Pulakos, E. D., Mueller Hanson, R., Arad, S., & Moye, N. (2015). Performance management can be fixed: An on-the-job experiential learning approach for complex behavior change. *Industrial and Organizational Psychology: Perspectives on Science and Practice*, *8*, 51–76.

Richard, O. C., & Johnson, N. B. (2001). Strategic human resource management effectiveness and firm performance. *International Journal of Human Resource Management*, *12*, 299–310. doi:10.1080/09585190121674

# Going Beyond the Fix: Taking Performance Management to the Next Level

Allan H. Church, Nicole M. Ginther, Rebecca Levine, and Christopher T. Rotolo
*PepsiCo, Purchase, New York*

Most organizations require some level of emphasis on sustained performance to survive. This is particularly true of publically traded organizations or those concerned with profit-and-loss accountability. In short, performance needs to be managed. As a result, performance management (PM) is a key practice in business and is often one of the primary areas of responsibility for industrial and organizational (I-O) practitioners in organizational settings. It is also a key lever for change in organization development (OD) interventions (e.g., Church, Rotolo, Shull, & Tuller, 2014), particularly when linked to specific behaviors that are being introduced and/or reinforced for the future success of the organization. Unfortunately, as Pulakos, Mueller Hanson, Arad, and Moye (2015) have noted, leaders and employees in most organizations fundamentally dislike PM. In fact, this dislike is so intense that it has resulted in professional conferences, workshops, and popular business books focused on the simplification, replacement, or even demise of the field (e.g., Culbert, 2010; Effron & Ort, 2010). There is even a PM book for dummies (Lloyd, 2009).

What does this mean for I-O psychologists? As practitioners responsible for the design and delivery of streamlined PM systems focused on meeting a number of complex organizational objectives, we face of number of challenges. One of the major obstacles is finding the right balance in the design. Although it is important to understand the science and research behind

Allan H. Church, Nicole M. Ginther, Rebecca Levine, and Christopher T. Rotolo, Global Talent Assessment and Development, PepsiCo, Inc.

Correspondence concerning this article should be addressed to Allan H. Church, PepsiCo, Inc., 700 Anderson Hill Road, Purchase, NY 10577. E-mail: allan.church@pepsico.com

https://doi.org/10.1017/iop.2015.10 Published online by Cambridge University Press

the practice domain, the bottom line is that organizations expect flawless execution. Moreover, they expect this level of perfection to be achieved at the ideal point on the relationship curve between process complexity and degree of impact. Pulakos et al. (2015) have recognized many of these same issues and have attempted to address them in their focal article. In a laudable effort to "fix" PM, they have suggested the application of a five-step consulting model and a four-level behavioral intervention (i.e., inspire, adapt, align, and grow).

In general, we completely agree with the change approach taken and, in particular, we agree with the recommendation to focus on behaviors in PM. In fact, PepsiCo was one of the first organizations to include an emphasis on manager behaviors with the PM design in 2001 when the organization transitioned to separately weighted business and people results (Corporate Leadership Council, 2002, 2005). At this time, this change was meant to drive manager capability and shift the culture to be more inclusive overall (Church et al., 2014; Thomas & Creary, 2009). The practice has evolved considerably since its inception, and in 2008 the organization introduced an annual upward feedback program called the Manager Quality Performance Index. This process has been successful in linking specific managerial behaviors to annual performance ratings for over 8,000 professionals (Bracken & Church, 2013; Church, Tuller, & Desrosiers, 2013). Although there have been adjustments and enhancements over the years, the core philosophy and basis of PM remains intact.

Despite the longevity of the PM model at PepsiCo, however, there is always room for improvement. Leaders and managers are constantly ready to challenge the perceived (or real) bureaucracy, complexity, and administrative burden of executing PM using cascaded objectives, fixed ratings, annual reviews, and large group calibration meetings. As Pulakos et al. (2015) have suggested, implementing yet another set of minor tweaks to the exiting PM process is probably not the right answer. Wholesale change is needed in PM.

