual event.

This emphasis, while ill-advised, is natural. Appraisal scores are often a key input for other talent-management processes, such as succession planning and leadership development. But HR professionals should be conscious of how they are framing and communicating about performance management to the organization. Once established,

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10 The concept of “framing” is derived from University of California-Berkeley professor George Lakoff’s work on cognitive semantics. At its simplest level, the concept is that, by referring to something – even when we are using it in the negative – it is irreversibly placed in the mind of the listener. Source: *Don’t Think of an Elephant*, George Lakoff, Ph.D., Chelsea Green, 2004.
misconceptions can be hard to dispel. But a shift can occur if conversations start to focus on performance management as simply a part of business management – all the things that managers do daily to help the organization meet its goals.

The second part is to focus on the reality of how your organization handles performance management. Do employee-development discussions and activities occur only during the annual appraisal process? How does HR encourage the organization to have discussions throughout the year about performance? Changing the organizational definition of performance management will require more efforts to engage employees and managers in goal-setting and follow-through year-round.

Kelly Services is an excellent example of an organization that changed its focus away from annual appraisals to ongoing development.

**Case in Point: Kelly Services Changes the Organizational Definition of Performance Management**

Kelly Services (an international staffing firm with approximately 650,000 employees worldwide) transitioned away from a performance culture very focused on the annual appraisal. Several years ago, Kelly Services’s leaders agreed that the company’s performance management process was not driving the desired results, largely because it focused too much on a performance-appraisal process that was, itself, ineffective. Performance management needed to evolve into a means of helping the company find and develop talent as a source of competitive advantage, not just a way to ensure compliance.

A cross-functional executive committee took on the challenge. Members made small yet important changes to each step of the performance management process to transform it into an ongoing, development-focused experience.
Goal-Setting

Now, employees develop their own goals (up to three business and three professional goals per year) and then review those goals with their managers. During that conversation, a premium is placed on authentic communication about the goals and how the employee will be held accountable for achieving them. Further, managers are expected to explain how each employee's role fits into the overall organization, how individual goals tie in with company objectives and how individual performance affects the broader enterprise. Establishing this connection helps spur a sense of urgency, ultimately improving employees' level of engagement. After the review, employees enter their goals into an online system, so that they and their managers can track progress virtually on an ongoing basis.

Midyear Performance Discussion

Managers and employees have a formal performance discussion six months into the year. The conversation covers what has and has not worked with regard to the employee's business and professional goals. The occasion is an opportunity to adjust goals and identify new development opportunities, as well as additional ways the manager can provide support. After midyear performance discussions, employees and managers continue to track progress toward goals, and have weekly one-on-one conversations for the rest of the year.

The midyear conversations must be acknowledged in the online system. Company leaders note that, while tracking compliance does not guarantee quality, it is the first step to ensuring the performance management process is being used. In the future, Kelly Services plans to identity qualitative methods to assess the effectiveness of these conversations.
Year-End Performance Conversation

The year-end performance conversation marks the most significant departure from Kelly Services’s previous process. Notably, there are no performance scores and no formal appraisal. Like the midyear review, this conversation focuses entirely on performance results and improvement. Both the manager and the employee are expected to come prepared for a holistic discussion of what did and did not work during the past year. They also talk about remaining challenges, development needs and opportunities – and they begin discussing the next year’s goals.

Kelly Services’s Results

Since implementing its development-driven, performance management process, Kelly Services has received very positive feedback.

Managers report that, instead of spending the majority of their time on an appraisal document, they spend their time on high-value conversations with employees. Managers and employees both say these conversations have been a much better use of time, and employees indicate they have a better sense of how to improve their performance.

Key 2: Introduce Competencies into Performance Management

Competencies send a powerful message by communicating “how” performance results are achieved. They serve as a measuring stick against which employees and managers can assess employee performance on an ongoing basis. A competency model (even a simple one) that is embedded in a performance management process does the following things:
• Tells managers what is important;
• Tells employees what is valued;
• Defines who will be promoted and who will leave the company;
• Contributes to equitable compensation; and,
• Gives hiring managers guidance on selecting the right people.

According to our research, according to our research, approximately one-half of organizations use competencies as part of their performance management processes. Organizations that do so effectively are roughly four times more likely to have a high-performance culture, which helps drive business results.

Flextronics successfully integrated competencies into its performance management process, which involves more than 28,000 employees and is described in the following case in point.

