

# **Performance Management Solutions for the Midmarket Organization: Why Bother?**

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## Introduction

For many employers and employees, the annual performance review is one of the most dreaded days of the year. All too often, managers aren't even sure how to assess employees when they are confronted with a blank performance evaluation form. Even employees who believe they are performing well will walk fearfully into the annual review because they aren't sure on what basis they are being assessed. Everyone involved in the performance management process has wondered the same thing at least once: Why bother? At companies in the midmarket segment, businesses with roughly 250 to 3,000 employees, performance management may seem like an unnecessary annual bureaucratic exercise.

However, nothing could be further from the truth. According to Josh Bersin, a leading analyst in the human capital industry, the business impact of a consistent, company-wide performance management process is significant. "Organizations with such processes have experienced less downsizing, have lower turnover among high performers and have nearly twice the revenue per employee as organizations with no formal or consistent performance management practices."<sup>1</sup>

The impact of a solid performance management strategy is highlighted when we look back to the recent economic downturn. Many businesses were forced to make abrupt changes in strategy and found it difficult to align employee performance with corporate goals. Organizations that conducted layoffs let valuable employees go because of a lack of visibility into which employees were high or low performers. Performance management technology could have helped these organizations respond faster to economic changes and make better decisions.

While many enterprise-class organizations have already moved to adopt technology to support the performance management process, small and medium-size businesses are less likely to have done the same.<sup>2</sup> Performance processes can be significantly streamlined by leveraging software platforms. Yet, for most companies in this segment, paper-based performance management processes are still the norm.

Performance management technology solutions aren't just for large organizations; these tools can also help midmarket companies with:

- **Improving efficiency and compliance:** Automation helps managers to provide constructive feedback to employees on a more frequent basis, in less time. Manual processes are error prone, and errors could lead to serious compliance issues.
- **Making performance reviews relevant:** Technology can transform performance management from a once-a-year event into an ongoing process that also includes development plans and learning opportunities.
- **Maximizing productivity and paying for performance:** Top-performing employees are valuable assets. Technology solutions can nurture better performance, focus individual efforts on key business strategies, and make it easier to recognize and reward superior performance.

Why bother with performance management? This paper will explain why creating a performance-oriented culture that is supported by technology is crucial for business growth in midmarket companies today.

<sup>1</sup> Bersin, Josh. Talent Management Factbook 2009. Bersin & Associates.

<sup>2</sup> Ibid.

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## Improving Administrative Efficiency and Reducing Risk

Remember what a production paying your bills used to be? You would write checks, stuff envelopes, buy stamps and balance your checkbook. For most of us, that's not the case anymore. We pay our bills with a few clicks of a mouse and save lots of time and aggravation.

Technology can reduce the administrative inefficiencies and headaches that are part of manual performance management processes. Research from the human capital management consultants at CedarCrestone shows that automating the performance management process can reduce operational costs by one-fifth.<sup>3</sup>

Where do these cost savings come from?

- **Reducing errors:** Some of this efficiency is the result of reducing errors inherent in the manual process, including data entry errors and appraisal forms that become lost in interoffice mail or in desk drawers.
- **Saving a manager's time:** When managers sit down to develop a performance review, key points about employee performance and behavior from months past can be difficult to remember. A centralized repository for managers to log confidential notes on an ongoing basis can reduce the time it takes to finish an appraisal. Writing assistants built into the tool can make it easy to draft an appraisal filled with accurate, objective information about performance, not subjective manager opinions.

### Performance appraisal costs

Pre-automation cost per transaction, **\$59.73**

Self-service, talent management technology cost per transaction, **\$47.60**

Total cost savings: **20 percent**

Title	Owner	Due Date	Perspective	Status	Cascade
Revenue of \$200MM	Miller, Adam	12/31/2010	Sales	In Progress	
Overall corporate sales of \$80MM in this calendar year.	Jhaver, Reyhan	12/31/2010	Sales	In Progress	
Annual mid-market sales of \$10MM.	Winn, Casey	5/30/2010	Sales	On Track	
Mid-market sales of \$2MM.	Scott, Byron	12/31/2010	Sales	Behind	
Sales to mom and pop stores for \$500k, and retailers ...	Majerle, Dan	11/30/2010	Sales	Critical	

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Reducing subjectivity and creative performance reviews also reduces many HR risks, such as legal exposure to lawsuits that could be costly. How can automation help?

- **Improving consistency:** A consistent framework for performance scores and measurement for employees within similar job functions reduces the likelihood of discrimination lawsuits. Automation makes it easier to create an appraisal process that is fair and equitable to everyone.
- **Creating a paper trail:** Having easy access to historical reviews that poor performers have signed off on can be used as due diligence information to support employee separation and limit legal exposure. With a paper-based process, the organization may not have the right records available. Automation can provide access to these appraisals and also serve as a communications archive between managers and employees.<sup>4</sup>
- **Providing writing help:** Sometimes managers write things in reviews that make HR people cringe. Performance management software prevents such problems by including writing tips and legal word filters that prevent managers from including words that are inappropriate and that expose the company to legal liability.<sup>5</sup>

<sup>4</sup> Bersin, Josh. The Business Case for Performance Management Systems. Bersin & Associates. January 2008.

