



HR Oops!

“Where Have I Heard That Before?”

More than four out of ten employees hear about the same areas for improvement year after year, according to a survey by the HR training and consulting firm VitalSmarts. The firm asked employees if their latest performance review gave them the same negative feedback as in previous years, and 43 percent said yes. For these employees, being evaluated in prior years was not associated with any improvement in performance.

One explanation may come from another survey finding. Asked whether the review process included planning how to improve their performance, 87 percent said no. They were learning they needed to improve, and then managers were leaving it up to the employees to solve performance problems on their own. These results suggest that managers can be doing much more to develop employees. In that context, the employees

who progress will be those who take responsibility for their own development—for example, asking for specific feedback, looking for a mentor, and establishing personal goals to improve.

A manager who takes a very different approach is Dharam Singh, managing director of VCare Project Management in Sydney, Australia. When one of Singh's employees is failing to meet job requirements, Singh has the employee set specific goals for improvement in the problem areas. Singh and the employee collaborate on establishing a plan for how the employee will achieve those goals. Singh also helps the employee understand how falling short of performance targets affects the firm as a whole.

Questions

1. If employees' poor performance is unchanged year after year,

what does this say about how effectively performance management is serving its *strategic* and *developmental* purposes? How would the *administrative* purpose of performance management apply in this situation?

2. Which purpose(s) of performance management is Singh fulfilling, according to the description given? Explain your choice(s).

Sources: VitalSmarts, “Avoiding a Déjà Vu Performance Review,” research summary, <http://www.vitalismarts.com>, accessed June 20, 2014; VitalSmarts, “Avoiding a Déjà Vu Performance Review,” survey data, <http://www.vitalismarts.com>, accessed June 20, 2014; Matt Schur, “Upon Further Review,” *PM Network*, March 2014, pp. 38–43; Ann Pace, “Preventing Poor Performance Déjà Vu,” *T + D*, April 2013, p. 14.

Purposes of Performance Management

Organizations establish performance management systems to meet three broad purposes: strategic, administrative, and developmental. As you read the “HR Oops!” box and the rest of this section, think about which purposes of performance management the companies and managers should be meeting more effectively.

Strategic purpose means effective performance management helps the organization achieve its business objectives. It does this by helping to link employees' behavior with the organization's goals. Performance management starts with defining what the organization wants each employee to achieve. It measures each employee's performance to see if it meets the goal. This enables the organization to

LO 10-2 Discuss the purposes of performance management systems.

6. Would the same sources be appropriate if the store in Question 5 used the performance appraisals to support decisions about which employees to promote? Explain. (LO 10-6)
7. Suppose you were recently promoted to a supervisory job in a company where you have worked for two years. You genuinely like almost all your

- to the electronic monitoring? How might the organization address the employees' concerns?
- b. Besides productivity in terms of number of calls, what other performance measures should the performance management system include?
- c. How should the organization gather information about the other performance measures?

TAKING RESPONSIBILITY

REI's Purpose Drives Its Performance Management

REI (the letters stand for Recreational Equipment Inc.) is not your typical business. The company, which designs and sells equipment for outdoor recreation, is a consumer cooperative rather than a publicly traded

corporation. Anyone can buy from REI, but consumers who want to can pay \$20 to become lifetime members of the co-op. This makes them part-owners, who are eligible for a share of the profits and other membership

benefits, along with REI's other 5 million active members.

REI is also distinctive in being driven by its mission. The co-op was started in 1938 by 23 friends who shared a love of hiking. Continuing the founders' passion, REI today states its mission as "inspiring, educating and outfitting its members and the community for a lifetime of outdoor adventure and stewardship." The resulting culture is casual, fun, and nontraditional—but also intensely concerned with high performance.

In that context, says Michelle Clements, REI's senior vice president of human resources, executives went on a retreat where they were challenged to identify "three dead ideas in three minutes." One of Clements's ideas was to abolish the organization's annual performance appraisals. It drew a standing ovation. With that response, Clements couldn't back down. She interviewed employees and managers, studied alternatives that other companies were trying, and evaluated the risks and rewards of various ideas.

Based on that work, Clements and her team developed a new program they call Real Talk, Real Results. Instead of emphasizing annual reviews, the new system focuses on training managers to give meaningful performance feedback. To support that development effort, the team defined "anchor points," using the analogy to rock climbing, where anchor points help climbers move to the next level. Online training helps managers attain such anchor points as mentoring their employees and having difficult

conversations. As far as the feedback process, it no longer involves annual ratings of employees. Instead, managers are supposed to give ongoing feedback and they meet for twice-a-year calibration sessions at which they categorize employees as leading performers, solid performers, or still developing. The categories affect compensation decisions. In addition, teams are responsible for meeting team-level performance targets.

