Recently a revolution has taken place in organizations around the world to transform their performance management systems from burdensome chores into valuable business practices. Many high-profile companies have announced they are getting rid of the dreaded performance review and replacing it with ongoing coaching and feedback. Although these cases are inspiring other organizations to contemplate change, many are left with more questions than answers.

While many fads and quick fixes have been proposed to answer these questions, little research exists to support them. This book provides a practical and evidence-based guide for building a performance management approach that actually improves performance. It cuts through the hype and gives actionable advice, useful tools, and real-world examples for organizations to build the business case for change, plan the transformation, design the new system, and implement the change effectively. Featuring research findings as well as concrete strategies from organizations that have proven successful, this book provides a roadmap for meaningful change. It will be valuable to professionals and scholars interested in evidence-based performance management and the challenges facing organizations.

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Transforming Performance Management to Drive Performance
An Evidence-based Roadmap
Rose A. Mueller-Hanson and Elaine D. Pulakos
TRANSFORMING PERFORMANCE MANAGEMENT TO DRIVE PERFORMANCE

An Evidence-based Roadmap

Rose A. Mueller-Hanson and Elaine D. Pulakos
RMH: To Scott and Ryan—whose unwavering love, support, and unvarnished opinions on performance management were my inspirations in writing this book.

EP: To Tim—the very best coach, feedback provider, and partner in candid conversations for almost 30 years.
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The goal of the Applied Psychology series is to create books that exemplify the use of scientific research, theory, and findings to help solve real problems in organizations and society. Mueller-Hanson and Pulakos are distinguished scientist-practitioners, and their book *Transforming Performance Management to Drive Performance: An Evidence-based Roadmap* illustrates this approach very well. Indeed, one of the themes that runs through the entire text is the way their extensive experience in developing, implementing, and evaluating performance management systems in organizations has been informed by and has informed empirical research in performance management.

Performance management represents a set of processes in organizations that are both vitally important and deeply frustrating. Supervisors, managers, and employees invest a great deal of time and effort into performance management, and often feel that they get little in return. Mueller-Hanson and Pulakos make a compelling set of arguments about why performance management is so difficult and how performance management systems can be improved.

The book is divided into three sections, the first of which makes a case for the need to change performance management systems and the barriers to the success of current performance management efforts. Mueller-Hanson and Pulakos show how a combination of attempting to pursue too many goals (some of them conflicting with others), an over-reliance on control, an under-reliance on cooperation and inflexible models for evaluating performance help to limit the success of performance management systems. They show how rigorous, data-based assessments of these systems can provide a springboard for changing the way organizations manage performance.

The second section of this book lays out concrete steps for designing and implementing successful performance management systems. It walks readers
through a systematic process of defining performance, creating useful performance goals, measuring and evaluating performance, giving useful feedback, having constructive discussions about ways to improve performance, ways of linking evaluations of performance with critical organizational decisions, and finally concrete ways of defining and dealing with poor performance. This section represents a thorough roadmap to the decisions and issues that need to be faced in developing performance management systems.

The third section of this book focuses on an important topic that is too often ignored when designing human resource systems—sustaining these systems once they are implemented. It starts by considering what we know about changing behavior and wrapping this knowledge into practical programs for changing behavior in organizations. It then lays out ways of using the change management process as a framework for implementing and sustaining successful performance management programs. It closes by laying out a path forward from over-engineered, control-based performance management systems to cooperation-based systems that will direct and encourage meaningful improvements in the performance of employees.

Transforming Performance Management to Drive Performance: An Evidence-based Roadmap is an excellent exemplar of what the scientist-practitioner model has to offer in addressing important problems in organizations, and it is a wonderful addition to the Applied Psychology Series.

