Performance Management Reviewed

By Richard S. Wellins, Ph.D., and Linda Miller

Overcoming the barriers to effective performance management.

Real conversation, parking lot, 5:30 in the afternoon:

John has just finished his annual review with his boss, Scott. He is relaying his experience to a colleague from another team: *You know I like and respect Scott. He has been my supervisor for a long time. And, as usual, I got a decent rating. But, my feeling is the entire process seems way too much of a routine . . . like an activity that just has to be checked off the list. I feel fortunate to leave with a few insights and some advice on areas I can improve. And while the feedback I got was helpful, it was the only real feedback I got all year. It would be nice if Scott and I actually talked more often.*

John is one of the lucky ones. Many leave their performance appraisal discussions feeling frustrated, angry—even bitter.

The range of emotional responses is a consequence of performance management being the most common, critical, and controversial organizational system we have in place. When used effectively, it helps drive strategy execution and fuels the bottom line. It is also an important catalyst for fostering employee engagement and growth. And, according to the McKinsey article “Building Capabilities for Performance,” (Benson-Armer, R., 2015), performance management is the biggest factor in driving overall organizational capability.

But performance management is like a black bear in hibernation. For long periods of time (in this case, years), it receives little attention and then wakes up grumpy and hungry for reinvention. In 1983, for example, Jack Welch put in place the forced ranking approach at GE. Three decades later, after much debate and criticism, most consider that bell curve-based approach gone for good (“It’s Official: Forced Ranking is Dead”, *CIO Journal*, 2014).

“Hungry” companies today are once again looking to better their performance management systems and respond to the following:

- **Growing dissatisfaction among employees, managers, and HR.** While over 88 percent of companies have some sort of performance management system, 71 percent feel it is time for improvement (*Performance Management 2015: Coaching for Development Needed*, Brandon Hall, 2015). DDI’s Global Leadership Forecast corroborates this current state of performance management; it shows that only 12 percent of 1,400-plus organizations rate their systems as very effective.
- **Ever-increasing sophistication of performance management software.** Companies are investing in technology with the hope of maximizing the impact of their systems.
- **Greater access to information and a shift in responsibility from leaders to employees.** Smart employees know that their performance is better judged by those who see them in action every day, and have an array of tools available to seek useful feedback. They, more than their leaders, have control over their own performance evaluations, development, and career paths.

© Development Dimensions International, Inc., 2015. All rights reserved.

- **Substantial change in the world of work.** Over the last decade, greater uncertainty and complexity have called into question the relevance and effectiveness of the annual review cycle.
- **Too much emphasis on the process.** Disparate focus on both "the process" and the "rating" has damaged a key benefit of performance management: driving learning and growth. In our Global Leadership Forecast, leaders rank performance reviews as near-to-last among valuable tools for learning.

