



Performance Management:

New Directions in Appraisal and Evaluation - The Autodesk Case Study.

By Sherman Morrison

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Telania LLC | TalentManagement360
173 Sears Avenue, Suite 282 Louisville, KY 40207
(877) 624-7226 • office@talentmanagement360.com • <http://www.talentmanagement360.com>

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What's Wrong with Performance Management & Annual Reviews?

The short answer to the above question is *plenty*. Few things in life produce more moans and groans in the workplace than the mind-numbing, fear-inducing ritual of annual performance reviews. In recent years, there have been calls for companies to free themselves from this burdensome practice. If you don't believe that the performance review or performance management (PM) in general is in dire straits, read on.

10 Statistics About Performance Management That Will Blow Your Mind

1. 45% of HR leaders do not think annual performance reviews are an accurate appraisal for employee's work.¹
2. CFOs spend at least 40% of their time on business performance management, but they estimate that 30% of their company's performance potential is lost due to ineffective performance management processes and behaviors.²
3. Only 23% of HR executives think that their PM process accurately reflects employee contributions.³
4. Only 8% of companies report that their performance management process drives high levels of value, while 58% said it is not an effective use of time.⁴
5. A poll with 2,677 respondents revealed that 98% find annual performance reviews unnecessary. Among the respondents were 645 HR managers, 232 CEOs, and 1,800 other employees.⁵

¹ Globoforce: <http://www.globoforce.com/news/press-releases-archive/shrmgloboforce-survey-reveals-growing-impact-of-recognition-programs-on-performance-management/>

² CEB: <http://news.executiveboard.com/index.php?s=23350&cat=2682>

³ CEB Blogs: <https://www.executiveboard.com/blogs/three-key-shifts-shaping-hrs-agenda-in-2014/>

⁴ Deloitte University Press: <http://dupress.com/articles/hc-trends-2014-performance-management/>

⁵ HRMagazine: <http://www.hrmagazine.co.uk/hr/features/1075041/is-performance-appraisals>

6. Only 14% of organizations are happy with their performance management system.⁶
7. Two-thirds of performance management systems misidentify high performers.⁷
8. In 2013, most organizations needed a 20% improvement in employee performance, but typical performance management can only improve performance by 5%.⁸
9. 58% of organizations rated their performance management systems as “C Grade or below.”⁹
10. 30% of performance reviews end up in decreased employee performance.¹⁰

Clearly, something is amiss when it comes to performance management and annual reviews. In fact, given the above statistics, it's a relatively safe bet to say that performance management in your own company is lacking in some way or not delivering the kind of value you wish it could deliver.

Getting Back to Basics

According to PM expert Edward Lawler, Director of the Center for Effective Organizations housed at the University of Southern California's Marshall School of Business¹¹, you need to keep in mind the four primary objectives of PM:

1. **Define What Performance is Needed.** You have to know what needs to be done and how it should be done, and there has to be agreement on this throughout the organization.
2. **Develop Employees.** The point of PM has to be to help employees develop the skills and knowledge they need to contribute to the needed performance that has been defined.

⁶ Harvard Business Review: <http://blogs.hbr.org/2013/06/give-your-performance-manageme/>

⁷ CEB Blogs: <https://www.executiveboard.com/blogs/is-the-performance-management-system-dead-or-creating-zombies/>

⁸ CEB: <http://www.executiveboard.com/exbd/shl/talent-expert-series/performance-in-new-work-environment/index.page>

⁹ WorldatWork: <http://www.worldatwork.org/waw/adimLink?id=44473>

¹⁰ Psychology Today: <http://www.psychologytoday.com/blog/wired-success/201006/its-time-abolish-the-employee-performance-review>

¹¹ Center for Effective Organizations: http://ceo.usc.edu/pdf/G10_16.pdf

3. **Motivate Employees.** The third thing your PM system should do is motivate employees to perform as effectively as possible. You can have all the highest talent in the world, but if they aren't motivated to perform, you're not going to get very far.
4. **Provide Useful Data.** Your PM system should be your go-to source of data; it can measure the skills and knowledge of your workforce, as well as whether or not employees are performing as well as you need them to perform.

Think through your PM system again in greater detail using these four basic PM objectives to help pinpoint areas where your system is clearly falling short. When it comes to effectively addressing organizational problems, getting a clear picture of the situation is more than half the battle.