From our perspective, however, the solution that Pulakos et al. (2015) have presented, although helpful, does not go far enough. First, on the basis of our experience in designing and leading global PM systems at the macro level and living with the process at the individual level, we believe that there are some issues that have been overlooked or overly simplified in their solution. Second, the solution itself needs to be more radical. In the following sections, we outline both the areas in need of further consideration and provide three future-oriented practices that could dramatically change the way PM is delivered in organizations today. Although the latter practices are not currently in use in our organization, the concepts have generated

https://doi.org/10.1017/iop.2015.10 Published online by Cambridge University Press

considerable interest and debate, and we feel the concepts should be considered further.

## Challenges and Complexities With PM Systems Today

Pulakos and colleagues (2015) have articulated the key problems with PM systems today, and we concur with both their assessment of these issues and the philosophy behind their proposed solution. That is, rather than funneling significant resources into administratively burdensome PM processes divorced from behaviors that actually enhance performance, organizations should instead direct resources toward promoting the behaviors themselves. There are, however, some challenges that the authors' proposed solution does not sufficiently address.

### *The Devil Is in the Details*

Although we agree that many performance rating systems as currently deployed do not always accurately measure what they should, and these systems are not always properly used for decision making, we believe that any solution that does not provide detailed guidance on measurement and tracking will face challenges in implementation and sustainability. So although Pulakos et al. (2015) have made some interesting suggestions to increase flexibility, there is little information about the additional human resources (HR) or OD resources needed to support the implementation of that flexibility, including the codification of performance and progress. For example, the authors have proposed a solution involving large numbers of people at various levels and with varying relationships in PM activities such as goal setting and feedback. Although the practice of a network of learning partners is very intriguing and undoubtedly effective when supported by the organizational climate, it also adds another layer of involvement that must be managed by someone in the system (and probably HR). Apart from the investment of training and time in these activities, the following questions surface: Whose responsibility is it to actually track these processes and report on the resulting progress? How will they be calibrated with so many cooks in the kitchen? Essentially, we believe there needs to be as much thought and strategy put into the measurement and codification of behavior change as there is into how to drive it. If we return to the effort by impact curve noted above, we need more detail on exactly how the proposed fixes will result in the right balance of results. Organizations have responsibilities to their shareholders, board, and employees to report on a variety of performance metrics; therefore, every change to the process must be considered in the context of those responsibilities.

https://doi.org/10.1017/iop.2015.10 Published online by Cambridge University Press

### *Ratings Are Here to Stay*

Although it might be trendy to want to remove performance ratings in the name of simplification, from our perspective this is simply not the answer. Decades after Landy and Farr's (1980) watershed article, debates surrounding the appropriate use of ratings and rating scales continue to exist. Pulakos et al. (2015) have addressed this raging debate in the industry by stating that "there is no one right answer to the question of what should be done with ratings," which is somewhat of a nonanswer. Although we agree that the issues are too complicated for a single solution, we believe that practitioners need a wider variety of solutions to help organizations deal with this particular set of issues.

Eliminating ratings altogether, however, is unlikely to be a feasible solution for the majority of organizations because an overhaul of this nature would require significant alignment among the entire HR function and the senior leadership team. Most companies have deep information and payroll systems with talent management data linked across multiple years. Every time a PM process is changed, the ripple effects (and risks to payroll) are potentially staggering from both a technical and a cost perspective. On top of these issues are the leadership and cultural components of the messages that the ratings themselves (as well as the behavior descriptors used) send to employees about differentiation. Finally, there are implications associated with the use of ratings for pay at the base or merit level, as well as linkages to higher order rewards such as bonus and long-term incentives. Most organizations that are concerned with the bottom line have merit budgets to hit as part of an annual operating plan. In this context, how do managers differentiate performance-based pay across the entire spectrum if ratings are not used and pay is not delivered via a forced distribution? Either there is a "peanut butter" approach or there is overpayment chaos and a blown budget.

