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A Critical Evaluation of Performance Management Trends

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At the broadest level, performance management can be defined as “processes used to communicate job expectations to employees, evaluate employees against those expectations, and utilize these evaluations to guide talent management decisions related to compensation, staffing and development” (Hunt, 2014, p. 151). The term “development” encompasses ongoing coaching and feedback as well as career planning, training, and succession. The primary purpose of performance management is to align the behavior and development of employees with the strategic goals of the organization. Performance management activities include setting job goals, providing constructive feedback, recognizing contributions, guiding career development, and complying with employment legal regulations. All these things significantly impact business performance provided they are done well. The challenge of performance management is these things are often difficult to do well.

A study conducted in 2014 found that only 15% of executives felt their performance management systems effectively accomplished their primary goals (PWC, 2014). Performance management has been subject to considerable scrutiny for being bureaucratic, biased, and secretive. One survey reported that a mere 26% of employees believed performance management reinforced desired cultural values and behaviors (Brecher, Eerenstein, Farley & Good, 2016). On the other hand, there is considerable evidence that performance management can work and is valuable. When a qualitative study asked employees and managers to describe their performance management process, the most common word used was “helpful” (Baylor University & SAP SuccessFactors, 2015), though the word “helpful” was inevitably followed with statements about how the process could be improved. Research supports that employees, especially high performers, like performance management provided it is seen as fair and just (Colquitt et al., 2001). Low performing employees might dislike any processes that hold them accountable, but even these employees should appreciate the fairness of a consistent, well-communicated, and equitably applied performance management process.

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The benefits and problems associated with performance management have given rise to hundreds of articles and books providing advice on what companies should do to improve performance management. Opinions range from suggestions to improve performance management methods to calls for companies to abolish performance management entirely. It is often hard to determine which of this advice is based on conjecture and/or idealistic views about how the world “should be” and which is based on sound evidence based psychological research and reflective of the reali-

ties of applied performance management. This article was written to provide clarity through this noise by reviewing current trends and innovations in performance management with an emphasis on marrying academic research with practical business application. The authors do not argue for or against any specific type of performance management but seek to highlight factors that should be taken into
consideration when designing a performance management process.

The authors do not believe that employees hate performance management but do believe they dislike poorly designed and implemented performance management programs. There is also considerable evidence that performance management, when done well, improves job satisfaction, perceptions of fairness and engagement, workforce performance, and by extension organizational success. Unfortunately, many organizations fail to do performance management well. Fortunately, there are signs this is changing for the better.

Background

The concept of performance management is not new. The Chinese government had a type of performance management process as early as the third century AD (Toppo & Prusty, 2012). Although the term "performance management" is widely used, it does not have the same definition in every company (Hunt, 2016). In fact, performance management is not even a single process. It consists of several subprocesses such as goal setting, feedback, compensation, and career development. A challenge of performance management is these different subprocesses can conflict with one another if they are not well managed and coordinated. For example, employees may be less likely to openly discuss performance development issues if they suspect that admitting "weaknesses" could adversely impact future compensation or career opportunities.

At the most basic level, performance management can be split into two very distinct activities:

- **Individual employee expectation setting and coaching**: processes designed to align employees with organizational goals, build commitment toward job expectations, and provide developmental feedback along with performance encouragement

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- **Overall workforce evaluation and investment**: processes designed to manage workforce performance by allocating rewards and career opportunities to retain and effectively leverage high performing employees and address issues caused by lower performing employees

These activities involve very different actions. The first emphasizes constant, ongoing discussions to align job expectations, provide developmental feedback, and encourage employee success. The second focuses on making workforce management decisions related to compensation, development, and staffing that are often episodic in nature and linked to financial business planning cycles. Recent performance management redesigns often seek to clearly separate these two activities. The intention is to encourage more frequent dialogue about performance by decoupling goal-setting and coaching processes from annual or quarterly business planning processes that often drive compensation and staffing decisions. However, these processes are usually still linked in some manner. For example, goal management processes may be separated from compensation processes, but part of the compensation decision process often includes data on goal attainment.

Historically, many companies used performance management processes that tried to combine these different processes into a single annual event. Managers were expected to meet with employees once a year to review past accomplishments, evaluate current performance levels, discuss future development plans, and provide recommendations into compensation and staffing decisions. All of this might be expected to occur in a single 60-minute conversation. It should be no surprise that these annual performance reviews rarely worked well. In fact, the processes often encouraged poor management behavior such as waiting to give feedback during the annual review rather than addressing performance issues in real time as they occurred.