Figure 6: Impact of Performance Management Competencies on Performance Culture

| Excellent | 46% |
| Good | 12% |
| Fair | 9% |
| Poor | 6% |


Case in Point: Flextronics Integrates Performance Behaviors into Its Performance Management

Flextronics, an electronics manufacturing company with more than 150,000 employees worldwide, centralized its performance management process about five years ago. The company wanted to focus its managers and employees on both accomplishing their goals and using the behaviors that would help drive business results over the long term. Specifically, the organization wanted to clearly communicate the behaviors people should exhibit as the company moved from a largely decentralized, site-based structure to one aligned along customer-focused segments / business units, with supporting centralized functions. Flextronics articulated these behaviors through its “Leadership Traits” and “Flextronics Values,” each of which are a form of competencies that make up the “culture” section of the appraisal and are shown in Figure 7.

All employees participating in the performance management process are assessed against each of these competencies quantitatively (on a five-point scale) and qualitatively (via a comments section). To ensure that employees give performance behaviors appropriate consideration, competency evaluations determine 30 percent of total performance scores. Accomplishments toward goals and an optional skills evaluation determine the remaining 70 percent.

Flextronics is a manufacturing firm with very low margins, which may lead some to think it would want to focus solely on productivity goals. However, the CEO and leadership team believe that driving the right performance behaviors is critical to the organization’s long-term success. They emphasize performance behaviors in communications with employees and at meetings, and they model them to their direct reports.

The end result is that the organization firmly communicates to managers that it is critical to actively manage employees and coach them to success.
### Figure 7: Flextronics's Leadership Traits and Values

<table>
<thead>
<tr>
<th>Leadership Traits</th>
<th>Competency</th>
<th>Functionality Supported</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intelligence and Street Smarts</td>
<td>Leverages knowledge and personal experience to address issues and achieve business results.</td>
<td></td>
</tr>
<tr>
<td>Sound Judgment</td>
<td>Makes timely, rational and objective decisions that take into consideration resources, constraints and Flextronics's purpose and values.</td>
<td></td>
</tr>
<tr>
<td>Ability to Anticipate</td>
<td>Foresees potential obstacles and thinks ahead to prepare for future opportunities.</td>
<td></td>
</tr>
<tr>
<td>Creative, Innovative and Entrepreneurial</td>
<td>Generates new ideas and encourages change or improvement of methods, processes and technologies to achieve business objectives.</td>
<td></td>
</tr>
<tr>
<td>Unbelievable Work Ethic</td>
<td>Displays stamina and energy over the long term in achieving high standards of performance.</td>
<td></td>
</tr>
<tr>
<td>Results-Oriented, Tenacious and Relentless</td>
<td>Displays a bias for action, and pursues goals with energy, drive and a need to deliver results, even under adverse conditions.</td>
<td></td>
</tr>
<tr>
<td>Loyal and Honest</td>
<td>Acts with integrity and authenticity showing his / her honorable intent to do the right thing in support of the organization.</td>
<td></td>
</tr>
<tr>
<td>Humble and Unselfish</td>
<td>Commits to doing what is best for all stakeholders, and displays a willingness to help and serve others.</td>
<td></td>
</tr>
<tr>
<td>Coach and Mentor</td>
<td>Gets results and generates a high level of morale among employees by inspiring, supporting and challenging them to be the best they can be.</td>
<td></td>
</tr>
<tr>
<td>Interpersonal and Communication Skills</td>
<td>Expresses ideas effectively and influences others through high levels of personal presence, clarity of expression and persuasive ability.</td>
<td></td>
</tr>
</tbody>
</table>

### Flextronics Values

| Intense Collaboration | • Genuine collaborative intent when interfacing with peers, supervisors, subordinates and customers; • Actively seek opportunities to engage other business units; • Work together to solve problems; • Actively build relationship with a portfolio of content experts; • Engage others to create a better solution; and, • Connect / leverage any available knowledge / competence, best practices or lessons learned. |

