

## Performance Management Innovation:

## HR'S NEXT BIG MOVE





**Human Capital Institute** 

The Global Association for Strategic Talent Management



#### INTRODUCTION

It's no secret that the shortfalls and failures of traditional performance management have become glaringly apparent for most of today's organizations. Widely debunked are the conventional talent management and performance measurement models that rely on tools such as annual performance reviews or even the more recently embraced 360-degree feedback process.

The reasons that traditional performance management no longer works are myriad. They range from the academic (the traditional model is based on an archaic view of worker performance) to the everyday (it's viewed as a hassle and time drain that doesn't truly benefit the employee, the manager, or the organization).

The perceptions are not anecdotal. HCl's 2014 Talent Pulse survey and research report, "Conducting Dynamic Performance Appraisals," found that:

- Barely half of all respondents (55 percent) believe annual performance reviews are accurate evaluations of their workforce's production and capabilities
- Not quite 4 in 10 (39 percent) agree their appraisals are effective at improving performance
- Nearly 6 in 10 (58 percent) dislike their organization's performance review system

The irony is that performance management remains a critical concern for most organizations. A meaningful 75 percent of respondents in Deloitte's "Global Human Capital Trends 2015" rated performance management as "important" or "very important."



#### In response, change is happening:

- 89 percent of respondents to the Deloitte survey said they had recently changed their performance management process or plan to do so within 18 months.
- HCl has seen a significant increase in requests for training in a new kind of performance management.

Companies are slowly abandoning traditional performance review models in favor of systems that simply work better in today's business environment. That movement is driven by a model that is more dynamic, sets goals that are more innovative, and favors constant learning. Different from traditional performance management, the method that HCl sees emerging is valued for focusing on goal setting, coaching, and providing more continuous feedback. As more and more companies are openly questioning the value of traditional performance management and looking for options, they see recognized, respected companies in myriad sectors moving to performance management innovation.

Until now, however, one barrier has impeded faster and more widely accessible change: the lack of a recognized and accepted model, approach, or certification program for organizations to learn and put performance management innovation into practice in their own organization. That's about to change.

- Why the traditional method of performance management doesn't



WHY TRADITIONAL **PERFORMANCE MANAGEMENT HAS BEEN WIDELY DEBUNKED** 

Perhaps the primary reason for the failure of the traditional performance management system is that it dates back to the late 1800s. In that age, employees were viewed only as laborers, or, at best, as "workers." Performance could be accurately measured by an employee's output: the number of hours worked, the volume of goods produced, or some other very real numerical value.

Today, more than 70 percent of the U.S. workforce is employed in service or knowledge-related jobs. In fact, some economists and sociologists argue we have evolved out of being a service economy and into being a knowledge economy. What is clear is that creating output is no longer the benchmark of performance. Despite a few improvements, traditional performance management hasn't kept pace with the shifting value that most of today's employees bring to their companies.

#### NO WONDER DELOITTE FOUND THAT:

8%

Only 8 percent of enterprise companies believe that the traditional performance management process drives business value

10%

Only 10 percent believe that performance management is a good use of time



First, the traditional system fails to acknowledge the value of an employee's skills and attitude, and an employee's ability to innovate and drive change. The traditional system also doesn't account for how these skills and attributes are created, developed, and shift over time and as company goals and needs change.

# MORE SPECIFICALLY, TRADITIONAL PERFORMANCE MANAGEMENT IS OUT OF SYNC WITH TODAY'S BUSINESSES AND THEIR EMPLOYEES BECAUSE IT:

- **1** | Focuses on evaluation, rather than on employee growth and development
- **2** | Relies heavily on forced-distribution rankings, rather than also considering team performance, collaboration, and development
- 3 | Fails to provide real-time feedback
- 4 | Is a poor use of time and fails to show tangible benefits for the employee, the manager, or the organization
- **5** | At best, fails to support and at worst damages employee engagement, retention, and performance



CHANGE IS
HAPPENING AND
THE TREND IS
TOWARD
PERFORMANCE
MANAGEMENT

Several recognized brands in various market segments have recently been in the news for dropping traditional performance management in favor of a system that is more in tune with today's business world and its workforce.

Adobe, Deloitte, Gap, Microsoft, and more recently <u>Accenture</u> and <u>GE</u>—two of the largest companies in the world — have all transformed their performance management models.

Accenture announced in July that it is getting rid of annual performance reviews starting in September, the beginning of its next fiscal year.

"Imagine, for a company of 330,000 people, changing the performance management process; it's huge," Accenture CEO Pierre Nanterme told <u>The Washington Post</u>. "We're going to get rid of probably 90 percent of what we did in the past."

