THE CONFERENCE BOARD REVIEW
IDEAS AND OPINIONS FOR THE WORLD'S BUSINESS LEADERS

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THE COMPANY IS SINKING— SHOULD YOU JUMP SHIP?

BOB LUTZ ON LEADERSHIP: GOOD, BAD, AND UGLY

PERFORMANCE MISMANAGEMENT

TO GET RESULTS, STOP MEASURING PEOPLE BY THEM.

THE CONFERENCE BOARD

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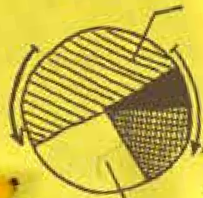

PERFORMANCE MISMANAGEMENT

TO GET RESULTS, STOP MEASURING PEOPLE BY THEM.

BY VADIM LIBERMAN

THE STATE OF PERFORMANCE MANAGEMENT SUCKS. YOU KNOW IT. EVERYONE KNOWS IT. THAT'S WHY YOU'RE NOW READING YET ANOTHER ARTICLE ABOUT HOW MUCH PERFORMANCE MANAGEMENT SUCKS.

Here's the truth: It really does suck.

Each year, a performance-appraisal form taunts you to conjure objectives. Because goals within a company usually cascade down from the top (or occasionally the reverse), devising your own—and coaching your staff through theirs—feels like pressing into a jigsaw puzzle pieces that don't quite fit, no matter how hard you pound them into place. Still, you carefully craft targets that you hope to (and are fairly certain you can) achieve, by the announced deadline, or invite an avalanche of increasingly urgent missed-deadline HR memos.

"There's a lot of pain in performance management," laments Julie Jasica, a senior consultant for Towers Watson.

There sure is. Tyranny by numbers menaces performance management, inciting animosity, bitterness, cynicism, and mistrust. While most executives recently surveyed by the Society for Human Resource Management agree that performance management should develop employees and optimize how people work, they concede that it really serves primarily administrative purposes related to compensation, hiring, and firing. More than 70 percent of respondents report that their system fails to effectively establish goals or bolster performance.

NO DETAILED FLOWCHART OR POWERPOINT EXPLANATION WILL EFFECTIVELY PATCH A BOTCHED GOALS PROCESS.

That's the good news. The bad news is that organizations are using Band-Aids to make repairs, not realizing that they can't fix what isn't broken—because it never worked. "Performance appraisals should help people succeed," says management consultant Aubrey Daniels. "Most performance-management systems don't do that." And no detailed flowchart or PowerPoint explanation will effectively patch a botched goals process.

Granted, there's nothing inherently wrong with "management by objectives," a goals-centric approach to strengthening a workforce. But most businesses do not really manage by objectives. They manage by results, evaluating managers and workers against goals deliberately drafted to yield all kinds of easily countable dollar digits and percentage points.

So what? Everybody knows that you need a results-oriented culture to succeed. But what if everybody is wrong or, at least, not totally right? What if focusing on results is not the best way to get results?

We've gotten overly accustomed to and enslaved by the unfair, illogical, and counterproductive notion that attaining results requires appraising people based on attaining results. It's time to consider reconfiguring performance management around input, *how* one works, rather than output, what one produces—that is,

judging people less on results and more on behaviors related to problem-solving, innovation, creativity, innovation, ethics, and other attributes. That means assessing salespeople not on whether they sold anything but on whether they exhibited skills and competencies and followed processes that normally lead to closing deals. It means evaluating your advertising team not on whether a client bought a campaign but on how your people went about creating it. It's examining how your marketing manager launched a social-media initiative rather than page views garnered.

"If you really want to develop people, then pushing harder on behaviors and input is a really easy place to land," Jasica says.

Now, your organization may already do this or, at least, aim to do this. But most likely, there's an implicit—if not outright—understanding that the ends if not justify then at least supersede the means. "Companies don't look at behavior enough, and when they do, they think it's trivial," Daniels says.

Then, too, a job's *how* is more challenging to gauge than its *what*, especially given that many of us work remotely nowadays. However, since behaviors actually drive results, it's *because* we're on our laptops at Starbucks that businesses must strive harder to revamp performance management around traits. To do so, it's worth pondering the goal of goals.