**Figure 7: Flextronics’s Leadership Traits and Values**

<table>
<thead>
<tr>
<th>Competency</th>
<th>Functionality Supported</th>
</tr>
</thead>
</table>
| **Passionate Customer Focus**  | - Service the customer aggressively;  
- Study the customer’s business and learn what they need to compete successfully in their marketplace;  
- Have a clear understanding of how Flextronics continuously creates value in the relationship;  
- Continuously invest in the relationship and explore / exploit all opportunities to sell Flextronics’s integrated solutions;  
- Anticipate the future needs of the customer and act on these needs;  
- Go out of your way to provide the customer with an outstanding experience; and,  
- Build customer loyalty and help Flextronics to be the easiest electronics manufacturing company with which to work. |
| **Thoughtful, Fast and Disciplined Execution** | - Strategy without execution is useless, focus on disciplined execution;  
- Barriers? Knock them down;  
- Thoughtfully evaluate alternatives, benchmark continuously, study the competition;  
- Use balanced risk assessment with sound judgment and intuition;  
- Actively eliminate bureaucracy when you see it;  
- Be decisive and act with speed once decisions are made;  
- Participate in creating a repeatable, predictable system; and,  
- Think through process, systems, people and metrics as a guideline when converting strategy into results. |
| **Tenacious Commitment to Continuous Improvement** | - Make a personal commitment to yourself to make the tasks you do everyday a little faster, a little more efficient and a little smarter every time;  
- Every improvement should build on previous improvements and be permanent in nature; fix the root cause;  
- Improvements should be based on improving processes and systems, and not be people-dependent;  
- Ensure performance is benchmarked versus best in class but also against what is possible; and,  
- Have passion institutionalizing LEAN and Six Sigma systems as a way to drive our success. |
| **Relentless Drive to Win**      | - Personally commit to a never-ending focus on winning;  
- There is winning and losing, do not accept second place;  
- Drive the culture of winning into the organization every day by words and actions;  
- Exhibit complete dissatisfaction with the status quo and mediocrity; and,  
- Have a clear vision of what it takes to win. |

*Source: Flextronics, 2010.*

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13 “LEAN” is a process improvement methodology that focuses on maximizing process velocity by reducing waste.

14 For more information on Six Sigma, please visit [http://www.sixsigma.com](http://www.sixsigma.com), which offers articles and easy-to-read examples of how to apply Six Sigma to any business process.
Competency Integration across Talent Management Processes

Once established, competencies can and should play a role in all talent management processes, not just performance management. They should be used to create alignment in the organization’s approach to recruitment, leadership development and succession management. This unified focus enables greater consistency in activities and standards and, ultimately, in talent quality. Competencies provide clear guidance on appropriate behaviors, providing managers with a clear organizational standard against which to coach employees. Further, by providing clear points of comparison, competencies make it easier for managers to identify high and low performers. Finally, competencies create a common language for discussing performance, making it easier for managers to reach out to colleagues for help when facing a particularly difficult talent challenge.

Our research\(^{15}\) found that two-thirds of organizations that use competencies in performance management leverage the same competencies in their recruiting and leadership-development initiatives.

Approximately 60 percent reuse competencies in their L&D and succession planning efforts.

While organizations have long recognized that integrating competencies across talent-management processes is desirable, the rise in new automated technology solutions has made it much easier. In the last two to three years, the performance management software market expanded to encompass solutions that support integrated performance, career, succession and manager-focused compensation management. Performance management is the core of the talent management software suite offered by most solution providers because it provides critical information to other processes within the system. As such, performance management is typically the first component organizations implement when embarking on a strategy of automated and integrated talent management systems.

**Key 3: Create and Support High-Quality Development Plans for All Employees**

Performance management must not end once the performance appraisal is delivered. Managers must craft high-quality development plans for all employees and support them year-round.

There are many types of development plans used in organizations today, including performance plans, career development plans, learning plans and leadership plans. Organizations with high-performance cultures support an integrated approach to employee development that reflects the employee’s goals, career interests and potential, as well as the organization’s business and talent needs. Development plans are vital for helping employees overcome skills gaps, meet their short-term goals and achieve their career aspirations. In fact, employee development planning is perhaps the most strategic practice of a modern performance management system because it forces the employee, manager and organization to align priorities.

Unfortunately, however, only one-half of companies report that most or all of their employees have development plans. As mentioned earlier in this report, of the 1 percent of organizations that have development plans for their employees, only eight percent say that the plans are high quality and effective. Without a consistent and widely used process, organizations will not fully realize the strategic benefits of development planning.
In creating employee-development plans, the employee and manager must both be involved in identifying how the individual’s needs and potential align with the organization’s needs. Individual employees cannot create high-value development plans alone. They need input from their managers to be successful. Likewise, managers cannot dictate development plans without input and feedback from their employees. Effective communication in this area requires the development of a “feedback culture” – one that values candid, transparent dialogue. This candor and transparency should then be a part of the ongoing development discussions.

