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# 21CSI

(21<sup>st</sup> Century Staffing Innovators)

## “Performance Appraisal is Dead; Long Live Performance Contracting”

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Survey after survey shows,  
and most working people agree with the following sentiments ...

**“Performance appraisal  
is no fun.  
It feels arbitrary and unfair.”**

**“It’s hard to do well.”**

**“It is a once a year pain in the  
...”**



**Even hr.com agrees.**

(click in the link above to their viewpoint)



When we ask employees about what they want in performance management we hear things like this ...

- “I want to know what I am supposed to do and how I am going to be measured on it.”
- “I want to see how I am doing on a on-going basis, so that I know where I stand long before performance appraisal time.”
- “I want it to be fair.”





But we also hear some people saying ...

## “Why bother with performance appraisal at all?”



My interpretation of such comments:

- **These folks would rather use their “social skills” to get along with / be friends with the boss, than be “accountable for measurable” results.**
- **They do not want to do structured, reviewed performance appraisals of the people they have working for them,**
  - **even though they like being “the boss”.**



## What's the alternative ...

- Some suggestions from the trade publications and academic literature
  - regular informal feedback sessions
  - “mini appraisals’ at regular intervals through out the year
  - peer appraisals
  - structured coaching
  - ... ..

But none of these really address many of the objectives that organizations are trying to achieve through performance management

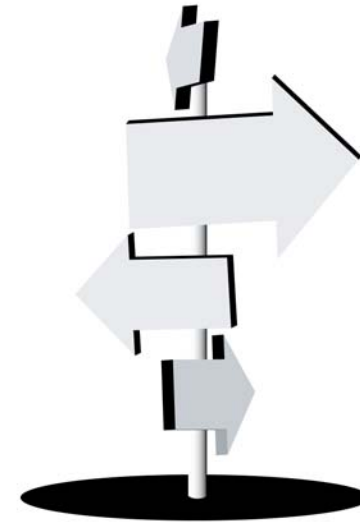
including the need to create a tangible relationship between personal performance and performance based pay



## Back to basics ... 1 of 2

### What are organizations trying to achieve through performance appraisal?

1. Relate **personal performance levels** to **performance based pay**, for part of a person's compensation (e.g. performance based bonuses)
2. Provide individuals with **feedback** about their "level of results" delivery
3. Clarify what individuals are **accountable for "doing"** in their organizational roles
  - also addressed by tools such as job descriptions / role maps / ... ..





## Back to basics ... 2 of 2

What are organizations trying to achieve through performance appraisal?

4. Identify and address the issue of “under performers”
5. Provide individuals with insight into ways in which they can “develop / enhance” their skills sets
  - So they improve their performance in this job
  - So they can increase their skills sets and readiness for other roles in the organization







## Let's sort PA objectives into sub-sets

Objective for Performance Appraisal	Relationship between individual employees and ...		
	"Their Boss"	Financial Management Group	Talent Management / HR group
Clarify what individuals are accountable for "doing" in their organizational roles	Directly accountable within performance management framework created by Talent Management / HR Group		Accountable for creating context / framework
Provide individuals with on-going feedback about their level of results delivery			
Provide individuals with insight into ways in which they can "develop / enhance" their skills sets <ul style="list-style-type: none"> <li>• So they improve their performance in this job</li> <li>• So they can increase their skills sets and readiness for other roles in the organization</li> </ul>	Accountable for delivery of messages within content / framework created by Talent Management / HR Group		1. for performance management  and
Relate personal performance levels to performance based compensation amounts	Accountable for delivery of messages within content / framework created by Talent Management / HR Group & Financial Management Group	Accountable for creating the financial context / framework	2. for skill development programs  and
Identify and address the issue of "under performers"	Accountable for managing issue within content / framework created by Talent Management / HR Group		3. for dealing with "under performers"





Based on this, we can see that ....

