What is performance management? Why is it important?

Simply put, performance management is a process by which managers and employees work together to plan, monitor and review an employee’s work objectives and overall contribution to the organization. Performance management is important because it is a process that not only evaluates performance, but also motivates and engages employees by providing feedback and goal setting opportunities. When done well, the process helps to align individual behaviour with the organization’s goals, improving the work environment and meeting employees’ desires to receive feedback.

Challenges in the nonprofit sector

Performance management is not an issue unique to nonprofit organizations. However, there are challenges that nonprofits face, making it difficult to find and implement a suitable performance management model. Conversations with experts in the sector identified the following recurring challenges: the culture in nonprofits, the role of a voluntary board, stretched resources and time, and problems with traditional performance management models.

Culture

The culture in Canadian nonprofit organizations is often characterized as one that promotes egalitarian values and a flat lined organizational structure. Because many individuals understand traditional performance management as a type of “command and control” process, they fear that implementing it could create a situation that opposes these values, enforcing hierarchical or bureaucratic principles. This perception can steer nonprofit managers away from implementing performance management. Along with the seemingly contradictory values of the nonprofit sector and those of traditional performance management, there is also a sense that we are ‘all good people, here for the cause.’ This can make it tough for boards or managers to have critical conversations about performance with employees.

Board

The role of the voluntary board can also bring about challenges in the performance management process. It is important for boards to know that it is their role to evaluate the Chief Executive Officer (CEO) or Executive Director (ED) of an organization and that failing to implement performance management can be detrimental. The board may not have all the necessary experience or skills in managing performance, setting a tone that does not emphasize good practice within the organization. These factors can bring a cascading effect of improper performance management, from the CEO/ED to the managers to the front line employees.

Resources

Another challenge is the general lack of resources, skills and/or time that managers have to implement effective performance management. Especially for small organizations, performance management is often pushed aside to focus on the front line operations. Being stressed for time and resources or not being adequately trained are all things that bring about challenges.
Traditional methods

Traditional performance management has tended to tie performance to readily measurable indicators of success – such as the amount of revenue brought in or number of sales made. As nonprofit organizations often have goals or mandates that need to measure performance on the quality of relationships and the interactions of individuals, traditional types of evaluation are often categorized as not fitting nonprofits’ specific needs.

State of the sector

Sector leaders are clear that there are no norms or standards in the sector about managing employee performance – that there is a wide range of practices. Don McCreech, an HR consultant and the Chair of Imagine Canada explains, “Some organizations exhibit some very innovative models and best practices, better than many organizations in the corporate sector, while other organizations in the not for profit sector have very questionable, if not nonexistent, performance management practices.”

Other leaders explain that the nonprofit sector is overwhelmingly traditional when approaching performance management, being either content with the traditional methods in place or striving toward a traditional plan (such as an annual evaluation form). Sticking with formal traditional methods, and not reviewing them, is often not helpful or aligned with the organizations needs and can create an atmosphere where meeting and evaluating once a year becomes daunting – with supervisors feeling inadequate and employees not gaining from it.

The trends

Increased accountability means an increased emphasis on performance management

There is an ongoing rhetoric in the nonprofit sector put forward by leaders, boards, and CEOs that entrenches the need for the sector to be accountable and transparent. There is more pressure on the funder’s dollar and more organizations that are representing a need in society. As a result, organizations are starting to have to prove what they are doing is working – and not just through anecdotal stories. The increased scrutiny and increase in expectations causes a shift in how organizations measure themselves. Scott Haldane, CEO of YMCA Canada explains, “This growing pressure for accountability, and therefore need for not only operational success measures but also a list of outcomes and impacts that can be measured, translates from the organization’s strategic plan, to the operational plan, right down to individual performance management.”

This shift means that more boards, CEOs, and employees are paying attention to performance management within their organizations. The question is not “Is performance management important?” but “How do I do it and what is the best way for my organization to implement it?”

Linking performance management to strategic goals

More organizations are linking their performance management system to the organization’s strategic goals. This shift is occurring because an integrated approach usually means more time for front line operations, but beyond this, it also helps to align organizational values with employee work ethic and performance.