Kevin R. Murphy
Jeanette N. Cleveland
Recently a revolution has taken place in organizations around the world to transform their performance management system from a burdensome chore into a valuable business practice. Many high-profile companies have made big news by announcing they are getting rid of the dreaded performance review and replacing it with ongoing coaching and feedback. Although these stories are inspiring other organizations to contemplate change, many are left with more questions than answers. Organizations are seeking to navigate tough questions about how to get buy-in for change, how to drive better performance conversations, and how to make effective talent decisions without performance ratings.

While many fads and quick fixes have been proposed to answer these questions, little research exists to support them. Managing performance effectively is hard. If it were easy, organizations would have long ago figured out how to do it well, and there would be no need for the thousands of books and articles written about it. For many organizations, better performance management is needed now more than ever to increase performance and engagement and compete in an ever-increasingly complex world. However, practical guidance for change is in short supply. Advice to merely simplify the system or get rid of it altogether will ultimately not help organizations improve their performance.

This book provides a roadmap for meaningful change. It cuts through the hype and gives actionable advice, useful tools, and real-world examples for organizations to create a performance management approach that actually improves performance. It includes concrete techniques, examples, and wisdom from many colleagues who were generous enough to share their perspectives on this topic as well as our own experiences. Part I will help you challenge the status quo and design a more effective approach that is evidence-based
and consistent with your organizational culture, goals, and values. Part II will help you create a performance management approach that actually helps drive business results: defining success, setting expectations, measuring performance, enabling meaningful performance conversations, and using data to make smart talent decisions and hold poor performers accountable. Part III will help you implement these activities and make them stick. The end goal is performance management that is not conceived of as a separate “system”—an unwelcome distraction from day-to-day work—but rather it becomes how your organization’s managers and employees operate every day to achieve performance and results.
ACKNOWLEDGMENTS

We would like to thank the many generous colleagues who were gracious enough to share their insights and experiences with us. A special thanks to Renee Mack, Amy Grubb, Laura Mattimore, Ben Schneider, Matt Walter, Meredith Ferro, Lindsay Barnett, Brodie Gregory Riordan, Maya Garza, Samantha Taylor, Rob Lewis, Martha Tracy-Clowers, Herman Aguinis, Michelle Donovan, and Christelle LaPolice for sharing their thoughts. This book is better for their observations. We also very much appreciate the guidance and support of the Taylor & Francis editorial staff and series editors Kevin Murphy and Jeanette Cleveland.
PART I
Laying the Foundation for Change
Every year a familiar ritual takes place in organizations around the world—the annual performance management review. It often involves hours of filling out forms, somewhat uncomfortable conversations between employees and managers, and numerous meetings to decide how to allocate rewards. Like many rituals, its original purpose has become somewhat obscured, but we continue to do it nonetheless.

It doesn’t have to be this way. Performance management has the potential to drive significant business results. Done well, it can improve individual and organizational performance, inspire employees to find meaning and purpose in their work, and promote career development. Done poorly it can hurt performance, reduce morale, and waste everyone’s time. Too often performance management is done poorly.

We need good performance management now more than ever. CEB, a leading advisory company, estimates that organizations globally need an average of a 27% increase in employee performance just to meet current goals, but current practices are only likely to improve performance by 3–5%, leaving a significant gap (CEB, 2012, 2014). If performance management reached its full potential, we might be able to close this gap; however, current approaches fall short. As one human resources (HR) leader recently told us, “If we could only get performance management right, it would be a game-changer in our organization. Unfortunately, we can’t seem to get it right, despite years of trying.”

**Why Change**

Performance management is a straightforward concept. It is the collection of activities designed to improve individual and organizational performance, such as setting goals and expectations, monitoring progress, providing feedback and
coaching, and measuring and evaluating results. Data produced from this process are often used to make decisions about people, including pay, job assignments, training, promotions, and terminations.

These activities appear consistent with standard business practices, so why do they fail to provide value when they are done collectively as “performance management?” It is not the activities themselves that are the problem. It is the overly bureaucratic and complicated way they have been implemented in most organizations. Performance management tends to focus heavily on documentation and process—setting goals in compliance with organizational policies, completing rating forms on time, and determining how ratings are translated into rewards. This approach largely ignores the most important drivers of performance, however, which are effective relationships and ongoing communications between managers and employees that allow for real-time performance feedback, coaching, and development (Pulakos & O’Leary, 2011).