	Relationship between individual employees and ...		
Objective for Performance Appraisal	"Their Boss"	Financial Management Group	Talent Management / HR group
Clarify what individuals are accountable for "doing" in their organizational roles	<b>Performance contracting best meets these objectives ....</b>		
Provide individuals with on-going feedback about their level of results delivery			
Provide individuals with insight into ways in which they can "develop / enhance" their skills sets <ul style="list-style-type: none"> <li>• So they improve their performance in this job</li> <li>• So they can increase their skills sets and readiness for other roles in the organization</li> </ul>	<b>Coaching, aligned with performance contracting, best meets this objective ....</b>		
Relate personal performance levels to performance based compensation amounts	<b>Performance appraisal, when it is based on performance contracting and regular performance feedback, best meets this objective ....</b>		
Identify and address the issue of "under performers"	<b>An "under performer management program", aligned with performance feedback, best meets this objective</b> ....		



## Just what is performance contracting? It starts with ...

- A **“look ahead” dialogue** between a **boss** and an **employee** in which they agree on:
  - the 5 to 7 “items” which for the employee is accountable in the “performance period”

Why 5 to 7

[Miller: “The Magical Number 7: Plus or Minus 2”](#)

Why **Accountable**

- may mean that other people working for this person are responsible for doing the actual work





## Just what is performance contracting? It starts with ...

- Critical items that must be included:
  - the **metrics** which will be used to “judge” successful delivery on each performance area
  - the ways in which these metrics will **be delivered** to both the boss and the employee
  - A schedule of **regular meetings** between the employee and the boss to review this performance feedback together





Just what is performance contracting?

**The agreement is formalized through a written, SIGNED contract**

- The ritual of signing creates **psychological commitment** on the part of both the **employee** and the **boss**
- The **signed contract** acts as a “**audit**” trail with both can refer to during the “**performance period**”





## Just what is performance contracting? What other benefits come from a written, signed contract?

- The **signed contract** exists **independently** of both employee and boss
  - That is, it can survive the “disappearance” of the boss for any reason, e.g. sickness, promotion, ceasing employment
- Like any contract, it can be “**re-negotiated**” by the agreement of both boss and employee should **circumstances change enough to require this**
- The **process of negotiating it**, and the **resulting signed contract**, can be examined by **others in the organization** in the **rare cases** where a **dispute resolution process / intervention** is required





## An example of a Page from a Personal Performance Contract (see the appendix for the complete PPC)

Personal Performance Contract  
Between Marisha Pelnez, Financial Reporting Coordinator  
And Marsha Cortex, Company Controller, Widgets Manufacturing Inc.

#	Marisha's Objective or Accountability	Agreed to Metric	Source / Delivery of Metric	Notes
1	<p><b>Monthly Financial Results</b></p> <p>Prepare and publish accurate monthly financial statements for each of Widgets' three operating business groups, and the overall Widget corporate summary, based on the financial results recorded in the General Ledger. Complete by 5 working days after the previous month's published GL closing date.</p>	<p>The reports exist and are in the email of people on the approved distribution list by 9AM on the morning of 6<sup>th</sup> working day.</p> <p>Once published in this way, the reports do not have to be re-issued due to errors which occur in Marisha's process after the GL is closed for the previous month.</p>	<p>The email system provides an audit trail of the timing of the distribution email sent out by Marisha.</p> <p>Re-issues of the reports required by errors in Marisha exclude any re-issues required by making corrections to the GL source once it has been closed.</p>	<p>Use the summary reports that already are already programmed to do this work.</p> <p>Work with the IT group to prepare any new summary reports that are added once they are approved by the business heads and Marsha over the course of the year.</p>
2	<p><b>Quarterly Financial Results</b></p> <p>Prepare and publish accurate quarterly financial results and "to year end projections" for each of Widget's three operating business groups, and the overall Widget corporate summary based on the financial results recorded in the General</p>	<p>The reports exist and are in the email of people on the approved distribution list by 9AM on the morning of 16<sup>th</sup> working day of the month following the last month of Q1 thru Q3</p>	<p>The email system provides an audit trail of the timing of the distribution email sent out by Marisha.</p>	<p>The GL computer application has a budgeting / re-forecasting sub-system which is used to collect the expenditure and</p>

