

The Performance Management Puzzle



Some say traditional ways of managing employee performance are irrelevant in today's fast-changing work environment. Others argue that these methods drive accountability and differentiated compensation. Both are right.

Many companies continue to rely on traditional performance management processes because they provide a consistent way to evaluate employees and apportion rewards. Year after year, managers follow a well-worn routine: Fill out goal forms, track progress, fill out more forms, conduct a formal annual assessment, and then fill out more forms. But when it comes to motivating and engaging people, these conventional processes seem increasingly obsolete.

According to a recent World at Work study,¹ 58 percent of HR leaders gave their performance management process a "C" grade or worse. Few other processes in an organization are allowed to perform so poorly, and performance management should not be allowed to any longer.

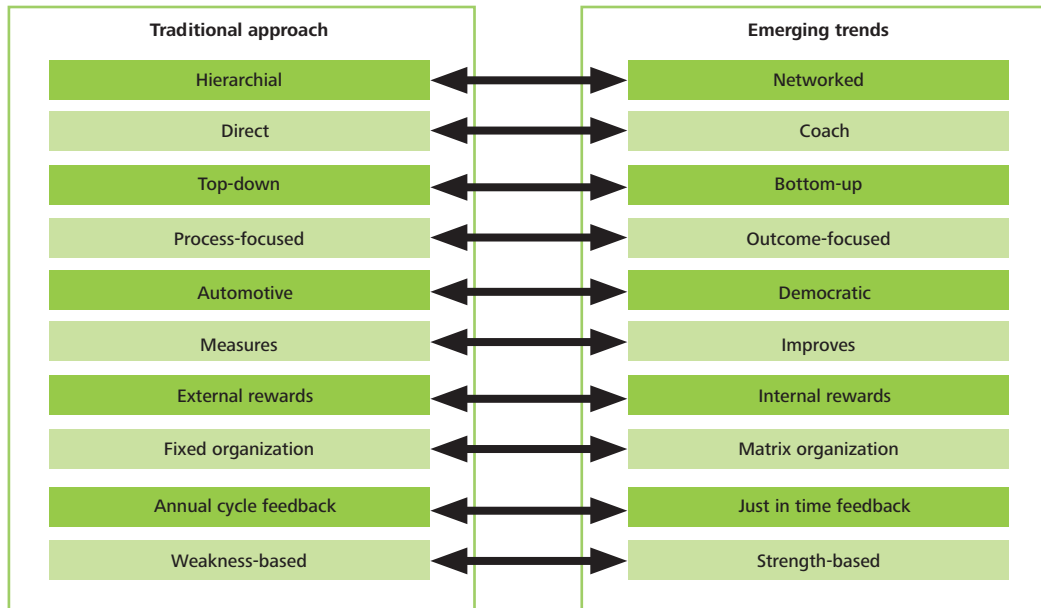
The challenge is that while the way work gets done has changed dramatically over the last few decades, performance management processes at many organizations have remained essentially the same. In this new world of work, team relationships often influence an individual's performance more than a supervisor. For team members, on-the-spot improvements based on immediate feedback from their peers can have a big impact on performance. Plus, as individual and organizational goals are increasingly tied to project cycles that last a few months or weeks,

the fiscal year can become less relevant. Add in the matrix organization—with individuals migrating from one cross-functional team to another, each with a different leader—and performance management can turn into chaos.

What has not changed is what leaders and employees want from performance management: A broad view of the organization's human resources and a fair and valid assessment process, respectively. To achieve these somewhat paradoxical goals in today's fast-paced workforce, some leading organizations are ushering in a new era of workplace democracy. To offset top-down annual performance evaluations—which can often be based on aged feedback or vulnerable to the "recency effect," the behavioral principle that the most recent is the most likely to be recalled—some organizations are looking to social tools to access in-the-moment feedback from peers, customers, and other stakeholders to promptly improve performance. These pioneers could point the way for other organizations as Gen Y's digital natives expand to dominate the workforce over the next ten years.

While no single answer has emerged that spans the conflicting needs of the organization and its individuals, the search for innovation in performance management is accelerating.

Performance management in the new world of work



Source: Deloitte. Emerging trends in performance management are a better fit for the new world of work, which is increasingly characterized by self-forming teams responding to rapidly changing business challenges.

What's driving this trend?

Performance pressures. Competitive intensity continues to build in the global market economy. And, as organizations globalize and access new talent at lower costs, the employees in more politically stable nations will be relied upon to keep their organizations competitive and deliver higher precision performance. Research from the 2011 Shift Index, published by Deloitte's Center for the Edge, revealed the "topple rate"—the speed at which companies lose their leadership position—continues to rise. This suggests that even market winners can't let their guard down. They must commit to a relentless pursuit to improve their performance.

Organization structures. Employees are no longer bound together by place—they can work together from anywhere on the globe. In this new environment, teams are often formed, dissolved, and reformed, based on constantly changing business needs. In many organizations, the classic employee/supervisor relationship has all but disappeared as organization structures flatten. For example, one software company has dispensed with the manager's role altogether, removing many barriers between employee teams and customers. Performance evaluations are driven by anonymous peer reviews across

the company. Simultaneously, a committee holds meetings to ask employees to comment on the contributions of their peers based on four criteria: technical ability, productivity/output, group contribution, and product contribution. The committee reconciles the rankings to produce a final ranking of employees across the company.