These complexities point to the fact that, although performance ratings are not always necessary, the alternative solutions offered are limited when examined under the lens of flawless execution. Further, although there may indeed be promise in using broader categories instead of ratings, practitioners need additional options to take back to their organizations. In the end, we believe that options less radical than eliminating ratings entirely should be further explored.

### *Put More Teeth Into It*

The third way in which Pulakos et al.'s (2015) proposed framework could be enhanced is by overlaying an OD mindset. More specifically, whereas introducing an emphasis on motivating employees and driving desired behaviors is a definite improvement over pure results PM models, we would argue for more formal and fully integrated feedback mechanisms. At the

https://doi.org/10.1017/iop.2015.10 Published online by Cambridge University Press

highest level of systems thinking, this would translate to integrating the desired behaviors into multiple data-based processes to communicate and reinforce culture change (Burke, 1994; Church et al., 2014; Waclawski & Church, 2002). These processes would be linked to interventions at the individual (multisource feedback), group (team composition), and organization (employee surveys) levels.

As a simple first step, for example, introducing a short upward behavioral-feedback tool might be quite impactful. As noted earlier, PepsiCo has a history of integrating an emphasis on people management into its PM processes. The company's efforts have resulted in considerable improvement in employee perceptions over time of the effectiveness of PM as measured by organizational surveys with 80% responding that managers are being held accountable for both business and people results (Church et al., 2014). Formalizing a feedback process whereby direct reports can rate their manager's behavior on an annual basis timed to influence the PM process can drive greater accountability on the part of both employees and managers. Although there are leadership, political, and technical complexities in administering any such organizational change, and it is best to keep the process separate from more developmental feedback programs for leadership and talent management efforts, integrating standardized feedback tools is a very visible and tangible way of driving the behaviors needed for success. As Bracken and Church (2013) have noted, individual feedback tools have been migrating from development-only to development and decision making since their introduction in the 1980s. If behavioral change is the intent, then making these hard linkages is one key way to achieve the desired outcomes.

#### *There Is More Than Meets the Eye*

Finally, we would have liked to have seen a deeper appreciation by Pulakos et al. (2015) for the complexities of PM systems that we find today in large organizations. Although many issues were raised, hosts of others were not touched on—all of which impact the feasibility of the suggestions to fix PM. For example, discussion on differences in how total rewards are administered at different levels in the hierarchy, and with different weights, in most large organizations is missing. The visible role of the most senior leaders in modeling the use of the PM process and the rating scale is critical in its cultural acceptance and should have been explored further. In addition, although the authors have noted that the manager–employee dyad is increasingly out of date in today's matrixed organization, they have not addressed how the four behaviors cited might manifest in organizations where "one size does not fit all." There is also the HR systems component of PM that has increasingly become a critical aspect of many HR and OD professionals' roles.

https://doi.org/10.1017/iop.2015.10 Published online by Cambridge University Press

Every step in the process must now be considered in the context of large, complex systems that have implications for how data are stored, moved, and reported throughout the organization. Although nirvana might be more customized PM systems, this will only be enabled through a better understanding and leveraging of technology and data applications to support the process.

### Three Radical Ideas for Managing Performance Differently

Although we agree with the proposed solutions in the focal article, we question whether they will really fix PM as the article title implies. We believe that those recommendations are more of an evolution of PM systems and that a more radical reconceptualization of PM is needed to really address the issues Pulakos et al. (2015) have raised. Reconceptualizing PM should be informed by dynamics occurring in other areas of HR and I-O practice. For example, we believe we can learn a lot from the large transformations occurring in areas such as learning, leadership development, and selection, just to name a few. The applications of new technologies, social media, and big data are transforming the world of work, and we believe that these will impact PM as well. Three radical ideas for managing performance differently are outlined below. Although unconventional and future oriented, we believe that these three areas need to come to fruition for PM to be truly taken to the next level. We believe that each of these areas is enabled and informed by the one that precedes it, as explained below.