WHEN SMART IS NOT

"Warning: Goals may cause systematic problems in organizations due to narrow focus, unethical behavior, increased risk taking, decreased cooperation, and decreased intrinsic motivation." So proclaims "Goals Gone Wild: The Systematic Side Effects of Over-Prescribing Goal Setting," a seminal paper by professors Lisa Ordóñez, Maurice Schweitzer, Adam Galinsky, and Max Bazerman.

If the authors were merely cautioning against specific types of objectives, you'd nod in agreement—because *obviously* performance management rests on setting the right sort of goals. But they go a step further and indict goal-setting in general, which may leave you shaking your head sideways. To disregard the authors' claim, though, misses a relevant implication: Constructing objectives around results may aggravate potential problems fundamental to goal-setting.

You may already be thinking that a performance management program's success hinges on having the right conversations with your subordinates and your boss. Let's be real. If all it took were regular sit-downs, we wouldn't dread the annual process and lament its various failures. Many well-meaning managers and employees are already talking. Such discussions, however, are only as fruitful as the corporate performance-management framework allows. If a system ultimately bases appraisals on results, then meeting them will guide the dialogue.

Often, objectives are SMART: specific, measurable, attainable, relevant, time-bound. Or SMARTER: evaluate, re-evaluate. (Warning: Great ideas rarely constrict themselves into neat acronyms.) The following pitfalls are not exclusive to SMARTEST (yes, it exists too) goals or focusing on results—they're just more probable when you do.

Specific. By their nature, objectives "direct attention and effort toward goal-relevant activities and away from goal-irrelevant activities," point out researchers Edwin Locke and Gary Latham. So when you ask someone to set a target, expect two things: (1) The person will focus on meeting that target. (2) Gorillas will become invisible.

That's what professors Christopher Chabris and Daniel Simons discovered when, in 1999, they asked people to watch a now-classic video of two groups of basketball players, one wearing white shirts, the other wearing black. Chabris and Simons told viewers to count basketball passes only among players in white. Turns out, people were so focused on their

WARNING

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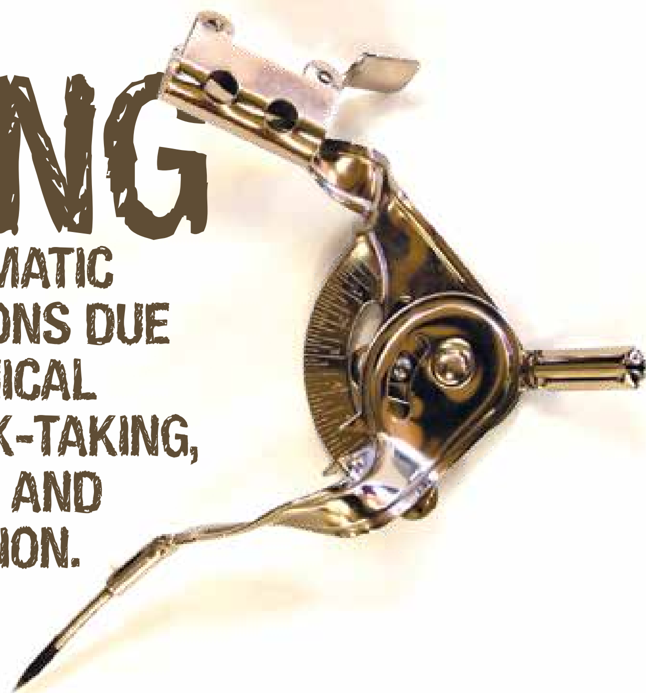