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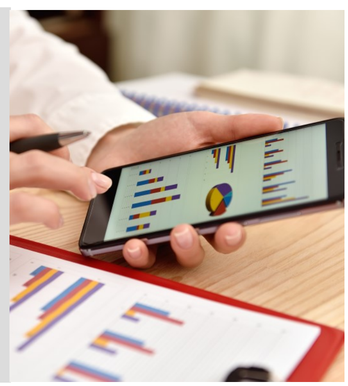

It is likely that one reason companies created such poorly designed annual review processes was due to technology constraints. Companies were faced with the challenge of assessing the performance of thousands of employees across multiple locations with paper forms or static computer spreadsheets. The best they could do under these constraints was the annual review. Fortunately, advances in technology have now transformed what is possible when it comes to performance management design (Hunt, 2011). Companies are capitalizing on innovations in cloud, mobile and social technology to radically redesign and improve performance management in several ways:

- **Easier to use**. Employees increasingly expect the same kind of seamlessness technology experience at work that they are accustomed to as consumers. Organizations are implementing new performance management methods leveraging emerging technology that is more intuitive, easily accessible, and engaging.
- **More continuous.** Enhanced digital capabilities allow for more frequent, conversation-focused methods. Social and mobile technology can change how managers and employees communicate to support more continuous coaching conversations.
- **Simpler and more efficient.** Many traditional performance management methods were vastly overengineered (e.g. rating employees on twenty or more specific goals and competencies). Technology is being used to break up traditional performance management "events" into shorter, more focused meetings and discussions through the year. The ability of technology to efficiently track, store, and share data is enabling companies to change performance management from a few large activities done poorly, laboriously, and infrequently to multiple small activities, done continuously, quickly, and efficiently.
- **Seamless integration.** Performance management includes ongoing coaching, operational reward allocation, and workforce management. A total performance management process must simultaneously encourage real time feedback to employees, move performance-based decisions down to business operational levels, and still provide higher level visibility into critical talent management metrics to ensure appropriate and effective workforce management. Technology has made it possible to incorporate goal setting, career development, compensation, staffing, talent assessment, succession management, and other human capital management functions into a single integrated system. This is leading to more integrated and well-coordinated talent management methods where data from one process is shared and utilized by other processes. For example, making workforce staffing decisions based on data collected through performance reviews and career development discussions.

Technology does not by itself create change, but it does make changes possible that could not be done without technology. It would be impossible for a large company to effectively design and deploy modern performance management processes without using modern social and mobile technology. Technology is only part of the solution to improve performance management, but it is a critical part.

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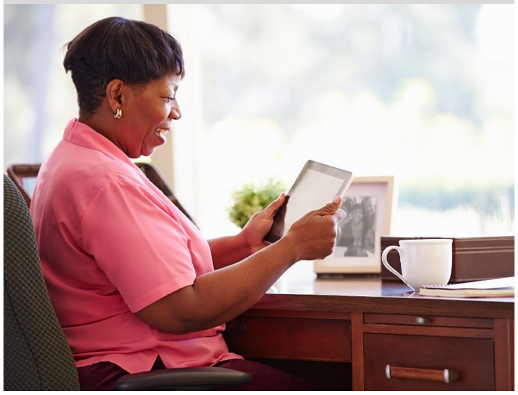

Implications for Practice

Advances in technology have removed many historical constraints that limited performance management process design. At the same time, the increasing pace of change and competition in business is pushing companies to develop more effective performance management practices. This has led to a flurry of innovation in performance management. These innovations largely fall into five general categories: continuous coaching, rethinking ratings, performance management transparency, customized recognition, and changing the role of HR professionals. Each of these categories will be explored in more detail.

Continuous coaching. Performance management training has long included admonitions that "performance conversations should take place throughout the year" and "there should be no surprises during the performance review." But companies frequently failed to get managers and employees to have these ongoing conversations. Many organizations treated performance management as an annual or semiannual process with little dedicated efforts to frequent coaching and ongoing, informal, real-time feedback.

More and more organizations, like Google, are supplementing more traditional performance reviews with more frequent coaching conversations. Some companies have performance conversation moved from yearly to quarterly, like Medtronic and Sears Holdings Corporation. Others like The Gap and Accenture have moved to monthly conversations. To support these efforts, companies are using new, highly flexible, simple technology applications that capture coaching and check-in notes, store reports on objectives, and provide visibility to employee recognition. Some of these applications also have built in aids for managers to drive improved collaborative conversations.