#### *"Datafication" of HR*

The concept of big data in HR has only recently come on the scene, and it is clearly still ascending the hype curve. For example, Bersin (2013) reported from a recent survey of 480 large companies that only 4% had the capability to perform predictive analytics about their workforce. As faddish as big data might seem, we believe it is here to stay. Talent analytics is an emerging area that focuses on the analysis of large volume, high variety HR data for predictive modeling, scenario planning, risk analysis, strategic planning, and so on. Most of these techniques use group-level data to derive their insights. It will not be long until these techniques are applied at the individual level. Technology firms like IBM are able to mine individual e-mail, social media posts, and other online activities to derive one's skills and abilities. It is not a far leap to apply it to PM. If the technology lives up to its promise of being more inclusive (i.e., using both hard and soft data) and real time, it may be more accurate as well. For example, imagine a world where constant information is streaming about an individual's performance from multiple types of sources, accessible on demand. This would vastly reduce (a) the reliance on subjective judgments of performance and (b) the administrative

https://doi.org/10.1017/iop.2015.10 Published online by Cambridge University Press

burden of managing the process versus focusing on desired behaviors and development.

### *Separation of Pay and Performance*

The focal authors have identified one of the most critical problems with how performance ratings are currently used: as drivers of merit pay increases. We concur, and we would go even further in emphasizing how linking performance ratings to merit budgets negatively impacts employee attitudes. In theory, pay for performance as a motivating tool is sound. But as Pulakos et al. (2015) have noted, it suffers from too many constraints to be effectively operationalized. Particularly when growth stalls, having a performance rating retrofitted to align with mediocre organizational financial performance adds unnecessary insult to the injury of a small to nonexistent merit increase. Moreover, pay (i.e., total rewards) is far more complex than just merit; there are bonuses, long-term incentives, perks, pensions, and health benefits to name a few. As noted earlier, getting rid of performance ratings altogether is not practical for most organizations because these are often linked to many different elements of pay, not just merit. Instead, we propose as an alternative that performance ratings be completely separated from the merit pay cycle.

More specifically, rather than have a single annual cycle in which pay and performance are administered together in a complex, cumbersome, and people-intensive process, we suggest breaking the cycles entirely. This would be similar to how many companies have separated talent management and review cycles from performance cycles. For example, although the merit pay administration process would occur once a year (or more if pay practices in a region or market require more frequent action), the PM and feedback process could occur whenever the organization deems it appropriate. Although having these separate processes adds complexity, it actually reinforces Pulakos et al.'s (2015) model by allowing performance ratings to be discrete measurements unburdened by artificial linkages to other parts of the PM system. These more accurate data sources can then be better used by organizations.

### *Mass Customization of PM*

The third radical idea, which builds (and is reliant) on the ones above, concerns the application of mass customization to PM. The authors of the focal article have made the case that a PM strategy needs to be aligned with the organization's values, culture, priorities, and business needs. We strongly agree with this statement and believe that, rather than having a singular model of PM, organizations would be best served in the future by applying a mass customization approach instead. The concept of mass customization

https://doi.org/10.1017/iop.2015.10 Published online by Cambridge University Press

originated in the 1970s from the manufacturing industry, and the concept has been applied to the fields of employee benefits and OD more recently (Golay & Church, 2012).

Although Pulakos et al. (2015) have discussed the importance of flexibility, their approach allows almost too much leeway in its application. From our perspective, mass customization would allow a range of principles and guidelines for how PM should be implemented and yet allow the flexibility for an organization to customize within their own context to support subcultures, independent management styles, different business models and priorities, and the unique requirements of different job levels and functions. The difference here, however, in applying mass customization principles is that there would be some level of consistency across the organization to allow for the tracking, measurement, and roll-up processes that are typically required of more senior levels of management for reporting purposes (e.g., external financials, Dow Jones Index, etc.).

Finally, the cyclical PM process with highly regimented touch points throughout the year is clearly not meeting the needs of the broad and varied constituents. We feel that by combining real-time "datafied" performance metrics, separating merit pay from performance feedback, and providing leaders and managers with a menu of options for delivering evaluations to meet their specific needs, organizations would (a) reduce the burden of PM while (b) increasing its impact. These three ideas together, if taken to the extreme, could even be applied at the individual-employee level such that each person has their own optimized, high value, high impact PM process.