<sup>5</sup> Ibid.

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## Making Performance Reviews Relevant

Technology can make employee development an ongoing process and not a once-a-year event. Although the formal annual review is still very much a standard, research has found that organizations with best-in-class performance management processes are 47 percent more likely to reinforce formal annual reviews with informal reviews at least once per quarter.<sup>6</sup>

The screenshot shows a software interface for a '2009 Employee Quarterly Development' plan. At the top, it says 'Assigned To: CES Admin' and 'Status: Approved'. Below that, it lists 'Development Objectives' such as 'Analytical Thinking', 'Communication', and 'Time Management', each with a progress bar and associated training links. The 'Communication' objective has a progress of 18%, while 'Time Management' is at 24%.

Most organizations would find it impossible to support a performance management process with multiple reviews throughout the year with a paper-based process, especially if the review is based on manager observation and subjective opinion. However, true performance management should be more than a manager's subjective opinion of an employee's work over the past year. Instead, it should be a multifaceted, continuous process that includes three key components:

- **Metrics-based performance evaluation:** Automated performance management with evaluation driven by key performance indicators (KPIs) not only aligns employee effort with organizational strategy, it measures performance against quantifiable data.
- **Development plans:** Employees should have an opportunity to close gaps in knowledge and skills or develop strengths.
- **Learning opportunities:** An organization should connect development programs to training opportunities, and then track and prove a measurable correlation between training programs and increased employee performance.

<sup>6</sup> Managing Employee Performance. The Aberdeen Group. 2008.

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Establishing KPIs that are relevant to both high-level goals and operational priorities allows an organization to measure individual performance relative to these goals – research shows that metrics matter. Companies that use KPIs to drive performance management are twice as likely to achieve best-in-class results from performance management.<sup>7</sup> Best-in-class companies are also 1.7 times more likely to incorporate daily performance metrics into the day-to-day operations of the business.<sup>8</sup>

Technology turns performance management into an everyday event by:

- **Giving both employees and managers needed insight:** Both employees and managers can monitor individual performance relative to goals throughout the year and modify effort as needed. Giving employees the tools to get the information they need throughout the year is also a great way to improve employee engagement and retention.
- **Automating goal tracking and reporting:** With this level of insight, businesses won't wonder who the top, middle and bottom performers are – they will be able to tell at a glance. Businesses can also ensure cross-company goal alignment and measure performance across different departments and locations.
- **Driving accountability at all levels:** Business leaders can benefit from real-time insight into how employees are executing strategy and can improve organizational agility in an uncertain economy.

## Metrics Matter

Automated performance management with evaluation driven by key performance indicators (KPIs) can transform performance management into a process that aligns employee effort with organizational strategy.

<sup>7</sup> Performance Management in the Midmarket. The Aberdeen Group. 2009.

<sup>8</sup> Ibid.

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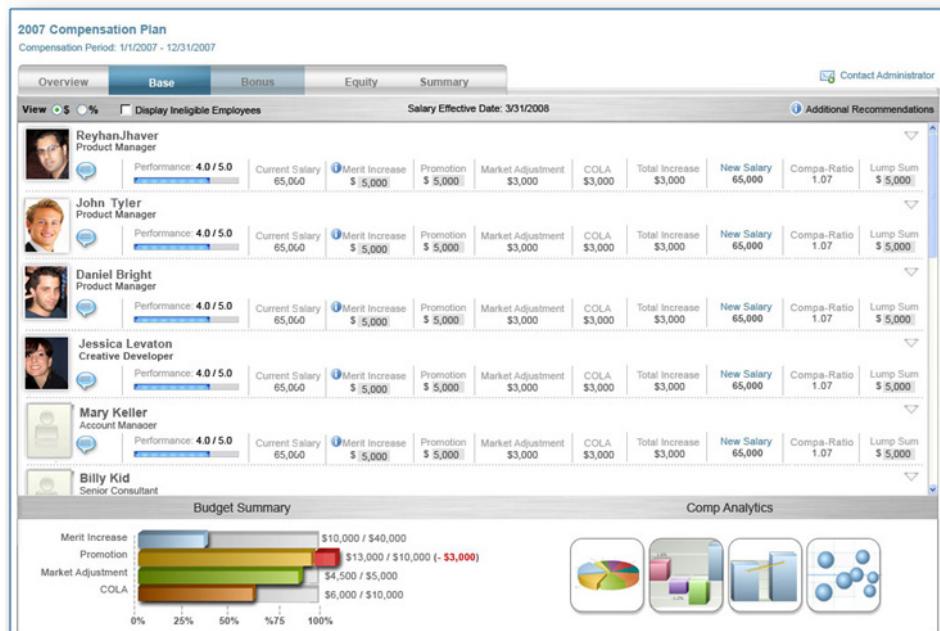
## Maximizing Productivity and Paying for Performance

Top-performing employees are valuable assets to an organization. Although it may seem obvious to say so, some organizations underestimate the value of their best employees. However, top performers almost always exceed the performance of average workers by at least 25 percent. It's not unusual in some industries to find that the performance differential for a top-performing employee is 10 times that of an average performer.<sup>9</sup>

Do you know who your top performers are? Most businesses believe they do, but this is a risky game. If you guess right, you can help ensure engagement with positive feedback, bonuses, raises and promotions. If you guess wrong, you can watch them leave for your competition.

