Into the wind
Performance Management: Striving to meet expectations
Key findings

As the knowledge economy heats up, organisations around the world are shifting away from task-oriented job roles, and are starting to grapple with the workforce implications of a global talent shortage.

Deloitte’s 2013 Talent Edge New Zealand survey found that 88% of New Zealand organisations are experiencing talent shortages that are impacting business results.

Effective performance management is a critical component of the response to the talent shortage.

Deloitte’s 2013 Global Human Capital Trends lists the “performance management puzzle” – articulating what the role of performance management in the modern fast-changing work environment is – as one of the key rising trends over the next 1–3 years. In New Zealand and Australia the “performance management puzzle” was rated as even more relevant than elsewhere in the globe.

In late 2012 Deloitte conducted interviews with Chief Human Resource Officers (CHROs) across 17 of New Zealand’s largest and most successful organisations.

The interviews provide a benchmark of where New Zealand performance management is placed today – and provides insight into the performance management challenges being faced by New Zealand organisations, and how some of them are overcoming those challenges.

There is no question that performance management is top of mind for the CHROs interviewed. The desire to embed a performance management culture in their respective organisations is evident and widespread. One CHRO summed it up by saying “our goal is for performance management to become part of who we are – not something we do once a year with a rating scale, but an ongoing conversation between manager and employee.” However, outside high performance organisations, such as sporting bodies, few reported success at attaining this goal.
There are three components that are critical to embedding a performance management culture:

- The right foundations
- Measurement of what matters
- Capability and ownership

This report is structured around these three components:

**Foundations**
We observe overwhelmingly immature performance management systems in the organisations interviewed, and poor links between performance management and other human capital management processes, such as talent management.

**Measurement**
We observe on-going challenges in linking performance management to business objectives, and ensuring the quality of subjective performance measures. By measuring what matters, performance management is driving desired behaviours in those organisations that have linked performance management to business objectives.

**Capability**
Consistent with global trends, the organisations interviewed report low levels of line manager capability, which is a critical component of a leader-led performance management culture.

This report focuses on these three areas. It provides a benchmark of performance management in New Zealand, highlights best practice, and looks at how New Zealand organisations can achieve at least a “meets expectations” for their performance management.

88% of New Zealand organisations are experiencing talent shortages that are impacting business results.
Establishing the right foundations

The average New Zealand organisation has a basic online performance management process, with poor integration with other Human Capital Management (HCM) processes or systems. There are few checks on quality of inputs/goals. Employees are evaluated annually, with a six-monthly checkpoint. Their year-end rating may have some bearing on their salary increase; however, this is primarily determined by tenure or how they are perceived within the organisation.

Of the organisations interviewed, most are still trying to get the basics of performance management right: Integration with other HCM functions, standardised processes, and frequent reviews.

60% of the organisations interviewed have a performance management technical solution – varying from top of the line software-as-a-service products, to bespoke organisation-specific systems. Of these, the vast majority are standalone performance management systems, with limited reporting or integration with other systems. Surprisingly, 27% of organisations – including some fairly sizeable ones – rely solely on paper-based performance management processes.

A third of the organisations are dissatisfied with their current performance management systems, and are looking to move to a more integrated, online system. With only one exception, the organisations interviewed have regular, formal performance reviews – mostly on a six-monthly or annual basis. Most organisations set an expectation for one-on-one catch ups between manager and employee outside these formal reviews; however there is limited oversight by HR on whether these catch-ups take place or not.

As is to be expected, 87% of organisations undertake some form of moderation of formal ratings. The focus on moderation stems from a lack of confidence in the uniformity of manager’s formal ratings – the perception is that apples are not being compared with apples without moderation. Clear expectations need to be set around what is required for each of the performance ratings, and then the moderation process can be a refining process against those expectations, rather than a expectations defining process.

We observed wide variance in the mode of moderation adopted by organisations, for example:

• Organisations that moderate within business groups and those that moderate across the whole organisation
• Organisations in which HR undertake the moderation and those in which it is undertaken by line managers
• Organisations that undertake moderation as part of the performance management process and those that undertake it as part of remuneration setting

Those organisations with greater confidence in their performance ratings tended to separate moderation discussions from the remuneration process, with performance management results directly feeding remuneration decisions.

Only three of the 17 organisations interviewed undertake forced distribution of performance ratings. Interestingly, those three organisations have the greatest linkages between performance management and other human capital management strategies of all the organisations interviewed. We do not believe there is anything to suggest this is a causative relationship.

How are organisations recognising their talent?

35% of the organisations interviewed have a link between performance management and how they recognise their high achievers.

How do they do it?

