Performance management (PM) has long been a thorn in the side of workers. With the overwhelmingly negative perception of PM by workers\(^1\) and many organizations' resulting decisions to rebrand PM as “continuous feedback,” “check-ins,” or “feed-forward,” technology vendors have followed suit in rebranding solutions, further complicating an already complex market.

Varying viewpoints among solution provider offerings only add to the confusion as companies assess the spectrum of capabilities that address current needs while also pushing toward innovative practices. Organizations are often left wondering if investments in technology will actually lead to improvements. This article takes a look at the current state of the PM landscape of solution providers, describing essential activities, current solution categories, and how solution capabilities can support organizations to execute and enhance performance management.

In This Article

- The current state of the performance management solutions market
- Three essential performance management activities
- Categories of solutions with performance management capabilities
The Performance Management Solutions Market

With a Net Promoter Score® (NPS®) of -60, performance management’s capacity to frustrate organizations and individuals is no trivial matter. For many managers and workers, PM requires a backward-looking assessment and disrupts the flow of work. Even in structured, formal evaluation processes with clearly defined expectations for roles, efforts to improve PM have often failed. Instituting ratingless systems, using stack rankings, or even completely throwing out PM has not resulted in positive outcomes, frustrating managers and workers even more. Regardless of the approach taken, a sense of subjectivity and unfamiliarity pervades the process.

While PM approaches have mostly failed to bolster worker productivity, technology has radically transformed how work gets done and how workers communicate, serving as a driving force for organizational productivity. High-performing PM organizations demonstrate 92 times better financial performance than low-performing PM organizations. Technology and cultural factors, such as a growth mindset or a human-centered approach, enable heightened performance. For example, integrating technology (e.g., email or calendars) into regular workflow systems can result in a 4.3 times higher change in agility and 5.5 times better ability to develop leaders.

Recognizing the value technology can play in business outcomes, many solution providers have rebranded their market offerings as innovative and forward-looking, attempting to reinvent the PM process. For buyers, however, guaranteeing positive business outcomes requires careful selection of the solution that best fits their organizations. The challenge organizations face is to discern which solution provider best matches the

KEY POINT: High-performing organizations leverage PM technology in the flow of work, resulting in better financial performance.
company’s PM strategy and how the technology offered can be integrated into the flow of work.

Performance Management Solution Activities

At its core, performance management is about defining the work, setting expectations, exchanging feedback from others (e.g., managers, direct reports, customers), and evaluating the outcomes accomplished. Our Performance Management Solutions research identifies three essential activities inherent to PM solutions (see Figure 1):

- Goal management
- Multisource feedback
- Performance evaluation

When considering PM solutions, focus on how these activities are embedded in the solution and how well they address organizational needs.

Goal Management

Developing goals should be a highly personalized process. In lower-performing PM environments, workers might plan goals annually or semiannually based on past performance and then share them with an immediate manager. In high-performing organizations, goals are filtered through a more holistic lens with a broader impact. Throughout the work cycle, individuals develop short- and long-term goals that align with specific organizational objectives in a highly transparent environment. Peers, teams, managers, and leadership can assess and add perspective as part of the ongoing PM process.

With the aid of technology, goal management moves toward a future-focused activity, which affords the opportunity for course-correction in real-time. Currently, only 43 percent of organizations use technology to track goal progression. Whether adjustments are on-demand or automatic, they can help formalize goal-setting, leverage greater

KEY POINT: At its core, PM solutions capabilities should address three activities: goal management, multisource feedback, and performance evaluations.
transparency, and update goals as part of the workflow—all areas in which technology can support PM as a driver of business outcomes.

**Multisource Feedback**

When it comes to performance management, any level of bias is a serious concern for individuals and organizations. And although some organizations have made concerted efforts to remove bias from the process, perception can become reality when managers evaluate an employee’s performance. Low-performing organizations may employ practices that unwittingly encourage perceived bias—for instance, having a single manager own the entire feedback process, providing infrequent opportunities for feedback, or gleaning feedback exclusively from one source. High-performing organizations look to multiple sources of feedback to create a holistic picture of performance and development progress. Peers, direct reports, managers, and other internal stakeholders are rich sources of information for the process. Additionally, external stakeholders (e.g., customers or vendors) are included in feedback activities and given a chance to offer insights. Frequent, real-time feedback is also important to the PM process because it provides timely, actionable input from multiple sources, reducing bias and promoting objectivity.

Organizations’ efforts to remove bias, improve feedback frequency, and ensure multiple sources of feedback can be enhanced with technology as part of the PM process. Automatic nudges to collect on-demand feedback and data at critical points in projects are just one way technology-enabled feedback can formalize an otherwise ad hoc exercise. Our High-Impact Performance Management study shows that only 28 percent of organizations use technology to track feedback from multiple sources like peers and stakeholders.

**Performance Evaluation**

Engaging in the evaluation process is often a stressful exercise for workers and managers alike. Traditionally, annual reviews can be perceived as highly subjective, especially if there are gaps in the data used to evaluate an individual. It can be hard to remember how a worker contributed to projects if a significant amount of time has passed since the project concluded. Relationships also play an important role—favoritism can lead to an unwarranted positive review, while deep distance between a manager and a team member can lead to the opposite. These issues should raise red flags for organizations in how the performance evaluation process is enacted. Even though performance reviews have fallen out of favor anecdotaly, the reality is that most organizations still use them in some form or another.

