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The Definitive Guide to Performance Management

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Imagine your most recent performance review. If feelings of anxiety, frustration, or general aimlessness come to mind, you're not alone: a recent **BambooHR survey** found that one in four employees receive little to no feedback about their performance, and many others don't see or understand their career path at their company. And with the Great Gloom continuing to cast a shadow over employee happiness, it's now more important than ever to have a meaningful and engaging performance management strategy. Luckily, with the right tools and processes, you can transform how your organization approaches performance management.

Performance management is about more than once-a-year reviews. A cohesive program turns impersonal, infrequent performance ratings into productive conversations where your employees feel valued and committed to helping propel your organization in the right direction.

What Is Performance Management?

Performance management is a holistic, human-centered approach to employee development. Encompassing a series of standardized processes and tools, this strategy measures, analyzes, and improves your workforce. It also creates fair accountability practices, opens up more development opportunities, and supports your company's policies, culture, and outcomes.

A well-balanced performance management program also provides targeted touchpoints that help guide an employee's career. It lets your people know if they're on the right track, shows why their work matters, and demonstrates how they move your business forward.

Performance Management vs. Performance Reviews

For many people, performance reviews are synonymous with performance management, but it's important to understand how they differ.

Performance reviews are individual assessments that evaluate how well each employee is doing whileproviding feedback.

BambooHR® helps businesses streamline core HR processes and focus more time and energy on what matters most: people. In this guide, we'll discuss performance management best practices, the benefits of a structured employee performance program, and what tools you'll need to keep it going strong.

Performance management is a broader system that includes employee reviews and other steps, such as:

- Peer feedback

- Manager one-on-ones

- Goal setting and tracking

- Performance improvement plans

- Rewards and recognition programs

By swapping out infrequent check-ins with a comprehensive plan for ongoing coaching and communication, you can create a clear, well-defined path to success.

How Performance Management Has Evolved over Time

Employee performance management has come a long way—and it's still evolving. Merit-based rating systems were used by the US military **during WWI** to justify raises and promotions.

Since then, frequent, informal feedback has started replacing accountability-based appraisals, with many companies combining traditional performance ratings and developmental feedback. More and more companies have also upgraded to complete HR platforms, allowing them to track goals and performance metrics more precisely and generate employee progress reports in just a few clicks.

Performance strategies have advanced even further thanks to the post-pandemic rise of remote work. According to **Gallup experts**, **the modern approach to performance management must be more "collaborative, adaptive, and individualized."** As many organizations have found out the hard way, frequent feedback is the key to engaging employees in a world where more people are working from home than ever before.

Continuous Performance Management

Continuous performance management is a newer approach that fosters better communication between managers and employees. Instead of annual performance reviews, teams use short-term goals and real-time feedback to encourage organization-wide growth and development.

In other words, continuous performance management keeps the conversation going all year long.

LEARN MORE:
Unlock Your Team's Potential with Continuous Performance Management

Why Performance Management Is Important

Many aspects of the workplace shape the employee experience—for better or worse. Having a strong performance management system in place can positively impact the following key elements.

- **Work Culture: Company culture** sets the tone for how people think, behave, and interact at work. A good performance management system helps build a positive work culture where regular feedback, support, and improvement are the norm. Manager one-on-ones

- **Rewards and Recognition:** Employees who receive great recognition are **20 times more likely to be engaged**. A performance system with an inherent reward structure encourages positive behaviors and helps people feel valued for their hard work.Rewards and recognition programs

- **Development Opportunities:** Professional development empowers people to take control of their career. Regular coaching helps employees identify their strengths and weaknesses, build their skill sets, and grow into leaders.

- **Clarity of Goals:** With clearly defined goals, each team member knows what's expected in their role. Incorporating goal-setting into your performance management strategy gives people direction and helps them feel confident they're aligned with your organization's mission

- **Communication:** Good communication creates a productive, transparent work environment. Your program can create a workplace where people feel comfortable discussing feedback, troubleshooting issues, and celebrating big and small wins together.

Ultimately, your employees shouldn't have to work through unclear job expectations, minimal coaching, and a lack of opportunities. On the leadership side, managers should feel empowered to align employee and organizational objectives, implement meaningful upskilling opportunities, and create a workplace that retains top talent.

If these sentiments resonate with you, it may be time to reimagine your approach to employee performance.

The Benefits of Performance Management

When done right, performance management drives employee and company growth. A well-planned process is felt in every corner of your company, uplifting your business and your people. Here are some of the benefits of having a good performance management strategy:

HOW PERFORMANCE MANAGEMENT STRATEGY BENEFITS YOUR BUSINESS:

- **Productivity:** Employees are **3.6 times more likely** to feel motivated to do their best work when managers give frequent feedback.