• Recognition in communications from the CEO or other senior leaders
• Invitation of high achievers to a celebration event
• Talent accelerant programmes
• Future leader programmes
Key indicators of mature performance management systems and processes are:

- Limited number of simple forms
- Simple competency framework with KPIs that clearly align to overall business strategy
- Consistent and meaningful rating scale
- Performance management cycle that aligns to business planning cycle
- Consistent policy that ties compensation with performance
- Manager accountability to conduct appraisals (formal and informal)
- Process to manage underperformance
- Standardised, consistent approach to moderation of performance ratings
- Integrated with their wider HCM systems and processes

New Zealand organisations have a long way to go to reach the levels of maturity generally expected globally of organisations of a similar type.
Measure what matters

We observe a clear movement across New Zealand organisations toward measuring the ‘how’ – values, behaviours, ways of doing things – as well as the ‘what’ – business outcomes and performance goals. For some organisations, we found that this represents a fundamental philosophical shift that some are struggling to come to grips with.

We observed two significant challenges in ensuring the right performance management measures are in place:

- Measurement of subjective performance goals, such as values and behaviours
- Ensuring that performance management measures link back to overall business strategies

One organisation listed the challenge in identifying and measuring subjective performance goals as the primary barrier to it moving away from a performance management system based purely on objective measures. We observed that few of the organisations that do measure subjective performance goals were satisfied with or settled in their approach.

Approaches to the measurement of subjective performance goals vary widely from organisation to organisation. Some leading examples are shown in the table below.

<table>
<thead>
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<th>Approach to measurement of subjective performance goals</th>
<th>Benefits</th>
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<td>Utilising mystery shopper feedback</td>
<td>Allows for quantification of subjective performance, comparison across individuals at multiple locations and can occur at any time throughout the year at any number of occasions</td>
<td>Staff performance needs to be dependent on their interactions with new customers</td>
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<td>Feedback from others on specific tasks or projects</td>
<td>Accommodates ways of working that involve individuals working for any number of business groups or managers</td>
<td>Standardisation of ratings across raters requires upfront definitions of expectations against performance goals</td>
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<td>360º feedback</td>
<td>Provides opportunity for upwards and downwards feedback from the range of organisation stakeholder groups</td>
<td>Can provide the context for evaluating managers to relinquish performance monitoring and provision of feedback responsibilities throughout the year, relying simply on the opinions of others provided at a point in time</td>
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Linking performance measures to business strategies

We observed that the majority of organisations rely on a cascade effect from organisational KPIs, through senior leadership down to frontline employees. However, few organisations have any checks in place to ensure organisational KPIs are in fact being cascaded down, relying on individual managers to ensure linkages are in place. This hands-off approach by HR organisations has generally not been successful.

Of the organisations that adopt a more structured approach, we observed the following strategies:

- Specification of a type of goal (eg: all employees must have a health and safety goal)
- Specification of core goals, which differ across roles and levels
- Upskilling of HR business managers to understand business group objectives, in order to work with managers to ensure linkages from individual to organisational goals.

How many points are on your rating scale?

<table>
<thead>
<tr>
<th>Rating Scale</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Three</td>
<td>15%</td>
</tr>
<tr>
<td>Four</td>
<td>38%</td>
</tr>
<tr>
<td>Five</td>
<td>38%</td>
</tr>
<tr>
<td>Six</td>
<td>8%</td>
</tr>
</tbody>
</table>

Rating scales – how can it be done?

Shifting away from a linear approach to performance management, consider these matrix scales:

- **Transitional linear scale – the default option**
- **An organisation focusing on changing culture and behaviours**
- **An organisation focusing on development of talent and career progression**

Case study

Using performance management to embed culture change

One organisation underwent significant organisational change, including identification and articulation of its organisational values and behaviours. To embed this change, it amended its performance management framework, by shifting to a matrix rating scale, with performance on one axis and values on the other. There was some initial culture shock as employees who were traditionally high outcome performers adjusted to being evaluated not just on outcomes, but also on how those outcomes were achieved. These employees are now having to alter their behaviours to achieve those same outcomes in a manner that matches the behavioural standards and values of the organisation. Similarly, employees who have always embodied the desired values and behaviours are now being formally recognised for their less tangible contribution to the success of the organisation.
We observe two primary challenges:

- Defining the role of a line manager in managing performance
- Building performance management capability in line managers

Defining the role of a line manager in managing performance

We observed a lack of consistency among organisations interviewed about their expectations of line managers in performance management. This ranged from one organisation in which managers are seen to be mouth pieces for the scripts provided by HR, to another in which line managers are expected to own and run performance management, with HR involvement only when things go wrong. A third was upfront in stating that they are unclear on the role of line managers in performance management in their organisation.