Diagnosing Your Ailing Performance Management System

Annual reviews have received a seriously bad reputation in recent years, as indicated by such headlines as *Time to Scrap Performance Appraisals?*¹² *Is it Time to Give Up on Performance Appraisals?*¹³ and *It's Time to Abolish the Employee Performance Review.*¹⁴ Typical problems with performance reviews are summarized below. How many of them feel all too familiar to you?

The Downside of Annual Performance Reviews

The Zombie Effect. If you've ever felt a kind of mind-numbing effect when it comes to performance reviews, you're not alone. As one author put it, "A friend of mine was recently dinged in a performance appraisal for being 'too enthusiastic.' Translation: Be less alive, more like a zombie."¹⁵ Some neuroscientists are beginning to apply knowledge from their field to leadership, and when it comes to performance appraisals, the news isn't very good. By focusing on what an employee did or didn't do well during the year, the annual review creates a fear-state in the brain that then limits the ability to absorb any useful information.¹⁶

¹² Forbes: <http://www.forbes.com/sites/joshbersin/2013/05/06/time-to-scrap-performance-appraisals/>

¹³ HRMagazine: <http://www.hrmagazine.co.uk/hr/features/1075041/is-performance-appraisals#sthash.O7sq1lk0.dpuf>

¹⁴ Psychology Today: <http://www.psychologytoday.com/blog/wired-success/201006/its-time-abolish-the-employee-performance-review>

¹⁵ CBS Money Watch: <http://www.cbsnews.com/news/is-your-company-turning-you-into-a-corporate-zombie/>

¹⁶ CEB: <https://www.executiveboard.com/blogs/is-the-performance-management-system-dead-or-creating-zombies/>

Endless Tinkering. Your company might actually be paying attention to its PM system, even making changes from year to year, but is it real change or just tinkering with an already broken system? If the tweaking of the system amounts to changing from a 3-point to a 5-point rating scale, or making slight adjustments to the rating criteria, your company is missing the more substantial issues at the root of performance management. This endless tinkering simply won't result in significant improvements.¹⁷

Rank-and-Yank. Then there's the temptation to use performance appraisals in the kind of force-ranking system popularized by Jack Welch at GE, wherein managers are only allowed to hand out so many appraisals at each performance level, and those that are forced into the bottom ranks can expect to kiss their jobs goodbye. It's still a surprisingly popular approach in spite of the fact that Microsoft is the latest company to scrap the system because it does more harm than good. Meanwhile, Yahoo! is actually ramping up its forced-rankings system.¹⁸ When you set up a system in which failure is inevitable for some people, you'll wind up with employees who will do whatever it takes to beat the system. That's hardly the kind of positive atmosphere we want for our organizations.

Too Little Too Late. The way most performance reviews are constructed lead to a baffling set of questions: If performance is so important, why in the world would we review it only once, or in some cases, a few times a year? Shouldn't employees be receiving valuable feedback all the time? Can one single person really do an adequate job of analyzing an employee's entire productivity over the course of 12 months in one sitting? Since when does any employee's work involve primarily a 1-to-1 relationship with a single manager or supervisor? If someone really is a poor performer, wouldn't you want to show them the door before an entire year has passed?

Why Changing Your PM System is Hard

Given the depressing statistics and outlook on annual performance appraisals, you'd think companies would be jumping at the chance to overhaul or even abolish such systems. Think again! There's an incredible amount of inertia to making such changes. Besides the general resistance to big changes in modern organizations, there are many reasons why only about 3% have dropped annual reviews:

Tradition. Your company has probably always done annual performance appraisals. But just because it's a deeply embedded tradition doesn't mean it should continue.

Investment. It took a lot of time, effort and money to develop and implement whatever system is in place, which creates much more resistance to changing the system.

¹⁷ Harvard Business Review: <http://blogs.hbr.org/2013/06/give-your-performance-manageme/>

¹⁸ Forbes: <http://www.forbes.com/sites/petercohan/2013/11/13/marissas-second-epic-fail-microsoft-abolishes-stack-ranking-as-yahoo-ramps-it-up/>

Lack of Alternatives. It's one thing to realize your PM system is broken, but it's another thing entirely to figure out how to overhaul it and/or replace it. After all, your company needs real data about employee performance, if for no other reason than to document and justify terminating poor performers. This is a lackluster rationalization for perpetuating bad PM systems.

Evaluating Your Performance Management System

Maybe it's time to give your company's performance management system its own performance review. Try this quick-and-dirty method: Think about your PM system and give it a rating from 1 to 10 where 1 means your PM system is essentially worthless and 10 means it is giving you absolutely everything you ever dreamed a PM system could give you. If you give your PM system anything less than 8, then it is probably in need of some serious attention.