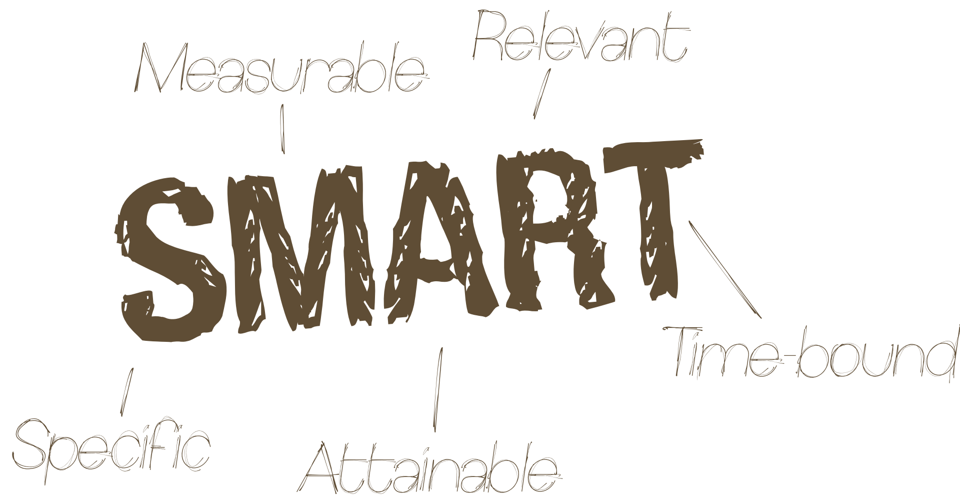

singular assignment that they failed to spot a man in a gorilla suit pounding his chest at one point. Similarly, meeting specific goals can blind workers to the 400-pound gorilla in the room, be it a risk or an opportunity.

Meanwhile, professors Barry Staw and Richard Boettger highlight the benefit of *not* setting explicit aims. When they asked students to proofread a paragraph, they found that those told to "do your best" were likelier to catch *both* grammar and content mistakes than individuals instructed to fix *either* grammar or content. In a workplace, you can imagine some SMARTEST-ass employee explaining, "That wasn't part of my goals" or, worse, "That's not my job."

Measurable. We continue emphasizing employee output mostly because we always have. Tallying widgets shipped, products sold, reports written, clients gained, dollars saved, dollars earned, dollars lost—that's not complicated. Figuring out how it all happened and appraising as a result? Go ahead, let out your hopeless sigh.

"Companies naturally want to default to the easiest system because then they don't have to create new tracking methods," says Paul Hebert, VP of solution design at talent-management consultancy Symbolist. Consequently, they stick to basing ratings on results because—you know the saying—what gets measured gets done. Actually, what is *simplest* to measure gets done. When researchers Stephen Gilliland and Ronald Landis gave study participants multiple quality- and quantity-related goals, people abandoned the former to meet the latter objectives, demonstrating a propensity to tackle easier-to-measure targets.

Unfortunately, adds Lisa Ordóñez of The University of Arizona's Eller College of Management, "The easiest thing to measure is not the most important thing."

Attainable. "So long as a person is committed to the goal, has the requisite ability to attain it, and does not have conflicting goals, there is a positive, linear relationship between goal difficulty and task performance," point out Locke and Latham. The intuitive sensibility of this is nevertheless practically impractical, burdened by the claim's numerous qualifiers, the most glaring being a "conflicting goal" lurking in your wallet.

The better your appraisal, the more money you stand to earn, so rather than create genuine stretch goals, you can set bars too low, knowing that making the numbers also means making other numbers in your bank account. "Your weakest performers are going to latch on to the *attainable* part of SMART and set goals completely within their comfort zones," says performance-management consultant Dick Grote.

Furthermore, employees who pursue difficult goals don't achieve them as often as those who set and meet easy targets, but those with hard objectives nonetheless perform at a consistently higher level. The irony, then, is that by rewarding people for meeting goals, you encourage them to pick less demanding ones and therefore miss out on better performance had they chosen tougher targets. Meanwhile, any employee who consistently meets objectives, year after year, is a really good psychic or someone who's internalized the company's not-so-hidden message: Go small or go home.

Relevant. To whom? For years, corporations have foisted upon people a system of lateral, horizontal, cascading, you-name-it objectives within objectives within objectives, leaving many workers imagining ways to make their roles appear relevant by finessing and twisting perhaps less relevant goals.

"It's good to know a boss's goals, but not all are going to trigger goals for subordinates," Grote explains. "Goal-setting should be independent of that. If the company is rigid about cascading goals, areas may be overlooked."

Time-bound. Ordóñez and her colleagues write in their paper that people may "perceive their goals as ceilings rather

than floors for performance." For example, they continue, "a salesperson, after meeting her monthly sales quota, may spend the rest of the month playing golf rather than working on new sales leads." Then, too, given the pace of change, your objectives may be valid for longer than a year or shorter than a week—which is why good performance management must encourage managers and subordinates to continually assess, alter, and track progress toward targets. Still, it should make you wonder: If you're willing to move the goalposts at any point—which you should be—maybe it's time to change the rules?