Page 1 of 5 Signed at Guelph, Ontario, on December 15<sup>th</sup>, 2010  
Performance Period: January 1<sup>st</sup> 2011, to December 31<sup>st</sup>, 2011

- Between Marisha Pelnez, Financial Reporting Coordinator
- and her boss, Marsha Cortex, Company Controller
- at Widgets Manufacturing Inc. in Guelph, Ontario, Canada





Just what is performance contracting?

**The employee and the boss get together regularly to review the metrics based performance feedback**

- They each get the “feedback”
  - eliminates “information is power” dynamic
- **Under**, normal or **over** performance is **obvious** over the course of the performance period
- The **regular meetings** promote “**joint problem solving**” and “**trend management**” as required
- Any **resulting changes** in the Personal Performance Contract can be **documented and signed**, resulting in an updated contract
- These meetings are the **perfect base** for “**coaching**” by the boss that is **focused on the employee’s “performance in this job”**







## An example of a Page from a Personal Performance Contract Update (see the appendix for the complete update)

**Results of Monthly Performance Review Meeting  
Between Marisha Pelnex, Financial Reporting Coordinator  
And Marsha Cortez, Company Controller, Widgets Manufacturing Inc.**

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**1. Monthly Financial Results:** On Track as of May 2011

**2. Quarterly Financial Results**

- Q1 results initially were late than target by two working days.
- Q1 results needed to be re-issued twice on review.

Marisha's perception of the circumstances.

- Quarter GL close was happened two days after the monthly GL close date for March. Work on the Quarter results therefore started two days later than originally anticipated in the PPC.
- Marisha suggests: Action needed: this part of the PPC needs to be updated to reflect the dependency on the Quarterly GL close date, which can be different from the last month of the Quarter GL dates.
- The first time the Q1 results needed to be re-issued was because changes were made in the Quarterly GL closing entries – beyond Marisha's control.
- The second time the Q1 results needed to be re-issued because Marisha used in interim version of the GL file, not the final version that included all of the changes to the Quarter close.
- Marisha has taken step to ensure that IT keeps her in the loop on the names of updated versions of the GL file. She will no longer depend on her "out of date" documentation, but get an actual copy of the file name updates.

**3. Annual Budget** – no activity to date

**4. Ad hoc reports**

- Ad hoc report log shows that all ad hoc reports have been completed on time and that there has been no need to re-issue any for reasons having to do with their completion. Two "re-issues" in May were the result of scope definition changes, once the original report was received by Marsha and the CEO. In effect, they were requests for new reports.

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PPC Update  
Signed at Guelph, June 5<sup>th</sup>, 2011

Marisha and Marsha document the results of their June performance review meeting, resulting an update to Marisha's PPC



## What is the relationship between performance contracting and performance appraisal?

- Performance contract is “look ahead” and “on-going”; performance appraisal looks back
- Performance appraisal occurs at the end of the performance period
  - E.g. once a year or at the end of the project ... what is appropriate
- Performance appraisal simply summarizes what has happened over the performance period
- Performance appraisal relates summarized personal performance to “pay for performance”