A more robust approach to evaluating your PM system might involve digging deeper by gathering feedback from users. The Society for Human Resource Management recommends the following:

Survey or focus group information should be collected periodically to assess user reactions to the performance management process and to modify the system in ways that will be more acceptable to users. One effective strategy that not only gathers useful information, but also promotes feedback is to survey managers and employees on the extent to which they are seeking, giving, and receiving quality feedback. Experienced practitioners have found that reporting these results back to individual managers and employees can increase the frequency and quality of the performance feedback over time.¹⁹

Additional questions you can ask about your PM system include the following as recommended by the US Office of Personnel Management:²⁰

- Are the stated objectives of the appraisal program being met?
- Are employees and managers satisfied with the equity, utility, accuracy, etc., of the program?
- Do the benefits of the program outweigh the costs?
- Has there been an improvement in employee, unit, or organizational performance?
- Has the attitude or the behavior of employees and/or managers changed as desired?
- Are there signs of different treatment in the results of performance appraisal processes?
- Has there been an improvement in the efficiency or the effectiveness of related human resources programs?

¹⁹ SHRM: <http://www.shrm.org/about/foundation/research/Documents/1104Pulakos.pdf>

²⁰ OPM: <https://www.opm.gov/policy-data-oversight/performance-management/reference-materials/more-topics/eval.pdf>

Finally, consider creating a robust self-assessment tool to evaluate your PM system. A great example is one you can find on the website of the Public Health Foundation at the following URL:
http://www.phf.org/resourcestools/Documents/PM_Self_Assess_Tool.pdf. Although it is geared specifically to public health organizations, it could easily be modified in order to apply to your company or organization.

A New Approach to Performance Management

Far too many PM systems in organizations today are broken and fail to deliver the kind of value that they should provide. The dreaded ritual of the annual performance review or appraisal is probably the single worst aspect of PM that is in desperate need of a major overhaul if not complete elimination. But all of that clearly begs the question – What does a better way to do performance management look like? There are plenty of options, some big and some small, but either way you *can* change your PM system for the better. Here's how:

Manage like a Coach or Mentor

Rather than a one-a-year ritual, performance appraisal should be happening on a continual basis and look more like a coaching or mentoring relationship between the manager/supervisor and the employee. It's the only way to do performance management in a business world where change is both constant and rapid. In this kind of real-time, feedback-rich approach to performance management, substantial check-ins would occur at least monthly, but weekly would be even better. Goal-setting should also occur on either a quarterly or monthly basis. Companies that do this are getting much better results from their PM systems than companies relying on the annual approach.

Less Bureaucratic, More Agile

Part of the reason the annual performance review is such an awful PM tool is that it has evolved into something that feels like an overly complicated homework assignment – a nightmare of forms and boxes to check and narratives to fill out and ratings to be given and on and on and on. Imagine the freedom of just asking an employee two simple questions – What does the coming week look like for you? How can I support you in accomplishing what you need to do? That immediately feels more collaborative and supportive than talking about what did and did not go well for the entire past year.

Let the Employee Take the Lead

The beautiful thing here is that we're not talking about asking managers to take the responsibility for initiating this kind of performance management. The data clearly show that employees *want* this kind of support, so let them take the initiative in

getting what they need for feedback and development. They will be a lot more invested in the process than they are in any kind of annual review context.

Play to Their Strengths

A major flaw in most PM systems is that they approach the entire project from a remedial viewpoint. Here are the performance criteria and here's how you fell short, so please do better. It just doesn't work. People need *positive* feedback. This is another area where neuroscience comes into play. When it comes to learning and growing, the brain does both much better in areas where there's already a strong foundation of neural networks, not in the weaker areas. Build on a people's strengths and they'll really shine. Don't ignore the weaknesses, but also don't expect them to be great in areas of primary growth.

Focus on the Future

This one almost seems like a no-brainer when you stop and think about it. Traditional PM systems that use annual reviews are illogically focused on *the past* that is, for better or worse, done and over and never to be changed. Everything about performance management would be much better off if focused on what *can* be changed, which is the future.

Hire Fewer Low Performers

The unfortunate thing about many PM systems (and especially those that utilize forced rankings) is that they just assume a certain percentage of employees will be low performers. Wouldn't it be great if your recruiting and hiring practices were improved to the point that you rarely hired any low performers to begin with? It's like a self-fulfilling prophecy – if you assume a certain percentage of people are going to fail, you're practically guaranteeing that will be the case.