Driving frequent coaching engagement entails a cultural shift that requires time and dedication at all levels. Employees must take ownership for seeking, accepting, and using feedback. Managers must be trained to be coaches rather than evaluators and must be both recognized and held accountable for investing time and effort into employee coaching and development. Comprehensive organizational change of this magnitude requires significant effort to reinforce desired behaviors. Efforts to enhance performance management processes or deploy new technology to support more ongoing feedback will fail unless they are accompanied by a strong focus on employee and manager training, support, and encouragement.

Rethinking ratings. Considerable attention is being given to the role of ratings in performance management. Despite popular claims around "eliminating ratings." no company is truly getting rid of ratings, if you define "rating" as categorizing employees based on perceived value. Not everyone performs at the same level and companies will inevitably treat employees differently based on their contributions. Companies that remove traditional performance ratings must develop alternative and well-defined methods for assessing and recognizing employees or they may see significant problems emerge over time (CEB, 2016). In sum, the question is not whether a company assigns ratings to employees, but whether they evaluate them in an accurate, fair and effective manner. With that in mind, the following are some of the more noticeable trends related to ratings:

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- **Eliminating forced distribution.** One widespread trend is a move away from forced distributions of ratings where managers are required to rate some employees higher or lower than others (e.g., bell-shaped curve). Forced distributions were at one time quite common, but they took up enormous amounts of time and were largely unpopular among employees and managers. There are a few limited situations where forced ranking may add value (Scullen et al. 2005). But forced ranking of employees is usually more likely to drive up competition, reduce collaboration, and introduce bias. Forced distributions can also be a legal liability and result in excessive scrutiny if the rankings cannot be substantiated (Osborne, & McCann, 2004).
- **Replacing individual manager ratings with group calibration ratings.** The traditional performance assessment often involved a manager and employee meeting one-on-one to review past accomplishments, agreeing on an overall evaluation, and discuss future development. Many companies are removing the overall evaluation from this meeting and shifting the focus solely on discussing accomplishments and planning future actions. The overall evaluation is not part of the manager–employee discussion. Instead it is completed in separate talent calibration meeting with other managers and organizational leaders. These group calibration sessions are used to enhance accuracy and decrease potential biases by incorporating multiple sources of information and fostering discussions that create transparency around performance evaluations (Joshi et al., 2015).
- **Rating employees based on future recommendations instead of past performance.** Some organizations are having managers rate employees based on potential future actions rather than past performance. For example, rating employees on things like "If it were my money, I would award this person the highest possible compensation increase and bonus" or "This person is ready for promotion today" (Buckingham & Goodall, 2015). Rather than looking at past performance, this approach focuses solely on what future actions to take with employees. However, it also obscures the rationale used to justify these actions, which could lead to inconsistent treatment of employees and biased compensation and promotion decisions (Joshi et al., 2015).

There is value in simplifying performance appraisal methods, but companies should be extraordinarily thoughtful in any approach that might be interpreted as "removing ratings" (CEB, 2016). It is important that employees understand and have faith in processes used to make

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tangible decisions related to compensation and staffing that significantly impact their careers and lives. It is disingenuous for an organization to say it has "eliminated ratings" if it has only eliminated ratings from performance management but continues rating employees through other processes such as succession planning or compensation planning. Such actions risk undermining perceived justice and fairness, which can have long lasting and catastrophic consequences to organizational performance.

Performance management transparency. The issue of transparency has been a source of significant debate in performance management. Trust can quickly erode when employees do not understand how decisions about performance are made that impact pay, recognition, and career opportunities. Employees may assume the worst within organizations that fail to release information. Secrecy can also hide poor decision making. Managers are likely to be more thoughtful if they know their decisions will be scrutinized by a larger audience.

One leading researcher, Edward Lawler (2012), advocates strongly for pay and performance management transparency. He posits "that when employees do not know what other people earn, they overestimate their coworkers pay," which ultimately leads to dissatisfaction. He suggests that labor market efficiency may be improved through pay disclosure. Employees with lower salaries tend to turnover more quickly, whereas employees with higher salaries more likely to stay. Although pay transparency may be an ideal, in practice it is still relatively rare, although websites like "Glassdoor" are likely to increase pressure for transparency. The challenge to transparency is it only works if companies can adequately defend the processes used to make high stakes decisions related to performance, promotions, and pay. One might argue that this is something every organization should strive for, but the reality is many organizations are currently unable to effectively explain why some employees are paid more than others.