The types of development activities prescribed will depend upon the individual employee and the goals chosen. Organizations should offer a broad array of development activities, since people learn best through a combination of formal and informal training. Figure 10 shows some of the key types of development activities that should be available.
Kelly Services has effectively integrated development planning into its performance management process, as detailed in the following case in point.

**Case in Point: Kelly Services Helps Employees Achieve Business and Professional Goals through Performance and Development Plans**

Kelly Services excels at enabling managers and employees to work collaboratively toward business and professional goals that are aimed at improving employee performance. As mentioned earlier, this company has transformed its performance management culture. Previously, managers and senior leaders drove the business and professional goals of employees, and employees had little say in their own development.
A critical first step in this change was giving employees responsibility for developing their own performance and professional goals. Employees create performance goals based on the business goals of their departments. In setting professional goals, employees complete a self-assessment that rates their achievement of various competencies and produces recommendations. Employees then meet with their managers to discuss both performance and professional goals.

After that meeting, employees finalize their goals in the company’s online system. Then they set a path for pursuing those goals in the following ways.

• **Business Goals** — Employees can create tasks associated with each goal within the system, essentially developing a mini-project plan for achieving the goals that both the manager and employee will support. Employees are responsible for updating their progress frequently, ensuring transparency. Managers and employees use the online system as a starting point for conversations on performance progress, challenges, development needs and opportunities – for which the manager can provide advice and support. In addition, managers and employees have weekly one-on-one conversations that cover updates on day-to-day operations.

• **Professional Goals** — Once employees finalize their professional goals, employees are immediately able to access the available development opportunities. Employees select opportunities that seem appropriate and managers also provide input on suitable experiences. If the time and resource investment is low (such as with e-learning courses), employees can take the class immediately. Other development experiences may need explicit manager approval. Employees and managers track employee progress against the development plan through the online system, discussing it at least quarterly.

Kelly Services is seeing a real change in its culture due to these new processes. Employees are requesting development and coaching opportunities more frequently. In addition, managers are increasingly seeing other managers’ employees meeting or
exceeding expectations because of this focus on development. As a consequence, more managers are providing better development support to their employees to achieve similar results.

As shown in the Kelly Services example, organizations increasingly leverage technology to enable more effective integration between performance appraisal, performance management and development. Today, performance management systems\textsuperscript{16} incorporate functionality for the following activities:

- Goal-setting;
- Cascading goals;
- Self-assessments;
- Manager assessments;
- 360-degree assessments;
- Development planning (frequently with direct access to a learning management system); and,
- Competency management.

**Key 4: Enable Managers to Coach**

Managers are the linchpin in efforts to improve employee performance. In addition to supporting employees as they pursue development activities, managers also must give employees ongoing coaching to help them reach their goals. In fact, coaching has a much higher business impact than many traditional performance management activities. It generates a 150 percent greater return than performance assessments and a return of more than 200 percent, as compared with pay-for-performance processes.\textsuperscript{17}


To be effective coaches, managers must turn their focus away from telling employees what to do and, instead, give advice that enables employees to accomplish goals. This transition can be difficult, especially when managers do not understand the benefits of coaching. It can also be daunting if managers are told to coach, but are not taught how. HR can ease the change by effectively pitching the value of coaching to managers and then giving them the tools to coach well.

The Sales Pitch for Coaching

Talking about the benefits of coaching also addresses the challenge of changing the organizational definition of performance management (Key 1). You might start by discussing why many people dislike performance management and how coaching can overcome these issues. A few of the most common reasons appear in Figure 11. In addition, the organization could use social networking forums in which managers could share with their peers the value they have experienced from coaching, as well as tips for doing it more effectively.