Perhaps no one will ever love performance reviews, but technology can help create more objective and relevant reviews. There is opportunity for solutions to play a larger role in the performance evaluation, as only 40 percent of organizations use technology to track performance indicators. Solutions can capture data consistently so that tangible examples of performance are available whenever the appraisal process occurs. Advanced tools like natural language processing (NLP) can pull meaning
and themes from the data, leveraging keyword searches and analysis of specific projects to help ensure ratings and evaluations are appropriately reasoned.

Performance Management Solution Categories

The range of PM approaches that organizations use has induced a similar range of solution categories. Similarly, answering the needs of large multinational companies is a wholly different exercise than doing the same for a small start-up. Given these dramatically divergent needs, we identified three PM solution categories to meet organizational needs (see Figure 2):

- Human capital management (HCM)
- Talent management suite (TMS)
- Pure-play performance management (PPPM)

Figure 2: Performance Management Solution Categories Identified

![Figure 2: Performance Management Solution Categories Identified](image)

Human Capital Management

Performance management offerings are embedded within the broader HCM system, with the ability to support forward-looking PM and integrate core, process-centric activities (e.g., information systems and payroll). A key advantage is that HCM systems are the primary source of all workforce data. When considering how a PM solution provider will interact with the wealth of data available, robust PM activities become possible. Information should flow seamlessly so that once captured, it’s available anywhere in the system.

For instance, some solutions in the market may capture real-time feedback, allowing the information to be integrated with existing data for a more accurate performance review. Other solutions may offer an
advanced capability, such as support for managers in the performance process in assessing both on- and off-payroll workers.

The long history and proven capabilities of HCM systems make them attractive options in the marketplace, especially if an organization is already using one for other talent activities.

Talent Management Suites

The integrated system offered by TMS solution providers is much like that of HCM systems, but without the broad-spectrum transactional functionality. TMS solutions often include other talent-related modules like talent acquisition or learning management as part of their offering. TMS performance management modules share a common interface with other modules, making them an easy choice for organizations that have already implemented a TMS.

Solutions facilitate the exchange of information or feedback for users—publicly or privately (i.e., defined user group). The exchange and collection of information allows organizations to control how data is collected and deliver coaching talk points to managers, helping workers stay on track. In turn, individuals receive a more seamless experience with integrated modules, and organizations capture robust workforce data, both of which support more strategic talent planning.

Because solution providers have designed information to be shared across the talent management modules, critical and pertinent information is readily accessible so that managers and workers can make objective performance decisions.

Pure-Play Performance Management

The greatest level of innovation among providers is occurring with PPPM solutions. Providers in this category can go beyond traditional performance evaluation and can focus on creating a forward-looking continuous PM environment that impacts business outcomes. These new entrants to the PM technology market specialize in experimental approaches to performance management, including integration of artificial intelligence (AI), integration with workflow systems like email, project management or sales support, and advanced data collection nudges.

For example, a solution may provide functionality that can help managers have ongoing conversations with team members to effectively coach them and, ultimately, meet company objectives. It may also lend support to managers in the form of templates that provide guiding questions to evaluate whether a worker is on track or in need of additional coaching. In addition, PPPM solution providers can provide specialized expertise and in-depth focus, making them more attractive to organizations and often more agile and faster to respond to changes in business needs.

**KEY POINT:** Data flows seamlessly across the HCM system, allowing PM data to be captured continuously.

**KEY POINT:** TMS performance management integrates with other talent management modules, supporting objective performance decisions.

**KEY POINT:** Innovative and responsive, pure-play solution providers specialize in facilitating forward-looking, real-time PM.
Conclusion

The push to improve performance management has reached a critical juncture. As organizations look to solve the PM riddle, solution providers have developed a variety of offerings that solve current problems but also lead toward future innovation. Leaders, managers, and HR professionals are looking for technology-enabled PM to create transparent and objective processes that drive business outcomes.

This Market Primer is the first article in our series on PM solution providers. Additional articles in this series examine how buyers need to understand why investing in advanced capabilities is important, discuss how the market has evolved the next generation of PM solutions, and provide detailed information on the commonalities and differentiators between solution capabilities and vendors.

Key Takeaways

- Performance management solutions should support goal management, multisource feedback, and performance evaluation.
- Performance management capabilities can be found in three main categories: human capital management, talent management suites, and pure-play performance management solutions.
- For organizations already using HCM systems or looking for a total upgrade, HCM solution providers offer fully integrated systems.
- Talent management suite solution providers readily share information across modules, assisting with objective performance decisions.
- Pure-play performance management solutions focus on next-generation capabilities, often integrating cognitive technologies, such as AI and natural language processing.
Endnotes

2. (1) The “Net Promoter Score” (NPS®) is based on the fundamental perspective that every company’s customers can be divided into three categories: promoters, passives and detractors. Net Promoter, Net Promoter System, Net Promoter Score, NPS and the NPS-related emoticons are registered trademarks of Bain & Company, Inc., Fred Reichheld and Satmetrix Systems, Inc.; (2) *Seven Top Findings for Enabling Performance in the Flow of Work*, Bersin, Deloitte Consulting LLP / Kathi Enderes, Matthew Deruntz, 2018.
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