Customized recognition. One of the more intriguing emerging trends is designed to maximize each employee's unique strengths by customizing performance recognition and development. In this approach, two employees may both be assessed as being of equal value but provide value in very different ways. For example, imagine an employee named Dylan is a quantitative numbers guru but struggles in presentations. His coworker Ana is not as able to run the numbers but is very good at presenting the findings. The goal is to create a performance management process that fully celebrates the unique contributions of both Dylan and Ana.

Recognizing and investing in workers' unique talents and expertise could sub-

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stantially increase organizational performance and employee satisfaction. However, companies have limited resources to invest in employees and effective workforce management requires investing and managing employees differently based on their relative performance contributions. As is sometimes said, "not everyone gets a trophy." People who do not get trophies will reasonably ask why the rewards went to someone else and not them. This can be a difficult question to answer if people are not being evaluated on the same set of performance criteria. The evaluation process must allow for customization of performance goals and objectives, while simultaneously establishing clear criteria and metrics that allow for adequate comparisons across diverse team members. Correcting for and attenuating unconscious bias is particularly essential when determining the value placed on different employee contributions. For example, women are more likely to be recognized for being "supportive, collaborative, helpful," but men are more likely to be described with concepts like "drive, transform, innovate, tackle." Both are desirable traits, but companies have a tendency to place greater value on the latter "male" traits than the former "feminine" ones (Silverman, 2015).

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In addition to designing performance management methods that adapt to an individual's unique capabilities, some organizations are also working to tailor rewards and compensation based on individual or cultural preferences. This often includes incorporating nontraditional forms of reward. For example, using performance accomplishments to influence decisions related to sending someone to a conference, providing points that can be redeemed for different types of gifts, minor promotions, or desirable job assignments. The belief is seemingly minor rewards can add up and have major impacts on companies and employee trajectories over time. Although this belief seems reasonable at a general level, it is likely that the relative value placed on "nontraditional" rewards versus compensation will vary considerably from one employee to the next. In addition, managers may still be challenged to explain why some employees received opportunities or resources that were not made available to all team members.

Changing the role of human resources (HR). As companies increase their expectations regarding performance management, HR departments are being asked to take a more influential role in performance management activities. For example, actively working with managers who struggle to provide effective feedback or challenging manager assumptions around what constitutes effective or ineffective performance. Growing pressure is being placed on HR professionals to go beyond simply administering performance management processes to actively coaching and challenging employees and managers to carry out performance management activities in a way that increases workforce engagement and productivity. Companies are increasingly recognizing that the skill sets of their existing HR organizations will both enable and limit their ability to effectively implement some of the newer and more transformational forms of performance management.

Next Steps

Growing expectations from workers coupled with increasing business pressure has created a demand for performance management programs that are more inspiring and less deflating. Rather than focusing solely on measuring performance, organizations are using performance management to emphasize activities that actively engage employees and improve performance. Higher expectations are being placed on managers to invest in employee development, rather than passively evaluating employee performance. Organizations are also reevaluating their performance management programs to reduce bureaucracy and enhance customization, while driving real-time conversations and actions to engage the workforce.

These changes are fundamentally altering the nature of performance management. There are now a great many paths to improve performance management. The challenge is figuring out which path is the right one for your company. As you explore methods to improve how your organization conducts performance management, we encourage you to keep the following things in mind:

- **Improving performance management is more about what you create than what you eliminate.** Remember, all companies use some method to set goals, provide feedback, and evaluate employee contributions. The question is whether the methods used to manage and evaluate employee performance are effectively utilized by managers and effectively communicated to employees.
- **Doing nothing is doing something.** If your performance management process is more than a few years old, chances are it contains some methods that are already becoming dated. Advances in mobile and social technology have made it possible to implement performance management processes that were simply not possible 5 years ago. When it comes to performance management, you can either evolve or fall behind. But you can't stay still.
- **There are no best practices in performance management**. Performance management processes that work in some companies can fail miserably in others. Look to other companies for inspiration, but do not use them for imitation. The best performance management process is the one that is best for your company given it unique business needs, company culture, and resource capabilities.

Performance management matters a lot. How your company conducts performance management impacts where employees focus their time and energy, how they develop their skills, and whether they choose to stay with the organization. Performance management may not always be easy to do well, but it is always worth the effort to improve.

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