UNINTENDED CONSEQUENCES

Picture a call center where workers must handle a certain number of calls per hour. "A logical way to meet your goal is to hang up on people before resolving their problems," Paul Hebert says.

Worse things have happened when companies have stressed the importance of one kind of outcome but got another, like when MiniScribe workers shipped masonry blocks instead of disk drives. Or when Bausch & Lomb employees falsified accounting statements. Or when managers "approved" unperformed safety checks to accelerate the introduction of the Ford Pinto. Or when Sears auto-repair workers overcharged for (sometimes unnecessary) work. Sears then-chairman Edward Brennan apologized that a "goal-setting process for service advisers created an environment where mistakes did occur." No, actually. These were not mistakes but foreseeable (not justifiable) consequences of the company's real error—heavily emphasizing results. Had Sears and other corporations appraised people more on how they worked rather than meeting targets, they could have spared themselves mention here and elsewhere.

Still, even the best intentions can backfire. Ordóñez recalls an organization that financially rewarded whistleblowers. "Guess what happened?" she asks. "Someone blew the whistle by lying."

"If you can make $1 billion by meeting certain targets, you might screw over people and maybe family members. The money will make up for apologies later," Hebert says. Companies don't really think through what could happen when they offer certain incentives for certain goals."

(Incidentally, to say that the problem lies not with results-oriented goals but with compensation is a non-starter—because every company links performance appraisals with remuneration to some degree, as it should be. No one's arguing to ignore better ways to pay people, but before you fill the cart, you need to ensure that your horse can pull it.)

Beyond ethical infractions, concentrating on easily measurable numbers may corrode not-so-easily-measurable variables related to interpersonal relationships, corporate culture, creativity, innovation, and positive risk-taking.

For instance, consider the effect on learning. Research indicates that a do-your-best instruction more effectively helps employees learn new tasks than using outcome-based goals. Similarly, other studies have found that negotiators with goals are likelier to reach an inefficient impasse than negotiators who lack goals, according to "Goals Gone Wild." The authors add, "It is also quite easy to imagine that in a very different context, a negotiator who has obtained concessions sufficient to reach their goal, will satisfice and accept the agreement on the table, even if the value maximizing strategy would be to continue the negotiation process."

Furthermore, results-based objectives may ruin teamwork and collaboration. "If you push too hard on results, you risk creating an environment where every person is out for themselves and there may not be the kind of brainstorming and idea-sharing you want," Julie Jasica points out.

The bottom line is that if you're ultimately judging people based on results, it's not enough simply to expect employees to act in certain ways. If what gets measured gets done, then what doesn't get measured doesn't get done. "There's an unspoken belief that if we put the right strategy and technology in place and make the right organizational-design decisions, people's behaviors will naturally follow. In fact, they do not," says Steve Jacobs, senior partner at performance-management consultancy CLG. You need to track certain traits if you want employees to exhibit them—and not merely by including on an appraisal sheet a few lame checklist items that everyone knows count far less than results-centered goals.

BEHAVIOR MANAGEMENT

There's sometimes a misconception that managing for behaviors centers around time and effort. It does not, says Ed Lawler, director of the University of Southern California's Center for Effective Organizations; he adds that "doing so puts you at risk for rewarding people who aren't well-trained or are doing things the wrong way."

That said, it's often unclear how to measure which behaviors in which jobs. Take sales. Perhaps no field defines success based on results more. A good salesperson is someone who, well, sells.

Not exactly. No business wants its sales staff intimidating clients, making empty promises, or violating corporate values, so a lot depends on *how* one makes deals. But admitting the obvious must entail entertaining the question that if behaviors influence one's performance, shouldn't they determine one's performance assessment?

"The problem is that some performance-management

systems organized around selling roles focus too heavily on end results, which doesn't enable a person to understand what influences them," explains Julie Jasica. If you're mainly looking at results, you'll never know why something goes wrong or how to replicate what goes right.