Those are six very worthy approaches to performance management that might look a whole lot different from your current system. Making the switch might feel like an overwhelming proposition, but the benefits in terms of better results on the other side are well worth it.

Performance Management System Overhaul Case Study: Autodesk

Introduction

If you're considering making significant changes to your company's PM system, it's very useful to hear from someone who's gone through the process. Autodesk is a company that first made a name for itself with AutoCAD, the computer-aided design application that allows users to create detailed technical drawings of all types. For decades AutoCAD has been the most widely used program for 2D non-specialized applications. After creating many specialty versions of the software for more specific use in architecture, civil engineering, and manufacturing, Autodesk began expanding into other types of design software, including parametric building modeling and parametric mechanical design applications. Jonathan Levy, Director of Training and Organizational Development at Autodesk, was deeply involved in what turned out to be a major overhaul of the company's PM system. What follows is the transcript of an interview with him that details how it happened.²¹

Indications of the Problem

Sherman: When you first arrived at Autodesk, was a PM system overhaul already on your agenda or was it something that developed over time?

Jonathan: Performance Management was not on my radar screen when I first arrived to Autodesk. I joined Autodesk back in 2009, and at that time we had a fairly traditional performance management system in place. There was a written review that included a ranking on a three-point scale, which had previously been a five-point scale. When I came on board, the company wasn't actively looking at changing its overall PM system. But the turning point came when Autodesk underwent a huge transformation around 2011, when it decided that in addition to the desktop platform, it would also move into cloud and mobile platforms. This move resulted in all kinds of new processes and metrics, all of which required a drastically more collaborative and agile approach in the workplace. Jan Becker, the Senior VP of HR, and Ian Mitchell, the VP of Training and Organization development, noticed that the most maligned process on the annual employee engagement survey was the performance management system. Many employees thought that the written performance reviews had become nothing more than a "check-the-box" activity that wasn't adding any real value. They also shared that there was little ongoing feedback as managers put most of the effort into the written documents, and conversations were taking place, if at all, only once a year. So while the way we did business at Autodesk was undergoing high-level change, the PM system was fundamentally unchanged.

Minor Fix or Major Overhaul?

Sherman: When you realized that the PM system at Autodesk wasn't adding the value that it should, what came next? How did you decide if you were going to just tweak the system that was in place versus doing a major overhaul?

Jonathan: I was asked to facilitate a meeting of Autodesk HR leaders, and the focus of that meeting was entirely on the PM

²¹ The interview was conducted by telephone on October 6, 2014

system. I made sure from the outset that we were looking at PM systems from within the unique context of Autodesk in order to figure out what outcomes we wanted such a system to optimize. This is an important point that people at different companies should keep in mind – what is working at Autodesk may or may not work at other companies. You simply can't take a cookie-cutter approach. You want to look at your company's unique context, its strengths and weaknesses, and so on. At this meeting of HR Leaders, we set up a hypothetical scenario. If we were starting a new PM system from scratch, what would be some of the guiding principles? There was widespread agreement that we wanted performance management to be *ongoing* and not an *event*. We also agreed that the system would need to focus not just on *what* gets done, but also on *how* it gets done. In other words, you can have people getting lots of results, but if the way they get those results is causing a lot of problems and dysfunction, then that is not an effective performance. We also agreed that the greatest potential value was in the performance *discussions*, not in a written document. To help employees develop well, we also saw value in making feedback more ongoing rather than only annual, which fit nicely with the overall changes at Autodesk that were requiring us to be much more agile. We wanted a PM system that would reflect that increased agility. We were identifying not just what a PM system should be, but what Autodesk specifically needed from a PM system.

Elements of the New System

Sherman: That must have been both exciting and nerve-wracking. What did you come up with for a new PM system?

Jonathan: We decided to make a major overhaul. It was apparent to us that merely tweaking the system wouldn't satisfy these objectives. The most major change was to abolish written reviews entirely. We wanted coaching and feedback to be ongoing, not event-driven, and so we shifted the focus to having ongoing/high-impact discussions. We also doubled down on "calibration sessions" that helped everyone understand what excellent performance looks like in their areas. These sessions provide managers with a forum to get a more in depth view of how others' view their employees and to create more consistent approaches to evaluating performance.

Implementation

Sherman: Knowing what you want is one thing, but implementing it is another. How did you go about doing that?

Jonathan: As performance is ultimately linked to business outcomes it is imperative that the PM process be looked at as a key enabler of business and not simply an HR-driven process. After that meeting, Jan received support from the C-Suite and other senior leaders to make this type of change to the PM system. We launched the system in 2012 – the launch included the creation of a compelling video graphic explaining the history of PM at Autodesk and the reason for the current changes. We also involved senior leaders and HR business partners speaking about these new changes.