We see a clear trend of organisations moving along a maturity continuum with respect to their expectations of line managers in performance management:

1. No formal performance management
2. Formal conversation once or twice a year
   - An evaluative, compliance exercise
3. Active management of poor performance and recognition of high performers
   - Predominantly evaluative, with developmental aspects for high/low performers
4. In the moment coaching for results
   - A developmental exercise that focuses on all employees through an “apprenticeship” model

The majority of organisations see the role of their line managers sitting at points 2 and 3 on the continuum. CHROs are typically striving to develop their managers to the point on the continuum above the one they are at now – an organisation with a historically passive approach to performance management is striving to embed active management of poor performers through toolkits and trainings. One that actively manages poor performers and is good at recognising high performers is striving to embed the role of manager as coach.

Globally, the role of line managers is moving beyond coaching for results to embedding instantaneous feedback on performance on a constant and ongoing basis. See the “Where to Next for Performance Management” section for more information on this trend.

An HR organisation can only go so far in setting the foundations for successful performance management. To truly embed a performance management culture, and for organisations to get the full benefit from it, line managers must take ownership of the process, with frequent, high quality conversations.

The development of leaders ranked as the top HR/talent concern in Deloitte’s 2013 Global Human Capital Trends report. 60% of organisations in New Zealand and Australia rated leadership development as a pressing concern. The organisations interviewed as part of this study universally agreed that developing leaders as performance managers is critical to the success of performance management – and the vast majority were quick to put up their hand to say they still have a way to go.

Capability and ownership: Developing leaders to be performance managers
Building performance management capability in line managers

In conducting these interviews, comments such as “we have a culture of not rocking the boat” and “our people avoid difficult conversations” were common. Resoundingly, CHROs told us, “we have average people leaders.” This is consistent with the results of Deloitte’s 2013 Talent Edge survey, which identified general management and leadership as the skill that is second-most in short supply today.

Of the organisations interviewed, 80% have some form of training in place for people leaders that focuses on performance management. This varies from training on how to fill in the forms to having “courageous conversations”, with a small number of organisations including training on management coaching. Often this training occurs as part of a wider induction to a people management role. In a number of cases, this training is not compulsory.

To build line manager capability in performance management we observe the following successful strategies:

- Embedding people management and performance management into the manager’s KPIs
- Leadership mentoring or coaching programmes – especially focused on new managers
- Leveraging external management courses and qualifications
- Formal, compulsory training programmes that focus both on the performance management process (eg: what a good performance plan looks like) and on the broader skills required to manage for performance (eg: courageous conversations).

What performance management training do you provide managers?

- 47% Specific performance management training
- 33% People leaders training, which includes an element of performance management
- 20% No training
While the way work gets done has changed dramatically over the last few decades, performance management processes at many organisations 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 organisational 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 organisation – 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 organisation’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 organisations 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 behavioural principle that the most recent is the most likely to be recalled – some organisations 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 organisations 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 organisation and its individuals, the search for innovation in performance management is accelerating.


**Case study**

**Embedding instantaneous feedback**

One restaurant chain is using point-of-sale technology to display personalised 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.

**Performance management in the new world of work**

<table>
<thead>
<tr>
<th>Traditional approach</th>
<th>Emerging trends</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hierarchical</td>
<td>Networked</td>
</tr>
<tr>
<td>Direct</td>
<td>Coach</td>
</tr>
<tr>
<td>Top-down</td>
<td>Bottom-up</td>
</tr>
<tr>
<td>Process-focused</td>
<td>Outcome-focused</td>
</tr>
<tr>
<td>Automotive</td>
<td>Democratic</td>
</tr>
<tr>
<td>Measures</td>
<td>Improves</td>
</tr>
<tr>
<td>External rewards</td>
<td>Internal rewards</td>
</tr>
<tr>
<td>Fixed organisation</td>
<td>Matrix organisation</td>
</tr>
<tr>
<td>Annual cycle feedback</td>
<td>Just in time feedback</td>
</tr>
<tr>
<td>Weakness-based</td>
<td>Strength-based</td>
</tr>
</tbody>
</table>

Source: Deloitte. Emerging trends in performance management are a better fit for the new world of work, which is increasingly characterised by self-forming teams responding to rapidly changing business challenges.
The search for innovation in performance management is accelerating.
Where to next for performance management in your organisation?

Take the quick maturity test below to see where your performance management function sits – and to identify the areas you may wish to work on.