A few years since the launch of that new system, REI's company-level performance appears healthy. In 2013, REI reported annual sales of \$2.0 billion, a record high. On those earnings, it generated income of more than \$153 million, most of which it distributed to the active members of the co-op. In addition, more than 840,000 people became members—and that means hundreds of thousands more people participating in the mission to inspire, educate, and outfit people for outdoor adventures.

Questions

1. How did REI address the strategic, administrative, and developmental purposes of performance management?
2. If REI asked you to evaluate the effectiveness of its performance management, what criteria would you apply?

Sources: REI, "REI Overview," <http://www.rei.com>, accessed June 20, 2014, "REI Sales Top \$2 Billion in 2013," *PR Newswire*, March 17, 2014, Business Insights: Global, <http://bi.galegroup.com>; Amy Armitage and Donna Parrey, "Reinventing Performance Management: Creating Purpose-Driven Practices," *People and Strategy* 36, no. 2 (2013): 26–33.

points as mentoring their employees and having difficult

ness insights: Global, <http://bi.galegroup.com>; Amy Armitage and Donna Parrey, "Reinventing Performance Management: Creating Purpose-Driven Practices," *People and Strategy* 36, no. 2 (2013): 26-33.

MANAGING TALENT

Adobe Systems Asks Managers to Check-In

Most people know Adobe Systems for its Photoshop software and the Acrobat and Adobe Reader programs for creating and viewing its portable document format (PDF) files. Recently, Adobe has been shifting its focus from packaged software programs to online software. During that transition, Adobe's senior vice president of people resources, Donna Morris, wondered whether its HR systems—particularly performance management—also needed a new strategy.

Evidence signaled a need for change at the 11,500-employee company. Adobe was using a process of annual reviews that ranked employees. Morris's team calculated that Adobe's managers spent 80,000 hours per year on the process, equivalent to the time of 40 full-time employees. Was the effort improving performance? Probably not. Every year, immediately following the feedback sessions, voluntary departures by employees spiked. On the corporate blog, Morris wrote a piece about her desire to eliminate formal performance appraisals. It became

one of Adobe's most popular blog posts, and comments poured in from employees who were delighted with the idea and disappointed in managers' apparent lack of recognition of their accomplishments and failure to support their career development.

Morris determined that she had to act. She announced that Adobe would go forward with abolishing performance appraisals, along with related schedules and forms. Instead, the company would prepare managers to carry out a practice called the Check-In, through which they provide ongoing feedback and coaching. The timing of the feedback is up to the managers, consistent with Adobe's strategy of encouraging managers to act as "business owners" of the group they lead. Managers were trained to focus on goals, objectives, and career development. Instead of tying pay increases to rankings, managers relate them to employee achievement of their goals.

Instituting a less formal system poses some challenges. For example, without a schedule for

conducting performance reviews, Adobe needs a way to ensure that managers are engaging in performance-related discussions. For this, Adobe has employees meet with managers two levels above (their boss's boss) to discuss whether they have the support they need for their team to meet its goals. The HR department emphasizes training managers in the skills needed for providing feedback.

Reactions to the changes have been overwhelmingly positive. In annual surveys, employees say the Check-ins are easier and more effective than the old system, and that their managers are getting better at helping them improve. Also telling are the rates at which employees leave. *Involuntary* departures are more common, suggesting that managers are having franker conversations with employees who do not improve. *Voluntary* departures have dropped by 30%, and a larger share of these are what Adobe calls "non-regrettable" departures.

HR IN SMALL BUSINESS

Appraisals Matter at Meadow Hills Veterinary Center

Brian Conrad, the practice manager of Meadow Hills Veterinary Center, makes a claim that sounds a lot like

- Questions**
1. How can managers at Adobe ensure that the feedback they provide during check-ins is effective?
 2. In terms of the criteria for effective performance management, what advantages does Adobe gain and lose by shifting its methods from rating individuals to measuring results?

Sources: Adobe Systems, "Just Checking In," *Adobe Life* (corporate blog), <http://blogs.adobe.com>, accessed June 20, 2014; Bob Sutton, "How Adobe Got Rid of Traditional Performance Reviews," *LinkedIn*, February 6, 2014, <http://www.linkedin.com>; Peter Cohan, "Adobe's Stock Up 68% since It Dumped Stack Ranking, Will Microsoft's Follow?" *Forbes*, November 29, 2013, <http://www.forbes.com>; Julie Cook Ramirez, "Rethinking the Review," *HRE Online*, July 24, 2013, <http://www.hreonline.com>; Amy Armitage and Donna Parrey, "Reinventing Performance Management: Creating Purpose-Driven Practices," *People and Strategy* 36, no. 2 (2013): 26–33.

problems. His understanding of his position is that he is responsible for addressing performance problems as they arise. When a situation can't be resolved by a few words from a supervisor, Conrad invites the employee and his or