Technology improvements. Emerging technologies—social, mobile, cloud, analytics, gaming—are changing the way people work and interact. Managers who used to engage with employees while walking the halls are being replaced by far-flung teams that communicate via text, chat, or Skype. In addition, new collaboration tools combined with deep analytics now enable organizations to collect and sift through massive amounts of disparate information to uncover who's doing what—and how well they're doing it. For example, one restaurant chain is using point-of-sale technology to display personalized leaderboards showing individuals' real-time performance in generating revenue and tips against peers system-wide. Employees learn from the front-runners, raising the bar for everyone. High-ranking workers get their choice of shifts as a performance incentive, allowing managers to focus on coaching employees, rather than scheduling shifts.

Generational expectations. As baby boomers retire, Gen Y employees represent a growing constituency of digital natives. Social, gaming, and mobile technologies from the consumer digital world have upped their expectations for work tools that allow for real-time, remote collaboration and feedback. Leading organizations are adapting old-school processes and tools to more effectively compete for this new generation of talent.

Practical implications

Bridging the gap between traditional performance management systems and the evolving world of next-generation applications is a tricky business; despite their enthusiasm for “new and different,” employees first want “fair and balanced.” Managing this coexistence requires careful attention to a number of areas.

Desired outcomes. In today’s fast paced, matrixed work environment, managers need to make crystal clear what “good” looks like in terms of expected behaviors and performance. Creating tight alignment between the work of the individual and the organization’s objectives promotes greater context, commitment, and pride in accomplishment. Clarity of outcomes acts as the foundation for increased employee and team self-management, as well as the basis for peer and manager feedback.

Peer networks. In a collaborative culture, where employees turn to one another for advice and support, peer feedback gathered through collaborative tools can provide valuable insights to supplement more objective measures. One online retailer strengthens its supportive culture by flashing photos of random co-workers from other departments on employees’ computer screens when they log in. Each employee ranks the photo based on how familiar they are with this colleague. Managers use these ratings to assess the strength of inter-department relations and identify functional silos that could inhibit collaboration.

Manager capability. Leaders who motivate and guide team members by influence, rather than rank, need a different set of tools, training, and processes than leaders who manage individuals with a more hierarchical mindset. Bersin by Deloitte research indicates that the greatest challenge to effective performance management is managers’ inability to coach effectively—a critical skill in a flattened work environment.

Data access. Organizations can now quickly gather, analyze, and distribute massive amounts of data. Customer feedback, peer reviews, social media comments, operational data—to name just a few sources—can provide multi-layered views into the performance of individuals and teams. Administrators of a major city’s public hospitals recently announced that they plan to use patient evaluations and complaints to assess their doctors’ performance and salary. While changes to Medicare reimbursements may have triggered this new approach to performance management, their experience may provide useful insights into the challenges and opportunities facing other organizations.

Lessons from the front lines

Leading organizations are looking for answers to the performance management puzzle. In this changing landscape, it’s smart to learn from the experiences of others before diving in. Meanwhile, prepare leaders by sharing new trends in performance management and potentially experimenting with new approaches that can hold potential for your organization.

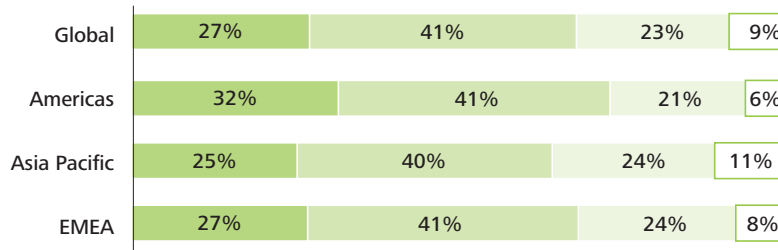
Don’t force it. Social performance management tools are more likely to be adopted by individuals who work within a collaborative culture that cultivates inclusive leadership styles. Engage fast-moving parts of the business in rapid experimentation—where a participative management style is already embedded. These organizations provide a logical place to test new performance management approaches.

Guard against popularity contests. Political posturing can hinder productive innovation. No employee wants his or her performance evaluation to hang in the balance of personal grudges in social media. And no one wants their contributions to be overlooked because they are not as socially savvy as others. The crowd’s opinions should not detract from the manager’s role as a valuable conduit, channeling and interpreting how feedback should influence performance.

Start with recognition. While some organizations are exploring ways to gather constructive feedback from peers and managers, early adopters have stayed on steadier ground by providing social tools that encourage peers to recognize each other’s performance in a positive way. Strength-based feedback—from managers and peers—is gaining traction as widely accepted, positive influence on individual performance.

The Performance Management Puzzle: Survey highlights

Relevance by region



- Trend is highly relevant today
- Trend will be relevant in the next 1-3 years
- Trend will likely be relevant in 3 years and beyond
- Not applicable

Region	Total
Americas	315
Asia Pacific	582
EMEA	412
Total	1309

Digging deeper

- This is an emerging trend and ranks in the top three trends in both relevance in the next 1-3 years (41% – second most relevant trend) and in relevance 3 years and beyond (23% – third most relevant trend)

Authors



Erika Bogar King
Talent Director - Human Resources
United States



Daniel Roddy
Specialist Leader
United States



Tom Hodson
Principal
United States

Endnotes

¹ World at Work/Sibson Consulting, "2010 Study of the State of Performance Management."
<http://www.worldatwork.org/waw/adimLink?id=44473>

Resetting horizons: Global human capital trends 2013

Looking beyond continued uncertainty, the world's leading organizations are raising their sights, and pivoting from the great recession to the new horizons of 2020 with a focus on talent, globalization, growth, and innovation. This report introduces 13 global trends that are driving critical business and human capital decisions. The report provides information on these trends across global markets through results of a survey of over 1,300 business and HR professionals from 59 countries. www.deloitte.com/hctrends2013

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