While most HR professionals acknowledge that effective, ongoing performance conversations and feedback are critical for driving performance improvements, these ideals are hard to achieve at scale and are even harder to sustain. Many companies revert to what they can implement and track easily—documenting each performance management step. They reason that documentation at least ensures that some basic performance-related communications are occurring, even though documentation does not necessarily indicate high-quality performance conversations. Over-emphasis on process has resulted in some unintentional consequences: (1) performance management activities cost organizations too much, (2) employees and even many managers have come to hate performance management requirements their organizations impose, and (3) the data generated from formal performance management documentation often cannot be trusted.

**High Costs**

Performance management is a time-intensive process in many organizations. Typical activities include:

- Reading communications from HR and attending required training.
- Cascading goals, in which organizational objectives are cascaded down through every level of the company before getting translated into individual objectives.
- Setting team and individual goals that meet SMART (Specific, Measurable, Achievable, Relevant, and Time-bound) criteria.
- Conducting mid-year reviews to check in on progress.
- Completing employee self-assessments, which may include rating oneself on performance criteria and writing narrative justifications to support the ratings.
• Collecting, reviewing, and providing 360-degree feedback (e.g., from peers, subordinates, customers, etc.) to use as input for performance reviews.

• Supervisory performance assessments once, and sometimes twice, a year, which may include rating each subordinate on several performance criteria and writing narrative justifications to support the ratings, along with completing self-assessments and collecting 360-degree feedback.

• Calibration sessions, in which managers meet to discuss employee ratings to ensure they are consistent and fair; these sessions may also include discussions of how to allocate raises and bonuses.

• Performance review conversations in which each manager meets with each of his or her direct reports to provide feedback and discuss performance ratings; conversations about raises and bonuses may be done as part of the review or separately.

These activities add up to a significant amount of time. According to one survey, the average manager spends about 210 hours per year and the average employee about 40 hours per year on required performance management activities (CEB, 2012). Managers in client organizations have often told us that the whole company focuses on performance management for weeks or even months, distracting everyone from getting “real work done.”

All this time adds up to substantial costs. Using these time estimates at an average cost of $52 an hour for managers and $22 for individual contributors (Bureau of Labor Statistics, 2010), performance management costs $10,920 a year for each manager and $880 a year for each individual contributor. A large organization with 10,000 employees can spend up to $35 million a year on performance management (CEB, 2012). The question then becomes what return on investment (ROI) are organizations receiving for this level of effort? As one example, Deloitte found that they were spending a total of 2 million hours per year on performance management activities that most executives thought had very little value (Buckingham & Goodall, 2015), which then led to a major overhaul of their process.

This perceived lack of value is pervasive across most organizations. Satisfaction with performance management is consistently rated low on employee engagement surveys (e.g., OPM, 2016). It is important to analyze the costs of performance management against the perceived value because, in most cases, performance management has a very large cost with little return. If nothing else, it is worth considering how performance management processes can be streamlined to save time.

**Criticisms From Employees and Managers**

Complaints about performance management are as old as the practice itself. Just how much employees and managers dislike performance management depends
Laying the Foundation for Change

on the specific activity in question. Many cite dissatisfaction with the entire process because the time invested is not seen as adding commensurate value. The most negative reactions consistently relate to the performance review, providing fodder for strong and vocal critics. For example, Samuel Culbert once described the performance review as a “pretentious, bogus practice” that should be “put out of its misery” (Culbert, 2010). A Washington Post headline perfectly captured the sentiment: “Study finds that basically every single person hates performance reviews” (McGregor, 2014).