According to <u>CEB</u>, the management research firm, Accenture is part of a small but significant share (6 percent) of Fortune 500 companies that have "limited the value they place on scores and rankings" as part of performance reviews and management. Instead, they are moving toward innovative models of performance management.



In an April 2015 article, "Reinventing Performance Management," Harvard Business Review said innovative performance is valued for focusing on "speed, agility, one-size-fits-one, and constant learning, and is underpinned by a new way of collecting reliable performance data."

#### MORE SPECIFICALLY, PERFORMANCE MANAGEMENT **INNOVATION FOCUSES ON:**

- 1 | Setting goals
- 2 | Helping managers coach individuals
- 3 | Providing more continuous feedback, support, and growth or change (shifting the focus from annual evaluation and rankings to continuous feedback and development)
- 4 | Being more collaborative, social, and faster-moving



**BUT WHAT IF** YOU'RE NOT ADOBE, DELOITTE, **GE, OR ACCENTURE?**  "There's a lot of the why and what in the conversations and news around more dynamic and more performance management innovation, but there isn't much about the how of this practice," said Carl Rhodes, HCl chief executive officer.

This is true not only for small and midsize organizations, but also for large and enterprise companies that don't perceive themselves as ready to leave traditional performance management models or see a clear path to reinventing their current systems, Rhodes pointed out.

"Many HR and training leaders read those articles and say, 'Yeah, that's great, but we're not an Adobe, a Deloitte, or an Accenture," Rhodes added. "But they want to improve; they just don't know where to start. The single, most frequent request HCl has been getting for new courses is to help our member organizations see the trees from the forest in transforming performance reviews."

The biggest challenge has been that no recognized and accepted model, approach, or certification program exists for organizations to learn the characteristics of dynamic and more-improved performance management and how to put that kind of system into practice in their own environments.

The essential starting point is to understand the six key elements of a performance management innovation system that can help any organization begin implementing a new model for performance management. With that awareness, you can begin to see how the model can apply to your organization.

The second-biggest challenge is overcoming the misconception that innovative performance is an all-or-nothing practice. The truth is that any organization can gradually improve its talent management system by adopting the parts of the innovative model that work for them. The path doesn't need to be all or nothing, and it certainly doesn't all need to be done right now.



There is a continuum of performance management innovation that any organization moves along. The key is to determine where your organization currently is on that continuum. HCI's Performance Management Innovation Scale is one tool that helps companies identify where they are on that continuum.

A company determines where it is on the scale by conducing an assessment such as the one HCI developed as part of its Performance Management Innovation certification course. The assessment is based on several factors, including:

- Overall company culture
- Openness to change at various levels of the organization and among key stakeholders
- Current performance management processes (ranging from very traditional to fully innovative)

With that information in hand, you can determine what about your performance management system you *want* to change, what you *can* change, and how you can best move forward.

"The bottom line is that you don't need to do every part of performance management innovation, nor do you need to do it all at once,"

Rhodes said.



### THE SIX KEY **ELEMENTS** OF PERFORMANCE **MANAGEMENT**

As defined by HCI, performance management innovation has six key elements that clearly and compellingly differentiate it from traditional models.

#### **1** | Strengths-based development

Performance management innovation seeks to develop an employee's strengths and potential, rather than focus on limitations, making corrections, or being output-driven. It shifts the conversation from remediation to being more growth-focused. The need for strengths-based development has become apparent as an increasing amount of research has shown that with traditional performance management, employees who score highest are not necessarily the highest performers.

Research by CEB found, for example, that two-thirds of employees who receive the highest scores in a typical performance management system are not actually the organization's highest performers.

#### **2** | Performance goal setting

What's the best method for setting goals for employees? With the transformation to a knowledge economy, the answer obviously is not to dictate the amount of work that needs to get done or the output that needs to be accomplished. Nor is the answer to fixate on feedback about the past. Also, with the guickening pace of product and service development and the increased awareness of the benefits of continuous employee development, the annual performance review has severe limitations.

Performance management innovation considers goals that set expectations that effectively align with the goals of the employee and their team, and that also align with strategic business goals. It involves understanding the difference between traditional SMART goals (goals that are specific, measurable, achievable, and relevant) and the more dynamic model of OKRs (objectives and key results). OKRs focus on giving people "stretch goals" and helping to establish regular, achievable results that individuals and their co-workers can support.



#### **3** | Effective, continuous feedback

Today's work environment is dynamic. It's become increasingly ineffective to inform employees of their performance months after a task has been finished or an incident has occurred.