Instead of tracking performance against sales goals, you're better off reviewing the actions typically necessary to make deals: placing calls, pursuing leads, crafting pitches, conducting research, networking, etc. The point isn't to create sub-goals to excuse missing end targets. Rather, you're identifying role-relevant activities without vowing to make X calls, Y sales pitches, or attend Z conferences—all of which is measurable, of course. Except you're not affixing numerical targets 365 days in advance, nor are you basing successful execution of actions on outcomes. These are not mini-results-oriented objectives. At the same time, when evaluating, "you're not just saying things like, 'This person is cooperative,'" Lawler points out. "You're identifying specific instances that demonstrate cooperation or teamwork, like, 'This person helped me solve this problem, and this is how.'" In the long run, it's a holistic, smarter-than-SMART approach to performance management.

Sure, there's a level of subjectivity here, but every performance appraisal is ultimately subjective, Grote says. "An assessment is a formal record of a supervisor's opinion of the quality of the employees' work," he points out. "The operative word is 'opinion.' It is not a testable, provable document, though it does need to be grounded in reality."

Furthermore, while assessing behaviors of remote workers can be more challenging, "there are very few jobs today where you work in isolation," Jasica points out. "I find it unlikely that the only way to measure a person who primarily works in a remote environment is through results. Unless you're in Africa growing beans, you're interacting with other people through Skype, the phone, the Internet, so it is possible to get a sense of how you work."

An uncomfortable question looms: What if, despite doing all the right things, an employee isn't getting results? There's no easy answer, except that after some time, you'll have to reevaluate a job's required attributes, find a new role for the person, or get rid of the individual.

However, that someone exhibits all the right attributes and competencies and receives positive feedback only to be let go for not getting results hardly highlights a weakness of behavior-based performance management—unless your program is really meant to fire or scare people. If, on the other hand, your aim is to develop and coach, managing for behaviors proves a better system than focusing on results, which might involve giving stellar evaluations to someone who lies, cheats, and steals but hits her numbers. Which of these two employees would you rather have working at your organization?

Here's another way to look at things. Setting goals is never the problem. It's that we choose to assess performance based on meeting them, so how about this: *Stop judging people against their objectives.* Allow managers and subordinates to set a wide spectrum of goals geared toward the organization's success. It's also perfectly reasonable to constantly evaluate targets throughout the year, but assessing goals is not the same as appraising employees based on reaching them. When it comes to rating performance, mainly look at behaviors and how people went about working toward their objectives.

Base goals on desired results and appraisals on actual behaviors. For instance, a marketing director may set objectives that include launching a new campaign. When evaluating performance, scrutinize the steps he took, the decisions he made, and the actual work he put into the projects—not whether he actually met his objectives.

"You've got to treat goals as a compass and not as a GPS to pinpont where you must end up," Ordóñez says. "Goals should inform where you're going, but if you don't reach the end point, it's not a failure per se."

To be clear, behaviors are important only insofar as they lead to desired outcomes. However, "most organizations don't realize that the only way you accomplish results is by focusing on behaviors," Aubrey Daniels explains. "Every time you move away from measuring behavior, you induce room for error in your measurements."

"ASSESSING GOALS IS NOT THE SAME AS APPRAISING EMPLOYEES BASED ON REACHING THEM.

> “By focusing on outcomes, companies continue rewarding and punishing their people for accomplishments and failures perhaps beyond their control.

LUCKY STRIKES

In his book *Drive: The Surprising Truth About What Motivates Us*, Dan Pink distinguishes between algorithmic and heuristic tasks. Jobs consisting of the former, usually lower down in organizations, involve highly repetitive work and include clear causal relationships with formulaic, straightforward steps to achieve goals. For example, you can evaluate a truck driver by whether he's driven goods to a destination or an assembly-line worker on whether he made a certain number of widgets in a specified time

Heuristic undertakings, on the contrary, demand experimenting to solve problems. In dynamic, typically white-collar fields, a myriad of variables—technological changes, customer tastes, competitors' exploits, economic rumbles, legislative disruptions, vendor activities, etc.—prohibits drawing direct cause-and-effect links to meet objectives. Pink cites McKinsey research indicating that over 40 percent of U.S. employees have roles with mainly heuristic tasks and that 70 percent of new jobs in recent years are heuristic.

The more algorithmic the duties, the more we can appraise by outcomes. Likewise, the more heuristic a job—like one that involves crafting strategies, developing campaigns, or writing articles like this—the greater emphasis we should place on behaviors. To do otherwise is to apply industrial-era thinking to modern times.