Figure 11: How Coaching Addresses the Weaknesses of Traditional Performance Management

<table>
<thead>
<tr>
<th>Why People Dislike Performance Management</th>
<th>How Coaching Addresses the Challenge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most organizations focus primarily on the appraisal step</td>
<td>Development and coaching are ongoing activities throughout the year, resulting in assessments being ongoing and, therefore, easier for managers to complete</td>
</tr>
<tr>
<td>Feedback is often negative, not positive</td>
<td>Coaching allows managers to “catch employees doing something right”</td>
</tr>
<tr>
<td>Employees feel “failure” rather than “opportunity”</td>
<td>Through ongoing coaching, managers help employees find opportunities and strengths, while identifying development areas</td>
</tr>
<tr>
<td>Process focuses on “year-end appraisal” and compensation</td>
<td>Ongoing coaching and development clearly focus on performance management, not appraisal / compensation</td>
</tr>
</tbody>
</table>
| Managers frequently fail to give the “bad news” well | • There is no cumulative “bad news”  
• Employees and managers discuss employees’ performance level regularly |
| Managers feel performance management does not do anything | Coaching has been proven to make a positive impact on performance |

Give Managers the Tools to Coach

Unfortunately, most people are not born as great coaches and only about 35 percent of organizations have programs to help managers become better coaches. Managers need to be taught the following three critical elements about coaching:

- How to prepare for the coaching conversation;
- What to say and do during coaching interactions; and,
- How to provide ongoing coaching support to employees.

Archer Daniels Midland (ADM) has developed an effective coaching program to help managers do all of these things.

Case in Point: Archer Daniels Midland Uses Coaching to Win to Drive Results

Archer Daniels Midland (ADM) is a global agribusiness with more than 25,000 employees. The organization introduced performance management three years ago with the intent of improving performance, and driving business results through regular feedback and coaching. ADM has since continued to refine its performance management process and the effort has included launching a program, called Coaching to Win.

Coaching to Win is an eight-week course that teaches managers how to coach. Participants complete a combination of the following:

- e-Learning;
- Self-assessment;
- Classroom learning;

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19 This information is based on a soon-to-be published case study.
Weekly focused lessons on key coaching concepts;
Weekly coaching sessions where program participants practice their new skills; and,
Weekly discussions with fellow learners.

The results of this program have been overwhelmingly positive. ADM saved at least $100,000 in the first six months of the program’s existence and continues to experience strong demand from leaders to enroll in the program.

**Key 5: Create Frequent Occasions for Reflecting on Performance**

As an organization deepens its focus on development and coaching, HR has a role in reminding employees to engage frequently in performance conversations. Opportunities for such conversations include regular work meetings, as well as out-of-workflow occasions that serve as prompts for discussion. Examples of these are shown in Figure 12.

**Figure 12: Examples of Ways to Create Occasions for Performance Discussions**

<table>
<thead>
<tr>
<th>Manager- and Employee-Led</th>
<th>HR-Led</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Goal-setting conversations</td>
<td>• Self-assessments (e.g., MBTI, DISC)</td>
</tr>
<tr>
<td>• Goal-progress conversations</td>
<td>• Self-reviews</td>
</tr>
<tr>
<td>• Individual development plan progress</td>
<td>• 360-degree assessments</td>
</tr>
<tr>
<td>• Organizational progress updates</td>
<td></td>
</tr>
</tbody>
</table>

While our inclination may be to feel that manager- and employee-led activities are out of HR’s control, the team at Travelex has found that does not have to be the case.

Case in Point: Travelex Uses Goals to Prompt Frequent Performance Conversations

Travelex is a financial services organization with roughly 6,000 employees dedicated to helping individuals and businesses with currency exchange. One of the three business units (approximately 1,100 employees) at Travelex recently automated its performance management process, but found it was still not driving the desired impact.

As at Kelly Services, employees at Travelex enter their goals into an online system. The company’s innovation is in creating a way for those goals to be more relevant to employees’ daily work. Specifically, employees and managers are encouraged to break down goals into quarterly and even monthly goals. Employees then use the online software to create short-term action and development plans that are relevant to work currently underway.

Throughout the year, the system automatically prompts employees and managers to discuss and update the goals. This process helps keep the goals relevant to employees’ everyday work and gives managers a better sense of how employees are progressing. These frequent conversations about goals encourage managers and employees to address areas that need attention, as well as to celebrate successes. Employees are almost guaranteed ongoing, relevant feedback.