As well, some organizations in the sector are starting to pay more attention to an employee’s career goals during performance discussions. This increased concentration on employee’s career goals should help to stimulate career development and encourage people to be mobile and grow within the sector, creating a larger pool of sector leaders and talent.

Organizations are starting to focus on the “motivation” aspect of performance management

There is starting to be a movement away from evaluating individuals toward evaluating programs and functions in the organization. This shift means more focus on results and emphasizes the need for developing measures and indicators of performance. It departs from the outdated model where the employee was rated after an isolated conversation with their manager. Vic Murray, a Professor
in School of Public Administration at University of Victoria explains, “At the individual level of performance management, this shift in evaluation means that there is less “judging” and more “motivating” as to align employee career goals with the organization’s strategic goals.”

A new demographic of employees brings change in performance management

Individuals who are entering the workforce directly out of school have a different work ethic than many of the people currently working in the sector or who are set to retire soon. Performance expectations, and therefore performance management systems, are starting to recognize these differences and change accordingly. Changes in how employees manage their time, what they expect in job descriptions, and differences in values can all lead to misunderstandings in the way people perform. Clarity in expectations from both the employee and employer’s perspectives in order to understand the differences is just one way that organizations are starting to shape their performance discussions.

Jennie Edgecombe, CEO of the YMCA-YWCA of Greater Victoria, explains that in her organization and through her observations in the community, the new demographic is looking for more freedom and flexibility. Individuals will leave the organization, even when the work is going great, to set off traveling or to encounter something entirely new. Many younger people are settling down and buying houses later, which takes them away from the previous career path of “if I do this, I can become a manager next year.” By understanding how to engage younger staff for a period of time and recognizing that they may come back, it is possible to shape performance management models.

Pay for Performance

More organizations are starting to think that pay for performance is acceptable and there is more dialogue occurring in the sector about how to implement it. This is a change from the belief that it is antithetical to how nonprofits work.

Experience using pay for performance models and investing time to explore the literature on compensation strategies are leading some organizations to find different ways to use merit increases. By examining the function of an organization as a whole, they are starting to say that “performance is about the entire organization” rather than how well an individual did.

Some organizations notice that offering individual pay incentives can lead to getting a job done, but not necessarily in a way that either contributes to the organization in a sustainable way or in a way that is aligned with the organizational values. These organizations are providing merit incentives when the entire organization exceeds, rather than the individual. This is said to bring about motivation to be a good performer, rather than encouraging employees to discover how the system will pay them the most.

Tips from sector peers

Through conversations with peers in the sector, here are a few recurring tips for implementing successful performance management:

- Move past the thought that “we are doing it because it has to be done” and try to understand how the performance management system you use will benefit your organization
- For a sustainable and successful system, you must invest time into the system and not let it “lag behind” on the list of priorities
- Create an open door policy of trust, especially in smaller organizations. This allows for performance management to be ongoing and continually reflected on
- Commit to following up on raised areas of concerns. This demonstrates your investment in an employee, creating more engaged staff and a staff that will come to you with a problem
- Remember that performance management is not only about evaluating progress, but also about motivating staff
- Research different models to find the right fit for your organization
Does your system work?
For a quick “test” of the performance management system in place at your organization, chair of Imagine Canada’s Board of Directors and Human Resource Consultant Don McCreesh suggests reflecting on three simple questions:

- Do people know what to do? In that case, is what they do aligned with the overall mission, goal, and strategy?
- Do they know how well they did? (The evaluation part)
- What can I do to help provide this individual with what they need? (The development side)

Looking forward
There is a growing awareness within the sector that many organizations are not doing a good job at implementing performance management. Coupled with this awareness, there are added pressures from funders to show accountable measurements of success. This awareness and pressure is providing a catalyst for more organizations to learn about how performance management should look in their own organizations.

With an increasing number of nonprofit organizations instigating conversations about performance management, there has been a recurring discussion about the availability of accessible information. Many are looking for a “convenor of knowledge and discussion,” a place for information that is applicable to nonprofit organizations and that assess the different approaches to performance management.

For more information on performance management, check out the HR Toolkit section Keeping the Right People.