“If your business environment is stable and your industry doesn't change much and you can be sure of what lies ahead, then focusing on results can be good,” counsels Scott Anthony, managing partner at the consultancy Innosight. “But that's not the case for most companies, so as much as you want to measure output, you have to look at behaviors that are most relevant to someone's long-term performance.”

Michael Mauboussin, author of *The Success Equation* and head of global financial at Credit Suisse's investment-banking division, points out that you should assess people against only what is actually under their control. “There's a continuum of things that are pure luck on one end and pure skill on the other,” he says. “When your outcomes are truly a reflection of the work that you're doing, a results-oriented evaluation is not unreasonable, like in manufacturing, which is very skills-oriented. But things like launching a successful R&D project are inherently probabilistic, with a lot of randomness and luck to them. There are profound influences that are hard to anticipate, so you have to move the orientation away from outcome and more toward evaluating process, not because you want to dodge the outcome but because that's the ultimate way to get it.”

(As a quick aside, Mauboussin points to the irony that not only does luck increase in jobs higher up the org chart, so does compensation. “It turns out a lot of senior executives are getting paid for randomness instead of skill. It's a backward system,” he claims. The solution isn't to flip C-suite and call-center salaries, he says, but his observation is yet another reason to rein in executive compensation. Another topic, another article.)

Unfortunately, by focusing on outcomes, companies continue rewarding and punishing their people for accomplishments and failures perhaps beyond their control. “We're hard-wired to look at the outcome and then evaluate the decision, but you have to separate a decision process from a decision's outcome,” Ordóñez instructs.

When recognizing an employee, Mauboussin recommends, a manager should pause to ask: Is it reasonable to expect that things could have turned out differently despite the person's actions? If your answer is yes—and it usually will be—then you're basing rewards and recognition and compensation programs less on skill than on luck.

This can suggest doling out awards even when workers don't earn results—that is, positively recognizing failure, not

only in the sense of allowing people to fail by not punishing them so that they can learn from mistakes but actually praising them when they do stumble, provided that they did their jobs in such ways that you'd ordinarily celebrate had the outcome turned out better.

"The Mayo Clinic used to give out awards to people who took well-thought-out risks that didn't pan out. You also have 3M, which celebrates people who tried things that didn't work," Scott Anthony points out. "You shouldn't be rewarded when you did something stupid, but I do wish more companies would acknowledge people who do their best and take risks."

Still, even when organizations reward people despite the outcome, they rarely do it in the same way as when workers garner results. Someone who does a great job and produces great results might get a $5,000 check. Someone else who does a great job but doesn't produce great results may get a certificate from the CEO. However, if you're going to send a message that behaviors are important, it will take more than a little plaque to prove it—particularly since the more heuristic the task, the more important it is for companies to bolster intrinsic motivation via non-monetary rewards, writes Dan Pink. In fact, he adds that financial incentives to be creative negatively impacts performance.

Meanwhile, Dick Grote warns that even if you choose to celebrate someone's failure, others in the organization may view things differently. "It's like holding up a white piece of paper with a black dot on it," he explains. "Everyone's eye goes straight to the dot, which they will see as a problem no matter how you frame it."

Too often, companies want to automate the performance-management process as much as possible—and technology does make a lot possible. But just because you can use all sorts of software to manage your people doesn't mean that you should. "You can't slap a tech solution over a performance-management issue and assume it's going to solve it," Julie Jasica says.

And yet organizations continue to hope that there's an app that will improve their workforces. And truthfully, there are many, but at its most basic level, good performance management requires dealing with plenty of healthy subjectivity and a variety of variables beyond the scope of what computers can process—the main variables being workers themselves. "In today's knowledge economy, human beings are the means of production, and we are the most infinitely variable you can have. Yet we keep trying to walk away from the human element in the equation," Paul Hebert says.

And sure, the current state of goal-setting and appraisals works, but in an unrelenting pursuit of results, we don't pause long enough to contemplate whether the current method is the best method. And hey, managing by behaviors may not be best either, but it's probably better than the status quo. Either way, you can't know until you give it a chance—for more than five minutes. Evolving toward behavior-based performance management demands time and patience. Of course, reality being what it is, results will continue to figure into performance appraisals in ways they should and should not, but in the long term a greater focus on behaviors will lead to better results. Because after all, it's all about results. ■