- **Employee Engagement:** Performance management programs empower employees to achieve meaningful goals and guide their career trajectory.

- **Revenue:** Motivated, productive employees can lead to more satisfied customers and greater profits.

- **Growth Opportunities:** Continuous performance management reveals the strengths and weaknesses in your workforce, making it easier to figure out if you need more training programs or fresh talent.

- **Agility:** Frequent feedback helps you make timely, meaningful performance adjustments that give you a competitive advantage.

- **Employee Retention:** The more committed your employees are to building their careers at your company, the less likely they are to leave for a competitor.

- **Connections:** Greater opportunities to communicate with and recognize your employees help you build a more connected workforce.

HOW PERFORMANCE MANAGEMENT STRATEGY BENEFITS YOUR EMPLOYEES:

- **Stronger Relationships:** Your performance program bridges the gap between management and employees, helping your people build stronger working relationships and support systems.

- **Job Satisfaction:** Good performance management can create a happier, more fulfilling environment where people want to come to work each day.

- **Trust:** When your managers are actively invested in employee development, more employees trust that your organization has their best interests at heart.

- **Self-Motivation:** A program grounded in continual feedback and support can teach employees about their potential, giving them the confidence to reach for ambitious career goals.

- **Growth Opportunities:** During their conversations with managers, employees can figure out where they want to grow and how to steer their career in that direction.

LEARN MORE:
Be Open: Performance Management Keys for Employee Retention

Assess Your Organization's Performance Management Needs

If you're drafting an HR performance management program from scratch, start by assessing your organization's goals. Identifying key performance drivers and hurdles will help you create a blueprint tailored to your company's unique needs.

Ask Yourself:

- What motivates each team at our company?

- Do our employees feel engaged and are projects completed on time?

- How diverse are the roles within our company and will one system work for everyone?

- Is our work predictable enough to benchmark?

- How hierarchical is our organization and how will that influence this process?

- How have our **employee Net Promoter Score®** (eNPS®) surveys* trended over time?

- What's our employee turnover rate?

In short, If you're revamping a current performance management process, think about what's working for your company and what isn't? It might be easier to pinpoint where you could improve from a business standpoint, your employees might also have valuable insights to share.

Gather feedback about your performance management system to figure out what they find valuable, what they'd like to see change, and how to craft a strategy that'll work for everyone.

*Net Promoter, NPS, and the NPS-related emoticons are registered trademarks, and Net Promoter Score and Net Promoter System are service marks, of Bain & Company, Inc., Satmetrix Systems, Inc. and Fred Reichheld.

Building and Executing Your Performance Management System

8 Key Elements of a Performance Management System

Every organization's system runs a little differently, but they usually share several common feature, including:

- **Goals:** Clearly define your program's goals at the company, team, and individual levels using a uniform goal-setting method that's easily trackable (more on this below).

- **Work standards:** Set expectations around what good performance and accountability mean for each individual, team, and department at your company.

- **Communication:** Are you asking the right questions and delivering feedback effectively? Good communication helps ensure the dialogue is both constructive and well- received.

- **Scheduling:** Set a predictable review cycle frequency that helps people plan for different phases in their busy schedules.

- **Technology:** Think about the tools you'll need to track goals, gather feedback, evaluate performance, and assess your program.

- **Ratings:** How do you quantify performance? Your rating system should encourage fair, accurate assessments that support data-driven decisions.

- **Rewards:** Regular recognition helps people feel appreciated and motivated to do their best.

- **Employee development:** Once you've identified areas for improvement, what's next? Create learning and mentorship opportunities that will help your team grow.

Keep in mind, it's not enough to design a performance management cycle and set it in motion—e**veryone needs to know how to execute it effectively**. Factor in the time it'll take to teach your employees and managers about the program, what each person's role is, and how people at all levels can support a fair and equitable review system.

LEARN MORE:
5 Best Practices in Performance Management

5 Performance Management Models

Ben Hastings, CEO at PerformYard, offers this advice about finding the right performance fit for your workplace:

"You don't build performance management systems for the organization you want—you build them for the organization you have."

But where do you start? In his **HR Virtual Summit** presentation, Ben explains that most performance management programs fall into one of five buckets: accountability, recognition, development, organizational alignment, or cultural alignment. The key is to agree on the framework that will have the biggest impact and tailor it to your needs.

Here's an overview of each model.