## Conclusion

In the end, we commend Pulakos et al. (2015) for their call to action on issues that have pervaded talent management for decades. Pulakos et al.'s demand for organizations to rethink PM and usher the practice into a new age using evidence-based behaviors and proven change-management practices will certainly improve the current state of PM, and it could potentially help PM as a practice "catch up" with other major HR processes undergoing significant transformations today. We also recognize that their focal article is important for another reason: If any field is equipped to solve this problem, it is I-O psychology. From a branding perspective, we believe that it is absolutely vital that I-O psychologists tackle the issues that Pulakos et al. (2015) have raised and not leave the problem for other, less qualified professional groups to solve.

https://doi.org/10.1017/iop.2015.10 Published online by Cambridge University Press

## References

Bersin, J. (2013, October). Big data in human resources: A world of haves and have-nots. *Forbes*. Retrieved from http://www.forbes.com/sites/joshbersin/2013/10/07/big-data-in-human-resources-a-world-of-haves-and-have-nots/

Burke, W. W. (1994). *Organization development: A process of learning and changing* (2nd ed.). Reading, MA: Addison-Wesley.

Bracken, D. W., & Church, A. H. (2013). The "new" performance management paradigm: Capitalizing on the unrealized potential of 360 degree feedback. *People & Strategy*, *36*(2), 34–40.

Church, A. H., Rotolo, C. T., Shull, A. C., & Tuller, M. D. (2014). Inclusive organization development: An integration of two disciplines. In B. M. Ferdman & B. R. Deane (Eds.), *Diversity at work: The practice of inclusion* (pp. 260–295). San Francisco, CA: Jossey-Bass.

Church, A. H., Tuller, M. D., & Desrosiers, E. I. (2013). The Manager Quality Performance Index (MQPI): Driving superior people results through measurement. In E. Biech (Ed.), *The 2013 Pfeiffer annual: Training* (pp. 147–166). San Francisco, CA: Wiley.

Corporate Leadership Council. (2002). *Closing the performance gap: Driving business results through performance management*. Washington, DC: Corporate Executive Board.

Corporate Leadership Council. (2005). *PepsiCo's dual performance rating practice: An overview of the practice and a conversation with Allan Church, VP Organization & Management Development*. Washington, DC: Corporate Executive Board.

Culbert, S. (2010). *Get rid of the performance review! How companies can stop intimidating, start managing—and focus on what really matters*. New York, NY: Hachette.

Effron, M., & Ort, M. (2010). *One page talent management: Eliminating complexity, adding value.* Boston, MA: Harvard Business School Publishing.

Golay, L. M., & Church, A. H. (2012). Mass customization: The bane of OD or the cure to what ails it? *Leadership & Organization Development Journal*, *34*, 661–679. doi:10.1108/LODJ-01-2012-0002

Landy, F. J., & Farr, J. L. (1980). Performance rating. *Psychological Bulletin*, *87*, 72–107.

Lloyd, K. (2009). *Performance appraisals and phrases for dummies.* Hoboken, NJ: Wiley.

Pulakos, E. D., Mueller Hanson, R., Arad, S., & Moye, N. (2015). Performance management can be fixed: An on-the-job experiential learning approach for complex behavior change. *Industrial and Organizational Psychology: Perspectives on Science and Practice*, *8*, 51–76.

Thomas, D. A., & Creary, S. J. (2009). *Meeting the diversity challenge at PepsiCo: The Steve Reinemund era* (Case No. 9–410–024). Boston, MA: Harvard Business School Publishing.

Waclawski, J., & Church, A. H. (2002). Introduction and overview of organization development as a data-driven approach for organizational change. In J. Waclawski & A. H. Church (Eds.), *Organization development: A data-driven approach to organizational change* (pp. 3–26). San Francisco, CA: Jossey-Bass.

https://doi.org/10.1017/iop.2015.10 Published online by Cambridge University Press