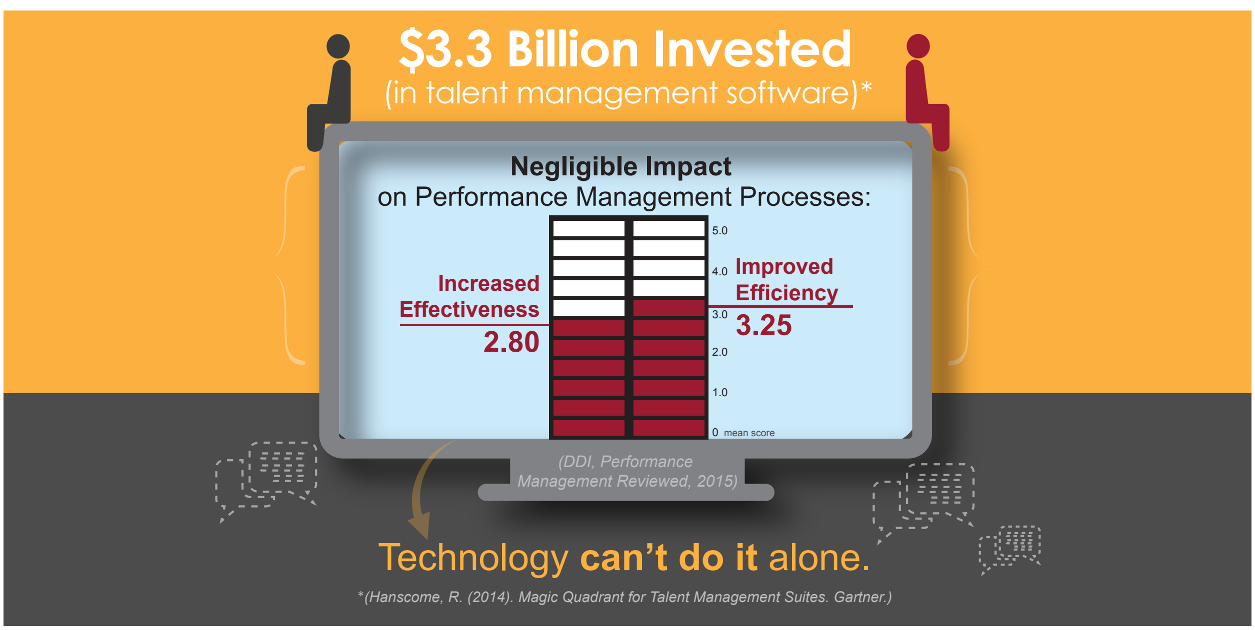
And the survey says . . .

Eager to learn more about the changes afoot and those that have yet to be addressed, DDI conducted a survey to investigate both the impact of performance management software on the appraisal experience and the biggest barriers to effective performance management.

Hiding Behind Software

It's hard to imagine large, enterprise organizations deploying performance management processes without the use of some form of software. More than two-thirds of all organizations report using technology, with double-digit growth of software solutions expected in the near future. According to Brandon Hall Group, a leading talent management analyst firm, "managing employee performance without technology to expose talent data across the enterprise, to ensure cascaded goals, and to assist in exposing top performers from others, severely limits the effectiveness of the performance management process."

If software use is ubiquitous within performance management systems, why are these systems still perceived so poorly? We argue that there is a fundamental difference between effectiveness and efficiency. In our survey, we asked 93 HR leaders how great of an impact software has had on increasing the ***efficiency*** of their performance processes. The mean response was approximately 3.24 on a five-point scale. One-third of the respondents checked either a four or five on the scale. We then asked the question a bit differently: How much did the performance management software help increase the ***effectiveness*** of your processes? The mean dropped to 2.80, with only about 21 percent checking a four or five.



 © Development Dimensions International, Inc., 2015. All rights reserved.

Brandon Hall Group reports that performance ratings, online appraisal forms, and rating scales are the software functionalities utilized with the greatest frequency. We put these in the ***efficiency*** category. Software functionality with the lowest utilization frequencies includes coaching advice for managers, performance appraisal discussion tips, and actioned development suggestions. We put these in the ***effectiveness*** category. There is good reason. Software functionality in the effectiveness area is almost non-existent. A handful of products (e.g., Halogen software) have incorporated more advice and tips aimed at improving process effectiveness. But, even if these items become an integral component of software, they simply cannot replace what we feel is the key component to improving effectiveness: building the skills to improve the quality of coaching and feedback conversations between managers and their employees.

So What Gets in the Way?

In our second area of inquiry, we asked our study participants to designate the top three (from a list of 11) barriers to better performance management. The table below indicates the number of respondents for each of the barriers.