**A quick maturity test for your performance management function**

<table>
<thead>
<tr>
<th>What systems does your organisation have in place?</th>
<th>Stage 1 Non-existent</th>
<th>Stage 2 Developing</th>
<th>Stage 3 Defined</th>
<th>Stage 4 Advanced</th>
<th>Stage 5 Leading</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>None</td>
<td>Non-standardised templates in place</td>
<td>Standard templates</td>
<td>Performance management technology in place</td>
<td>Cutting edge integrated technology in place</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Does your performance management process link to other HCM processes?</th>
<th>Stage 1 Non-existent</th>
<th>Stage 2 Developing</th>
<th>Stage 3 Defined</th>
<th>Stage 4 Advanced</th>
<th>Stage 5 Leading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not at all</td>
<td>Not at all</td>
<td>Partial link to remuneration</td>
<td>Link to remuneration</td>
<td>Link to remuneration and some other HCM processes</td>
<td>Fully integrated with other HCM processes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Does your organisation have systematised links from performance management back to business strategy?</th>
<th>Stage 1 Non-existent</th>
<th>Stage 2 Developing</th>
<th>Stage 3 Defined</th>
<th>Stage 4 Advanced</th>
<th>Stage 5 Leading</th>
</tr>
</thead>
<tbody>
<tr>
<td>No links</td>
<td>No links</td>
<td>Reliance on managers – no checks</td>
<td>Reliance on managers – with checks</td>
<td>Some systemisation (eg for certain goals)</td>
<td>Systemic links in place</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>What is the role of line managers in performance management?</th>
<th>Stage 1 Non-existent</th>
<th>Stage 2 Developing</th>
<th>Stage 3 Defined</th>
<th>Stage 4 Advanced</th>
<th>Stage 5 Leading</th>
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<tr>
<td>No role (no formal performance management)</td>
<td>Formal conversation once or twice a year</td>
<td>Active management of poor performance and recognition of high performers</td>
<td>Coaching for results</td>
<td>Providing instantaneous feedback</td>
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<tr>
<th>Does your organisation train managers on performance management?</th>
<th>Stage 1 Non-existent</th>
<th>Stage 2 Developing</th>
<th>Stage 3 Defined</th>
<th>Stage 4 Advanced</th>
<th>Stage 5 Leading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not at all</td>
<td>Basic optional training that focuses on the performance management process</td>
<td>Basic training on performance management process and some skill based training (eg difficult conversations)</td>
<td>Training on performance management process and skills – training may not be comprehensive or fully integrated</td>
<td>Integrated, compulsory training for all people managers that focuses on wider role of manager in performance management</td>
<td></td>
</tr>
</tbody>
</table>
Our top six tips for embedding a performance management culture in your organisation are:

1. Ensure your performance management systems and process are integrated with your wider HCM processes – in particular, remuneration, talent management and succession planning. Larger organisations should consider investing in a good performance management system – one that is online and links automatically to other HCM processes.

2. Align your performance management cycle to your business cycle, and find a way to link your performance objectives to your business strategy. How you do this will depend on the nature and size of your organisation.

3. Build accountability for performance management into the KPIs of people managers – not just on completing the process, but build in a qualitative component too. Consider utilising 360° feedback for this purpose.

4. Support this new management objective with investment in training for people managers, focusing on developing them to coach their staff and deliver instant feedback. Follow this up with on-going mentoring and coaching – make it into something more than a day in a classroom.

5. Tackle the performance-based-pay issue head-on with unions – until you reach agreement to fully embed performance management in your organisation, you will never fully achieve a performance culture.

6. Start today! Building a performance culture takes time and commitment.
We would like to acknowledge the organisations that were interviewed as part of this study:

- Air New Zealand
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- Auckland Council
- Bank of New Zealand
- Bunnings
- Contact Energy
- Deloitte
- Heinz
- Housing New Zealand Corporation
- Inland Revenue Department
- Kiwibank
- McDonalds
- Ministry of Primary Industries
- New Zealand Olympic Committee
- Sport New Zealand
- Telecom
- Westpac
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Hamish Wilson
Human Capital Practice Leader
Hamish has worked in the Human Capital field for more than 14 years. Hamish returned to New Zealand 3 years ago from the UK Deloitte Human Capital practice where he spent over a decade working Human Capital issues for multiple clients across Europe and the Middle East. Hamish has extensive organisational transformation experience across multiple industries.

Contact Hamish on 09 303 0832 or at hawilson@deloitte.co.nz

Anne Molineux
Senior Consultant
Anne is a human capital consultant with experience in strategic change, organisation design and transformation. She brings a unique perspective, having practised as an employment lawyer prior to joining Deloitte in 2011.

Contact Anne on 04 470 3504 or at amolineux@deloitte.co.nz