### Top Performers Are Worth It

Top performers almost always exceed the performance of average workers. For example, an average salesperson may generate \$250,000 per year in sales, but a top salesperson could generate \$400,000.



9 Sullivan, Dr. John. The True Value of Hiring and Retaining Top Performers. Workforce Management. August 2002.

For businesses in the midmarket, identifying and retaining top performers is essential, especially in hard-to-fill technical and leadership positions. Performance management technology not only makes it easier to recognize the superstars in your organization, it provides a process to improve performance of average and low performers. Benefits include:

- **Paying the people who are driving your success:** Identifying top performers makes it easy to single out employees who have earned bonuses and raises. However, it also provides managers with a valuable tool to have specific, constructive conversations with average performers who want to know what it takes to succeed.
- **Minimizing salary misallocation and misunderstandings:** In business today, organizations are under pressure to make every dollar count. Pay for performance reduces misallocation of budget to employees who did not achieve goals and reduces misunderstandings by clearly explaining performance standards.
- **Identifying talent gaps:** Identifying top performers not only allows you to recognize and reward outstanding performance, it allows business leaders to identify knowledge and skill gaps. Businesses can then address these deficiencies in critical business roles through mobility, development or recruiting.

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## Best Practices: How to Develop Performance Management in Midmarket Companies

Midmarket companies that are considering a performance management technology solution may be taking a first step into comprehensive talent management, which also includes onboarding, learning, compensation planning, enterprise social networking and succession planning. For these companies, performance management is an ideal first step because it is the foundation for the other components. Consider these best practices as you begin the process:

- **Clearly identify the business benefits:** The automation of the performance appraisal process alone is usually enough to cost-justify a system. However, the business benefits of goal alignment and use of KPIs go far beyond making the system pay for itself; they have the potential to transform your business.<sup>10</sup> For example, a business that understands its performance gaps is better able to target its training budget and focus on the most urgent priorities.
- **Secure an executive sponsor:** Most business leaders will enthusiastically embrace a performance management process that links employee effort to business strategy. Finding an executive sponsor can help secure funding for a project, clear away obstacles and send a message to employees that performance management is a business priority.
- **Choose a performance management solution that is part of a comprehensive suite of talent management solutions:** Because performance touches on all other areas of talent management, selecting a technology solution that seamlessly integrates these elements improves the chances of success and can facilitate rolling out future initiatives.
- **Link performance, compensation and training:** Measuring employee performance is only the first step. Employees need a way to develop knowledge and skills that allow average performers to become top performers. After implementing performance management, companies should link pay, performance and development through informal and formal learning management.
- **Understand the advantages of SaaS:** Software-as-a-Service technology solutions allow even midmarket companies to benefit from enterprise-class software solutions without the hassle and expense of servers and IT support. It's easy to implement these on-demand solutions from any device with an Internet connection.
- **Lay a foundation of competencies to tie together performance management initiatives:** Competencies can help an organization understand the knowledge, behavior and skills that allow employees to be successful. Developing an effective set of competencies for performance management can facilitate implementation of performance management and other talent management initiatives, such as learning and succession. For example, some talent management systems can automatically generate employee development plans based on competency gaps.
- **Choose a solution that is easy to use:** Managers and employees must be able to easily understand how a performance management system works before adopting it for daily use. Choosing a system that is simple and intuitive to use is a must for any organization that wants to incorporate performance management and KPIs into its daily work.

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## Conclusion

Why bother with performance management? It's simple: Because regardless of company size, knowledge is power. Performance management supported by technology can increase insight into employee performance and identify development needs. Midmarket companies that recognize the power of performance management technology can develop a significant competitive advantage, especially over competitors that try to get by with existing manual processes.

Performance management can maximize productivity and allow a business to run lean and keep everyone pulling in the same direction to execute business strategy. Now is the time to align individual goals with the overall business strategy, develop appropriate metrics and implement easy-to-use solutions that are built with the end user in mind. Creating a performance-oriented culture is too important for midmarket companies to ignore.

## About Cornerstone OnDemand

Cornerstone OnDemand's integrated learning, performance and talent management software empowers people at every level of an organization to make a difference. Build a better business by giving your people what they need: a genuine opportunity to connect, engage, learn, contribute, lead and advance. Used by more than 3.7 million people around the globe, our drive to develop feature-rich solutions that are easy to use, combined with a relentless focus on customer service, has been rewarded with the best customer retention rate in the industry.