Barriers to Effective Performance Management

(Percent Indicating Top Three)

	BARRIERS	
1	Skill level of managers to have meaningful, ongoing, coaching discussions	**77%**
2	Ability of managers to distinguish levels of performance and provide appropriate feedback (both poor and good performers)	**72%**
3	Tends to be based on two discussions a year (setting goals; reviewing performance) rather than ongoing coaching discussions	**62%**
4	Skill level of managers in setting goals/reviewing performance	**59%**
5	Too much emphasis on performance, not development	**49%**
6	Balance between “whats” (goals/targets) vs. “hows” (behaviors)	**44%**
7	Senior management does not model and support performance management process	**37%**
8	Tying individual performance with compensation	**21%**
9	Using performance management to drive and align goals throughout the organization	**14%**
10	Focus on our performance management software has gotten in the way of meaningful performance/coaching discussions between leaders and their team members	**11%**
11	Too much emphasis on development, not on performance	**2%**

Topping the list is the ability of managers to have meaningful, ongoing coaching discussions. Unfortunately, this has been a long-time concern, one that also corroborates the Brandon Hall Group findings. Developing managers to be effective coaches also topped their list as the greatest challenge to improve performance management effectiveness.

The second most-chosen barrier consists of two parts. The first is the actual ability of managers to differentiate effective from ineffective performance; the other is the level of confidence and skill set needed to deliver constructive feedback. In general, it is fair to say leaders are far less comfortable giving feedback to employees having performance problems than to those who are doing well (although leaders also struggle with sincerity when it comes to delivering positive feedback).

© Development Dimensions International, Inc., 2015. All rights reserved.

The third high-ranking challenge is, again, not new news. It appears many companies still view performance management as a biannual process, in which expectations are set and then reviewed 12 months later. Although twice-a-year conversations are better than none, this approach is problematic for two reasons. First, coaching and feedback are far more effective "in the moment" (not ***months*** after an activity has occurred). According to Laci Loew, the author of the Brandon Hall Group report, "Offering coaching to employees about actions they took or did not take six to 12 months after the fact is essentially useless in perfecting performance." Second, today's work world is tumultuous enough that expectations and goals are ever-changing, requiring constant and just-in-time feedback and coaching.

Conclusions

1. The gap between the potential for performance management to build organizational capability and its perceived effectiveness in doing so is enormous. Given that we spend billions of dollars on software, process design, and training, it's a gap well worth closing. Brandon Hall Group's research shows a significant difference in impact on customer retention, revenue, and employee engagement between organizations implementing performance management well and all others. Additionally, our Global Leadership Forecast reveals that those organizations with highly effective performance management systems are 1.8 times more likely to be in the top third of our financial performance index.
2. Software is a valuable enabler of high impact performance management, but it is not the sole answer to more endemic and long-term barriers to effective performance management processes. Our reservation is that some companies truly believe that software alone is the performance management silver bullet.
3. Performance management must be viewed as a dynamic, not static, process. It is an everyday event for both leader and employee alike. According to Brandon Hall Group, only a dismal 19 percent of employees find their annual performance reviews to be effective. However, this number leaps to 41 percent when participants were asked about "in-the-moment" feedback.
4. The ***ability*** and ***willingness*** to distinguish high, average, and low performance is still critical. While forced distributions may completely disappear (and, in some organizations, ***all*** numerical ratings are disappearing), the need for leaders to make reliable and valid judgments will remain.
5. Ongoing coaching continues to top the list of performance management challenges. Coaching is a set of behaviors that must be learned and reinforced through ***proactive*** training. There are ***no*** shortcuts. Over two decades ago the head of Tennessee Eastman's HR processes told us that he did not much care for all the work that was being done around performance management forms and templates. In his view, performance management could be done on the "back of a napkin." It was the conversation, the dialogue between leaders and their employees, which made the difference. That truth still rings true today.
6. Performance management, more than ever, is a shared process—although majority-owned by employees. Employees should play a role in setting their own goals, and actively seeking feedback and coaching around their performance. And, even more importantly, they should take the lead in crafting and following through on their own development plans.

Visit www.ddiworld.com/performancemanagement for more information and to download a copy of Brandon Hall Group's white paper, *Performance Management 2015: Coaching for Development Needed*.

LEARN MORE
Performance Management

CONTACT US
Deloitte: Daleen Oosthuizen:+27 833757840 Daoosthuizen@deloitte.co.za
Louise Heyns: +27 (0)84 811 0191 lheyns@deloitte.co.za

 © Development Dimensions International, Inc., 2015. All rights reserved.