ACCOUNTABILITY MODEL

An accountability program evaluates past performance against a set standard and creates consequences for low performance. For instance, this could be a strategy where high performers are rewarded with bonuses and low performers receive development plans.

Where it works best: This approach is often used in organizations with many employees in similar roles, predictable work, and limited opportunities for recognition.

RECOGNITION MODEL

A recognition performance management system still weighs past performance against a standard but focuses more on rewarding the highest performers. This program looks for employees who go above and beyond or are the most impactful and incentivizes them with bonuses, kudos, advancement, and other meaningful drivers.

Where it works best: This approach often works well in hierarchical organizations with predictable success standards and opportunities to grant meaningful rewards.

DEVELOPMENT MODEL

A development program uses past performance to influence future growth. It evaluates employees on how well they pursue their own progress, creating a workplace that celebrates improvement individually with the hope of boosting business performance collectively.

Where it works best: This model works well in organizations with unpredictable work, diverse employee roles, and people who are intrinsically motivated to enhance their skills.

ORGANIZATIONAL ALIGNMENT MODEL

The organizational alignment model guides employee performance in a set direction through goals and KPIs. This program assesses employees based on how they've progressed toward those objectives and ensures everyone at the company is moving in the same direction.

Where it works best: This model usually works well in flat organizations (vs. hierarchical) with diverse roles and predictable, widely understood goal frameworks.

CULTURAL ALIGNMENT MODEL

Under a cultural performance management program, employees are evaluated based on how well they live up to their organization's values each workday. **Company values** are the principles or beliefs that everyone follows to keep your corporate culture on track. So, rather than trying to tell people what their work should look like, it reinforces how they should approach it.

Where it works best: Cultural alignment programs often work well in organizations with diverse roles, very unpredictable work, and professionally motivated employees.

5 Phases of Performance Management

The performance management process begins during onboarding, nurturing It typically runs in a cycle of predictable, structured phases that tie into one another. Here are five common phases used in a performance management cycle:

1. PLANNING PHASE

Lay the groundwork with your employee. Define realistic, measurable goals that align with broader business objectives and a roadmap for achieving them. Involving the employee in this process helps them understand their role and how it fits into the bigger picture. You can use a **goal-setting framework** like one of these:

- **SMART goals:** The acronym "SMART" stands for **S**pecific, **M**easurable, **A**chievable, **R**elevant, and **T**ime-bound. Using this method, short- and long-term goals are clear, realistic, and easy to track.

- **OKRs:** "OKR" stands for **O**bjectives and **K**ey **R**esults. Begin with a broad, action-oriented description of what you want to accomplish, and then pair it with specific, time-bound steps for achieving that objective.

- **Goal pyramid:** This visual approach puts your main goal (often a SMART goal) at the top of the pyramid. It's followed by three levels: a strategy for achieving the goal, a plan for executing your strategy, and the resources you'll need along the way.

Aside from strategic, business-focused targets, your employee should set personal goals, too. This helps you upskill your workforce one person at a time and empowers employees to take ownership of their professional development.

For instance, a customer service employee's business-focused goal might be to get five to ten more clients each month, and their personal goal could be to complete one of your company's certification courses by the end of the quarter.

The finalized plan should be clear enough to follow but allow some flexibility in case things change down the line.

2. ACTION PHASE

Roll up your sleeves and get to work. Your employee does their day-to-day job while following the plan you mapped out together. Their manager may actively coach and support them as they work toward their goals and provide additional guidance or resources as needed.

3. TRACKING PHASE

Track employee progress to keep the momentum going. Is your employee reaching the smaller milestones that lead to their bigger goals? Even as your employee steadily tracks their own progress, managers should regularly check in. If someone falls behind, check-ins helps ensure a problem is caught early, before it becomes a bigger issue.

In some cases, you may need to refine or redirect their efforts with a **performance improvement plan (PIP)**. For example, an employee may need more training, better time-management strategies, or a disciplinary process. A PIP should include a description of the performance gap, a concrete plan of action, and (if necessary) potential consequences if the employee's performance doesn't improve.

BambooHR Tip: We recommend scheduling casual **manager check-ins** at least every month.

4. REVIEWING PHASE

Hold a formal job performance review. Evaluate your employee's work using your company's rating system. Did they meet or exceed their goals? Did they run into any roadblocks?

An employee review should also be a two-way discussion where you learn how the process went from their perspective, provide tips for improvement, and discuss future opportunities. Some of the **questions you can ask in a performance review** include:

- What project(s) are you most proud of since your last employee evaluation?

- Did you meet your goals each quarter? If not, why?

- How has your manager supported you in achieving your goals?

- Which of our company values have you demonstrated recently?