Personal Performance Contract Between Marisha Pelner, Financial Reporting Coordinator And Marsha Cortez, Company Controller, Widgets Manufacturing Inc.				
#	Marisha's Objective or Accountability	Agreed to Metric	Source / Delivery of Metric	Notes
1	<b>Monthly Financial Results</b> Prepare and publish accurate monthly financial statements for each of Widgets' three operating business groups, and the overall Widget corporate summary, based on the financial results recorded in the General Ledger. Complete by 5 working days after the previous month's published GL closing date.	The reports exist and are in the email of people on the approved distribution list by 9AM on the morning of 6 <sup>th</sup> working day.  Once published in this way, the reports do not have to be re-issued due to errors which occur in Marisha's process after the GL is closed for the previous month.	The email system provides an audit trail of the timing of the distribution email sent out by Marisha.  Re-issues of the reports required by errors in Marisha exclude any re-issues required by making corrections to the GL source once it has been closed.	Use the summary reports that already are already programmed to do this work. Work with the IT group to prepare any new summary reports that are added once they are approved by the business heads and Marisha over the course of the year.
2	<b>Quarterly Financial Results</b> Prepare and publish accurate quarterly financial results and "to year end projections" for each of Widgets' three operating business groups, and the overall Widget corporate summary based on the financial results recorded in the General	The reports exist and are in the email of people on the approved distribution list by 9AM on the morning of 16 <sup>th</sup> working day of the month following the last month of Q1 thru Q3	The email system provides an audit trail of the timing of the distribution email sent out by Marisha.	The GL computer application has a budgeting / re-forecasting sub-system which is used to collect the expenditure and

Page 1 of 5 Signed at Guelph, Ontario, on December 15<sup>th</sup>, 2010  
Performance Period: January 1<sup>st</sup>, 2011, to December 31<sup>st</sup>, 2011





An example of a Page from a Personal Performance Appraisal Based on a Personal Performance Contract and Regular Performance Feedback Meetings  
(see the appendix for the complete PPA)

Performance Appraisal Of Marisha Peinex, Financial Reporting Coordinator By Marsha Cortez, Company Controller Based on PPCs Between the Two			
Performance Results			
Objective or Accountability	Results Over Performance Period (Compared to PPC Metrics)	Employee's Comments	Superior's Comments
1. Monthly Financial Results	Consistently Achieved Performance Metrics  Exceeded them by Year End		Towards the end of the year, once Marisha has really mastered the data extract programs, she began to use them to improve the time needed to complete the monthly financial reports. As a result, we will be able to deliver them by 4 working days after the previous month's GL closing date in 2012.
2. Quarterly Financial Results	Consistently Achieved Performance Metrics	There were difficulties with this process this year, because we often closed the quarter several days after the GL closing date for the last month in the quarter.	The delays and difficulties experienced in this process were the result of difficulties in the way we process quarter closing, not Marisha's preparation of the Quarterly Financial Results. Improving this process will be one of the new items in Marisha's 2012 PPC.

Agreed to and Signed at Guelph, Ontario, December 13<sup>th</sup>, 2011

It is easy for Marsha and Marisha to come to agree on the details of the PPA, since there are “no surprises” in it



## Performance Contracting vs Performance Appraisal

<b>Contracting</b> 	<b>Appraisal</b> 
<b>Look Ahead</b>	<b>Looks Back</b>
<b>Metrics Based</b>	<b>Judgment Based</b> (unless performance contracting has been in place)
<b>Allows Action on Feedback / Coaching</b>	<b>After the Fact –</b> little opportunity to take corrective action
<b>Focused on Getting Valued Results</b>	<b>Power Based Evaluation of Individuals</b>
<b>Motivating / Inspiring</b>	<b>De-motivating for Most People</b>



## Keys to Successful Implementation

- **Top to Bottom Implementation**

- More unique at top
- Cascade down
- More standardized at lower levels
- Keep it simple
  - Start with Word documents
  - Integrate it into your HRIS if it is feasible and EASY

- **Don't confuse "the system" for "the skills" or "the dialogues"**

- **Don't leave it until year end**

- Can be started at any time
- Easy to adapt to project life cycles
- A performance contract can always be updated

- **Train, Motivate, Monitor and Reward**

- **Support your managers with an effective "under performance" management process**





## **Tie Performance Contracting to Your Existing Performance Appraisal Process**



**Show people that Contracting Delivers Results  
While Appraisal Delivers Rewards**



Thank You

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