Managers also loathe performance reviews. Giving and receiving feedback, especially criticism, is awkward and uncomfortable. When the stakes are raised with pay decisions riding on the outcomes, tension and conflict are further heightened. Neuroscientist David Rock has offered one explanation for why everyone hates performance reviews. He and his colleagues assert that the act of being evaluated threatens one’s self-esteem and social standing in the organization. This perceived threat activates the fight-or-flight center of the brain and causes higher-level processing to shut down as the employee goes into a defensive mode. This reaction happens even if the review is positive—it is the very act of being judged that leads to defensiveness (Rock, 2008; Rock, Davis, & Jones, 2014).

Simple dislike of performance reviews is not the only problem. More concerning is that the dislike often translates into performance detriments. Research has shown that formal performance reviews are frequently demotivating to even the highest performing employees (Aguinis, Joo, & Gottfredson, 2011; Culbertson, Henning, & Payne, 2013) to the point that they can lead to apathy and less effective performance. This point is important because the demotivating effects of performance reviews, associated disengagement, and potential for decreased performance are not widely understood.

There are several reasons why formal reviews are often more demotivating than motivating, even beyond the general defensive reaction proposed by Rock. First, when an employee hears negative feedback for the first time in a formal performance review, it can cause resentment because this feedback was not shared until the review. Negative perceptions can be exacerbated when 360-degree feedback from peers and direct reports is shared for the first time in the formal review. Moreover, sometimes the performance management process is designed to constrain ratings or force a distribution. Arbitrary rules result in ratings and associated feedback that may be demotivating when there is a mismatch between actual employee performance and system-imposed rating guidelines.

Untrustworthy Data

Organizations often recognize the costs and dissatisfaction with performance management but still justify its use, citing the need for data to use in
decision-making—whom to reward, promote, reassign, train, fire, etc. Is performance management data accurate enough to serve as a basis for these purposes? According to CEB, only 23% of HR leaders believe that performance data accurately reflects employee’s contributions (CEB, 2012). This mistrust is well founded. In an examination of 23,339 performance ratings across 40 organizations, no relationship was found between business unit profitability and individual performance ratings in those units (CEB, 2012). Units with highly rated employees were no more likely to be profitable than units with low-rated employees.

Performance ratings may not relate to business performance for several reasons. In some companies, ratings are chronically inflated—a cultural norm that comes with strong pressure for managers to adhere to it. In these situations, very few employees are rated on the low end of the scale—most are rated in the middle or above—even when business unit performance fails to meet expectations. It is not uncommon for 98% of employees within an organization to be rated a “meets expectations” or higher on a 5-point scale, with 80% rated as “exceeds expectations” or even higher. Alternatively, the rating system in other companies comes with arbitrary distributions, such as 80% of employees need to be rated as “meets expectations,” 10% (and only those who are to be promoted) can be rated as “exceeds,” and 10% must be rated as “below.” In either case, neither cultural norms that lead to excessively high ratings nor system “rules” that lead to arbitrary rating distributions can be trusted to lead to accurate ratings for each and every employee.

A second factor that impacts rating quality is that managers are not always motivated to provide accurate ratings. Telling employees their performance is “below standard” or even that it “meets expectations” can be difficult for managers to do because many employees do not take this feedback well. Managers have little incentive to upset the very people they rely on to get the work done. Alternatively, admitting to having poorly performing employees can reflect badly on the manager’s leadership skills—that they selected a poor performer to begin with or failed in addressing performance issues. Murphy and Cleveland (1995) found that managers have many disparate goals when providing performance ratings, including preserving the relationship with the employee, attempting to maximize rewards, and organizational politics, among others. Therefore, many managers will try to give higher ratings when they can, which may not always accurately represent each employee’s true performance level.

A third factor that can undermine rating accuracy is the sheer difficulty of the rating task. Even if managers wanted to rate employees accurately, doing so is challenging. It requires managers, with little or no formal training, to collect information over an entire year from multiple sources, carefully analyze this information to keep what is relevant and discard irrelevant data, and make an unbiased and objective judgment about the employee’s performance. All of this needs to occur in environments where many managers do not observe