- Where do you feel you can improve professionally?

- What top three goals would you like to focus on next?

Also, ask your employees to do self-evaluations. This crucial step helps increase self-awareness and encourages people to advocate for themselves. Self-assessments also nurture a fairer review process, ensuring your business and your employees are all on the same page.

BambooHR Tip: We recommend scheduling formal **job performance reviews** at least every six months.

5. REINFORCEMENT PHASE

Give credit where credit's due. Your employee does their day-to-day job while following the plan you mapped out together. Their manager may actively coach and support them as they work toward their goals and provide additional guidance or resources as needed.

Here are some ways to incentivize good performance:

- Promotions

- Annual bonuses

- Salary increases

- Additional PTO

- Public recognition

- Awards

Keep in mind that this phase should be part of a broader **recognition strategy**. After all, people want to be praised for their work all year long—not just during a managerial review when the stakes are higher.

LEARN MORE:
Best Principles for Performance Management

Maintain Your Performance Management Program

When you have a good performance management program in place, it's all too easy to kick back and let it run itself. But don't forget to evaluate it periodically to make sure it's still serving the current or evolving needs of your workforce.

How Performance Management Systems Can Fail

In **Gallup's research**, most employees (78% in 2023) don't feel inspired to do their best work by how their performance is managed. This could be for any number of reasons, but keeping the most common pitfalls in the back of your mind can help you set your program up for success from the start.

The program lacks training, consistency, or commitment. It's just as important for your employees to understand and own their part of the process as it is for your managers to oversee it. A performance management program without employee buy-in or a consistent cycle can turn into an empty, performative time waster. To get the best results, be sure your people understand its impact, take the process seriously, and follow through.

You're using inefficient software. Productive performance review strategies rely on data. If you're not using a comprehensive **performance management system**, you could be setting your program up for failure—especially as your company gets bigger. With the right software tools, you can take full advantage of the insights gathered through your program.

Employee goals aren't tied to company goals. Everyone should feel actively involved in your company's vision. A performance management strategy isn't just about helping people and teams do well—it's also about improving business performance. Create goals that are appropriate for each employee *and* strategically aligned with your organization's grand plan.

Expectations are unclear. Speaking of goals, they should be clearly defined—not vague or confusing. Only about **half of US employees** know what's expected of them at work, but *every person* should. Otherwise, it'll be difficult to measure each individual's success and your program overall.

Reviews overemphasize employee weaknesses. Only 19% of employees feel their weaknesses motivate them to do outstanding work. Focusing heavily on what they're doing wrong and using reviews to micromanage is unlikely to yield the most positive results. These tactics can also create a culture of fear and judgment. Instead, your performance management system should feel like a constructive, empowering exercise.

You take a one-size-fits-all approach. There's no scientific formula for **the perfect performance management system**. What works for one company may not work for yours, and what works for one department may not work for a completely different one. Customize your program to fit your organization and adjust your review criteria to suit diverse teams and individuals.

Poor communication holds your program back. From a lack of constructive feedback to criticism that's conveyed in the wrong way, it's all too easy for a manager or employee to misstep. Before getting started, train your team on how to communicate feedback and navigate tough conversations well.

Reviews mislead under-performers. We get it—no one likes to be the bearer of bad news. However, performance reviews shouldn't give someone the false impression they're doing well. This approach may feel kinder than authentic feedback, but your performance management system relies on accurate assessments and data. Plus, people more often value honesty over insincerity.

AI does all the legwork. Artificial intelligence (AI) makes HR easier in many ways, from creating action plans to drafting employee review questions. However, it still requires careful oversight. Experts warn that **AI can foster review bias and discrimination** in the workplace. If you're using AI in HR, remember that there's currently no substitute for human interaction and intervention.

Performance Review Bias

Some companies unknowingly let **implicit bias** creep into their employee review system. This is the unconscious judgment or prejudice someone holds based on their experiences and learned associations. Research shows that **humans are naturally biased**, and **this could manifest as unfair goals, employee evaluations, coaching, and feedback**.

Examples of **performance review bias** include:

- **Recency Bias:** Dwelling on the most recent time period instead of the total time period.

- **Leniency Bias:** Giving a favorable review instead of noting how a person should improve.

- **Gender Bias:** Evaluating women's attitudes, behaviors, and accomplishments differently than men's.

- **Racial Bias:** Applying unfair standards of evaluation based on an employee's race.

- **Affinity Bias:** Rating people with similar interests, skills, and backgrounds to the reviewer more favorably than others.

Several other types of biases can affect the integrity of your performance management system, but regular checks can help you recognize them quickly and recalibrate your employee review process accordingly.