Yet barely half (55 percent) of the respondents to <u>HCI's 2014 Talent</u> <u>Pulse survey</u> and research said their organizations are committed to having recurring conversations between managers and employees. By comparison, among companies with dynamic evaluation models, as defined by the HCI, 88 percent of respondents are committed to recurring conversations. (HCl defines Dynamic Evaluators as companies that adhere to eight performance review principles in creating a transparent appraisal system that keeps employees well informed and included the process; can enhance perceptions of fairness with evaluations and increase the likelihood that employees will accept feedback; facilitates a collaborative review system; and keeps senior leaders invested in the process.)

For more information, download HCI's "2014 Talent Pulse: Conducting Dynamic Performance Appraisals."

#### **4** | Coaching for performance

In a nutshell, the innovative model encourages a culture of coaching for development, compared with the traditional performance management model of an annual performance review followed up with recommendations for learning or training programs. In a coaching culture, managers are responsible for the growth and development of their employees. It requires managers and team leaders to look past what they think of an employee, and instead ask themselves what they can do to help that person heighten their performance.

"We ask team leaders not about the skills of each team member but rather about their own future actions with respect to that person," two representatives of Deloitte wrote in Harvard Business Review in April 2015.



#### **5** | Rewards

Rewarding people for a job well done — whether through payfor-performance or another compensation model — will always be a critical piece of performance management. But how can you determine rewards and compensation without the benchmarks that the traditional performance model provides? A better question is this: How can rewards in the innovative model do a better job of enhancing performance?

In the innovative environment, rewards are more fluid than they used to be and are more tightly aligned to real-time results and business goals.

"The compensation process is being broadened," according to <u>Deloitte</u>.

"Companies are starting to base compensation decisions on the competitive value of an employee and real-world market conditions."

#### **6** | Social recognition

Companies that hone a culture of recognition drive greater employee engagement and higher performance. However, there is a vast difference between having a recognition program and having a culture of recognition.

A culture of recognition not only recognizes the value of both formal and informal rewards. It also encourages managers to offer rewards and recognition more frequently and to make sure rewards are timely and personally meaningful to employees. It encourages and empowers employees to leverage social media of all sorts to recognize their peers and share that recognition outside the company walls.

Annual (or even quarterly) awards for the highest performance, or anniversary rewards for simply staying with the company, are insufficient to inspire commitment and dedication in today's workforce. More to the point, they fail to support the more-frequent feedback and ongoing support that the performance management innovation model promotes.



#### **SUMMARY**

Performance management innovation represents a true tipping point for HR. It marks a place on the path where HR can either lead or follow. As a global clearinghouse and catalyst for new ideas and next practices, HCl believes that performance management innovation is a very real opportunity for HR to be a business leader and take advantage of changes that are happening on the front lines of talent management right now. HR professionals who choose to lead will help their organizations remain competitive and get credit for doing so.

One big reason that innovation represents a bold opportunity for HR is that HR has always been viewed as process-heavy, compliance-oriented, and disconnected from the reality of the business. Traditional performance management is one glaring example of why that sentiment exists.

"Now is one of those moments that HR leaders dread," Rhodes said.
"It's the moment when the CEO says, 'I read about this in the in-flight magazine yesterday. Why aren't we doing this?"

In response, HCI is proud to be the first organization to offer a certification course for performance management innovation. It's the first training of its kind to address this hugely important current topic. HCI Performance Management Innovation Certification includes:

- A pre-assessment to determine where on the Performance
   Management Innovation Scale each participant's organization lands
- A two-day, hands-on interactive course that will teach participants how to improve their organization's performance management process by refining the ineffective, traditional annual process to focus on critical outcomes like feedback, coaching, goal setting, and manager and employee relationships



This is the first HCI certification course to integrate resources from across the organization's vast library of case studies and other assets from industry thought leaders, practitioners, and HCI member organizations. Students will receive the benefit of actual case studies and experiences. Also reflecting the collaborative spirit of the current reinvention of performance management, course participants will have access to a robust set of best practices, tools and toolkits, and new thinking on this crucial aspect of business today.

The way business gets done today rarely aligns with the annual performance review cycle. Businesses adjust their strategies as their markets evolve, not just in step with their budget year. Products move more quickly from concept to market. Employees are more likely than ever to move from one project to another during the course of a year, and to collaborate in teams with different leaders.

"In short," Rhodes said, "the innovative movement has permeated business. HCI is taking a leading role in helping organizations move into a new era of performance review that reflects today's workplace and business realities."

Learn more at hci.org/pmi-certification.

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