According to a sampling of managers and employees, performance conversations are more frequent, authentic and useful than they were previously. The system is still relatively new, but the early feedback has been overwhelmingly positive. In addition, HR is seeing a rise in the number of people asking for development opportunities. The requests are much more specific than before, reflecting the detailed feedback that employees are receiving about development needs.
The Importance of Integrated Platforms

One of the most important new tools to facilitate development-driven performance management is an integrated talent management platform. In the past, companies purchased learning management systems (LMS) to manage training and learning programs – and developed or purchased separate performance management systems to track goals and development plans. Today, these two worlds are coming together and many vendors now offer a converged offering.

Consider a scenario in which a manager sits down with an employee to coach him / her for development. The manager would fill out a performance appraisal and would likely evaluate the employee based on his / her capabilities in many areas. These capabilities are usually written down as “competencies” or “success factors” in the appraisal form, making the process easy for the manager and employee.

The talent management system not only holds these competencies, but also might have defined development plans prebuilt for these competencies. When an employee is weak in “negotiation skills,” for example, there might be a series of developmental activities in the system that would include books to read, work assignments to complete and some courses to take. This “development plan” would pop up into the appraisal form – and the manager could work with the employee to help him / her select the right development activities, enroll in the right courses and track progress.

As the year progresses, the employee can log in and view the progress of his / her development plan, as well as learn what is next. When he / she completes a course, the course completion information (and grade, if necessary) is entered into the LMS and appears in the employee’s record. The manager can add notes to the development activities over the year, and the plan becomes a living, breathing, actionable tool to help coaching and development take place.

Today, companies should no longer consider their LMSs and performance / succession management systems as separate applications. The two now belong together and comprise a critical infrastructure for development-driven performance management.
In fact, as employees progress in their careers, the system aids further. It enables managers to chart performance versus potential on a nine-box grid, builds reports to be used in talent reviews, and is used by HR and L&D to understand various performance gaps throughout the company in the planning for future offerings. Some companies share manager-built development plans between managers, so that one manager’s “good idea” for development can be shared by others.

These integrated platforms now play an increasingly important role in the design and implementation of the development-driven performance management process.

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20 A “nine-box grid” is a matrix tool that is used to evaluate and plot a company’s talent pool, based on two factors, which most commonly are performance and potential.
Lessons Learned

Each of the organizations we examine in this report learned critical lessons during their transitions to development-driven performance management, among which are the following.

1. **Change Takes Longer Than You Think** – The transition to development-focused performance management is not just about changing a particular HR-controlled system; it is about changing the culture\(^1\) around how people manage employees every day. Changing managers’ mindsets is likely to take several years.

2. **Start Small** – Success breeds success. Start with either a pilot group or a small business unit willing to support the transition effort. Document that group’s progress. When it succeeds, share the story very publicly with the broader organization. Create demand for a focus on development and coaching by making it clear that this is a way for business leaders to get ahead and to drive better business results.

3. **Communicate, Communicate, Communicate** – Though these organizations had robust communications plans, they felt that even more communication was warranted about why development and coaching are so important. Employ a wide variety of communication methods, such as through senior leaders, internal websites, email announcements, announcements in team meetings and so on. Further, make it clear that feedback from employees is welcome. Our research\(^2\) on learning culture shows that the top two drivers of a strong learning culture are leaders who are open to bad news and environments where questions are encouraged.

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Conclusion

At many organizations, performance management consists solely of the annual goal-setting and performance appraisal process. There is little ongoing support from either the organization or managers to help employees evolve the behaviors, skills and activities they have at the beginning of the year to enable them to achieve their goals 12 months later. It is not surprising that performance management fails to drive business results in the way that organizations expect.

It does not have to be this way. Organizations that identify employees’ development needs and support them in achieving their goals can realize superior business results. Through its control of the performance management process, HR has the power to institutionalize these activities. Specifically, HR needs to create a process that helps managers and employees understand that performance management is management – it is simply part of how work gets done and it requires that everyone focus on improving performance every day.

This report establishes five keys to help HR integrate development-driven performance management into the organization. The transformation starts with HR, with how it talks about and structures performance management activities. HR must also provide managers and employees with development-focused performance management tools – such as coaching and development plans, and occasions for ongoing performance discussions. The companies profiled in this report provide examples of how to implement each of these keys in your organization.

Through the implementation of all five keys, development-driven performance management can be adopted across the organization. The organization will evolve into one in which employees receive the support they need to alter their behaviors, skills and activities to meet their business and professional goals. The end result will be more productive, engaged employees, and a more effective, high-performing organization that achieves its goals, as well.
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