LEARN MORE:
Reinventing Performance Management—How to Do It Right

Using Performance Management Tools

Over half **(52%) of HR teams** struggle to manage, analyze, and leverage HR data and reporting to their advantage. So if you're feeling skeptical about whether it's worth the investment, you're not alone.

However, a new system doesn't have to mean more administrative work. Employee performance management software gives you tools and resources specifically designed to streamline this process. Here are a few advantages:

- **Reduced Manual Work:** Using an all-in-one HR software over disparate platforms puts valuable time and energy back into your day.

- **Personalized Reviews:** Custom employee performance review templates with specific questions for different departments and seniority levels, ensures all employees get relevant, actionable feedback.

- **Automation:** Auto-scheduled employee review cycles (e.g., for every 30, 60, or 90 days) and setting reminders helps everyone receive feedback on time.

- **Goal Tracking:** Having goals and updates on a shared platform helps employees and teams stay aligned and on track.

- **Feedback Tools:** HR performance software makes it easy to gather employee feedback with ease and manage it all in one place.

- **Reporting:** Status reports let you monitor individual and team progress and share targeted insights.

Before partnering with a provider, consider what you need from an HR information system (HRIS) to have a fully automated, unified process. Many organizations use an HRIS that includes performance management tools, allowing them to simplify workflows and keep all their HR data in one place.

LEARN MORE:
4 Things You Need in a Killer Performance Management Tool

What Does an Effective Performance Management Tool Need to Have?

HR pros have their pick of several **performance management software** options on the market today, but which HR platform is right for your business? Whether you're building your performance management system from the ground up or refining an existing process, it's essential to have the right tools in your tech stack.

Look for user-friendly services and design. HR software backed by dedicated support specialists and educational resources can make a huge difference in how it's received and adopted by your company. For example, it should feel smooth and intuitive each time you log on. Take advantage of your provider's **free demo** to get a sneak peek of how it runs before signing on the dotted line.

Make sure it has the features you truly need. As with any other business platform, keep an eye out for pre-installed bloatware (the excess or flashy features you may never use) or tools with noticeable shortcomings. Investing in HR performance management software that suits your organization at this stage in the game and has the flexibility to grow with you.

LEARN MORE:
Give People the Tools to Perform with BambooHR

Evaluating the Success of Your Performance Management System

Think back to your original goals. Have you reached all your milestones? Or has some of the progress you've seen plateaued at a certain point? Monitor specific, **measurable performance management KPIs** to guide your strategy, such as:

- Employee productivity

- Employee retention

- Training effectiveness

- eNPS® score

- Employee engagement

- Employee turnover rate

- Absenteeism rate

- Job satisfaction

To get a feel for how your system is working, **discuss it with a sample group of employees and managers from different teams**. They can tell you where it runs like clockwork and where challenges arise. To gain targeted, widespread performance management data, **survey your entire workforce** and review the reports coming out of your HRIS.

Also, compare the results of your 360-degree reviews (feedback about an employee's performance from their managers, peers, reports, and self-assessments). These performance reviews should be pretty similar. If not, there may be a disconnect between the perception of the employee experience from your leadership teams and your employee's actual experience.

Good performance management is built through leadership, communication, and comprehensive tech that can help you grow and retain engaged employees. Using the insights from these channels, you can maintain a strong performance management strategy that keeps your organization on track today and in the future.

Additional Resources on Performance Management

Ready to take your strategy to the next level? For more information, check out the links throughout this performance management guide and the additional resources below:

- **Mastering Performance Management:** Watch this video series on how to design a performance management program for your organization.

- **What Is the 9-Box Model?:** In this article, we explain how you can use the nine-box model is used to provide objective, unbiased employee performance evaluations.

- **How to Improve Performance Management:** This article provides tips on how to enhance your organization's performance management strategy.

- **What Employees Want From Performance Management:** This ebook unlocks the mystery behind what your employees really want from your organization's performance management system.

- **Useful Performance Management Takeaways from Sports:** In this ebook, you'll learn about seven sports lessons that can translate to better performance management in the workplace.

- **4 Elements of Effective Performance Management:** In this webinar, our hosts from BambooHR and Lattice discuss the four key components of a good employee performance system.

- **Holistic Approach to Performance Management with BambooHR®:** Tune into this webinar to learn how BambooHR® can help you put an effective performance management plan into action.

At BambooHR, we believe employee performance management doesn't have to be painful. Our HR software makes it easier to set performance goals, track progress, and keep all your team's records in a single, centralized system.

Schedule a Free Demo Today

bambooHR®