Tracking Progress, Iterative Design

Sherman: Having the support of senior leadership was clearly essential in making this happen, but what was the reaction among the rank-and-file employees? Were they able to perceive the value of taking this new approach? Was there inertia or resistance to the change? If so, how did you deal with that?

Jonathan: In order to monitor changes to the PM system, we conducted additional surveys in addition to the usual annual employee engagement survey. In general the new system was well received, and it helped that senior leaders throughout the company played an integral role in launching the new system. In year two, the surveys reflected that both managers and employees supported the overall direction, but needed more specific tactics for how to make it happen. They wanted to know more about what good performance conversations looked like, how often they should really take place, and so on. This was fine because we knew from the outset that this would be an iterative design process that would need to be modified over time as we saw how it actually functioned when implemented. This is important for everyone to understand, because otherwise you might be surprised or even derailed when it doesn't go perfectly after launching it.

About two years into the PM transformation, we launched a campaign to drive the new process more deeply into the organization because people wanted more. My colleague Mari Capps and I took this effort on with three foundations we thought were essential to making it happen. We needed to do the following: *rebrand the PM approach*; *inspire* and *motivate*, and we needed to *empower* people. One thing we wanted to do was to stop calling the whole thing a performance management system, because that felt too synonymous with the old approach. We wanted to come up with a name that would not only capture a more holistic approach, but also link to business results. What we came up with was *Performance Matters*, which offered a nice double entendre of not only covering matters of performance, but that performance really matters to Autodesk. We also came up with three taglines to go along with it: Performance Matters for Autodesk; Performance Matters for your development; and Performance Matters for you and your team. Then we conducted interviews throughout all levels of the company, asking open-ended questions about performance and people's experience of performance at Autodesk, how the feedback they received was affecting them and changing their careers. So then you have people hearing from each other what felt important and significant about performance. We had video presentations about this along with sessions we called "Lunch and Learns" to engage people in discussions about performance and best practices around development and coaching and ongoing feedback. All these kinds of events helped achieve the *inspiration* and *motivation* pieces we felt were important. For the *empowerment* piece, we created a variety of tools, resources and trainings that helped people learn how to more fully engage with the different elements of the system.

Sherman: Where do things stand now at Autodesk with performance management?

Jonathan: We're now tracking how that whole second phase campaign is successfully driving *Performance Matters* much more deeply into the organization. We will continue to monitor results and make changes because that is at the heart of this type of iterative design approach. Two years from now the PM system will be different, just like the software we produce as a company doesn't stay the same over time. It's an ongoing, iterative process.

Ongoing Evaluation

Sherman: How do you evaluate the impact and effectiveness of *Performance Matters*? Not just in terms of how it's working for people, but also in terms of bottom-line impact to the company.

Jonathan: As I mentioned, we did two years of focused surveys about the new PM process. It was the data from those that led directly to the development of the second phase to drive the system deeper into the organization. There's also our annual employee engagement survey, and this is something taken very seriously throughout the organization. In fact, among our 8,000 employees, the response rate on this survey is always at least 92% or higher, which is pretty amazing. Part of the reason for that high response rate is because the company, right up to the very top leaders, uses the data from that survey to make changes in the organization. The company is committed to taking that input and acting on it. Every time we do a Lunch and Learn we collect additional data on how *Performance Matters* is working. The Holy Grail, of course, would be to make a link between these changes in the PM system to business results, but we haven't found a way to do that. There are just too many other intervening variables and forces and other changes happening that get in the way.

Conclusion

Every organization wants its employees to perform at peak levels. Coming up with a system that effectively tracks and evaluates that performance is no easy task, especially when you have an entrenched system that may or may not be working very well. However, Rolling up your sleeves and really tackling the performance management system at your company offers one of the best ways to make real and lasting changes that can potentially take you to a whole new level of success. And yes, those potential benefits do outweigh the discomfort and effort it takes to engage in a PM system overhaul. It begins with diagnosing what does and doesn't work with your current system, then engaging in a change process with support from the top to determine what kind of performance management system features are needed in the unique context of your organization. From there, implementation then becomes the focal point, realizing that an iterative design process means changes and revisions as the process rolls out. Finally, more steps must be taken to then drive the new system as deeply as possible throughout all levels of the company. It takes real time and effort to do this and do it right, but a new system that meets the needs of your company is worth its weight in gold.