

BUSINESS TRENDS

The New Performance Management is Here – Have you Tried it Yet?

As organizations and their workforces become more agile, strategies more dynamic and deliverables more diverse, traditional cycles of annual reviews are no longer relevant and just a quick review of headlines shows a strong move against them.



By KPMG Romania

The debate around traditional performance management

In an article in Harvard Business Review, Cappelli and Tavis (2016) argue that current changes to performance management are a result of changing strategic priorities. Organizations must now respond to uncertainty, complexity and diversity with a new mindset, new business models, and new processes. Most of the organizational processes which we have used in the past are no longer suitable for the future or even the present. There is now more need for teamwork, collaboration, greater agility and lifelong learning and less need for individual accountability or individual performance.

“Why Adobe Abolished the Annual Performance Review and You Should, Too” (Baer 2014).

“Microsoft axes its controversial employee-ranking system” (Warren 2013).

“In big move, Accenture will get rid of annual performance reviews and rankings” (Cunningham 2015).

“Why GE had to kill its annual performance reviews after more than three decades” (Nisen 2015).

A couple of years down the road, new performance management systems promise improved employee engagement and retention, improved talent development and increased efficiency.

The change couldn't have come at a better time. Leaders and employees were getting frustrated with the process in its traditional form. Everyone seemed to hate it - employees, managers and HR

39% OF
EMPLOYEES THINK
THE PERFORMANCE
MANAGEMENT
PROCESS IS FAIR

12% OF TOP
MANAGEMENT
BELIEVES THAT
PERFORMANCE
MANAGEMENT
INFLUENCES
BUSINESS RESULTS

95% OF
MANAGERS ARE
DISSATISFIED WITH
THEIR
PERFORMANCE
SYSTEMS

98% OF HR
MANAGERS
BELIEVE THAT
YEARLY
EVALUATIONS
ARE NOT USEFUL

Source: CIPD, Corporate Executive Board
WSJ si Radford

Most of the organizational processes which we have used in the past are no longer suitable for the future or even the present. There is now more need for teamwork, collaboration, greater agility and lifelong learning and less need for individual accountability or individual performance.

and, despite serious training efforts, people were still having trouble doing it well, which resulted in the process failing to do what it was primarily meant to be: an effective driver of performance.



Complex & time intensive

- HR invests a lot of time to manage the process which is often complex and requires numerous follow-ups for managers and employees to complete all steps.
- Companies spend time in training managers and employees in goal setting and effective performance management techniques. Still employees complain their goals often lack clarity, they rarely receive useful, specific feedback and the reviews are biased.
- Ratings systems are often too complicated and not clear enough for managers and employees
- Time is focused on proposing, moderating and communicating ratings rather than on individuals' development
- Tools and processes used are often too complicated – over engineered and time consuming to use

Demotivating for employees

- New research on the neurology and psychology of work shows that numeric ratings, rankings, and formal evaluations without positive feedback actually reduce performance as our brain shifts into “fear for flight”.
- When used as a relative comparison between groups of employees (moderated), it tends to be a reflection of talent categorization rather than true indication of year-on-year individual performance.
- Ranking people often creates status differentials, which can cause tension with middle-of-the-rank employees.

Focus on development is lost

- The performance conversation becomes focused on ‘waiting for the ratings label’
- Forced ranking can mean making arbitrary decisions because of the need to meet quotas or an ideal distribution. This can lead to significant challenges to the perceived fairness of the system.
- The most valuable part of Performance Management is the development planning conversation and this may be marginalised or missed out
- The focus is on looking backwards with little emphasis on the future.



So where did we go wrong with performance management? Performance ratings and forced distribution decisions are at the centre of the debate, together with a move towards performance review meetings becoming more frequent and less formalized than the traditional annual review. an effective driver of performance.

As always, one size does not fit all. A successful performance management process does not always mean a move away from performance ratings. In fact, giving up ratings is now highly controversial and while the initial reactions to eliminating performance rating received positive feedback, in some cases the key performance outcomes actually decreased. In a 2016 Pay for Performance Employee Survey of more than 10,000 employees in 18 countries, CEB concluded that although some managers are more effective without ratings, most organizations will find it too difficult to get their managers to the level needed to make the change worth the significant investment, and encourage

organizations to focus on other changes besides removal of ratings.

Indeed, organizations choosing to optimize their processes now tend to place a bigger emphasis on culture change versus process change and eliminating ratings is a route that has less adopters now. Instead organizations put more focus on the quality and value brought by the process rather than its previous focus on compliance, greater weight on staff development, more frequent and honest conversations with employees.

The route to the new performance management has not been easy and there are lessons that all of us can learn from the organizations that have moved away from the traditional systems. New processes came out as a result to feedback collected from hundreds of employees and in some cases, after tweaking and re-tweaking traditional solutions with little or no positive impact:

■ *If you take away too much structure, there will be panic and confusion. Don't*

BUSINESS TRENDS

under estimate how much training and 'landing' will be required.

■ Organizations should be clear on the purpose of appraisal – developmental or administrative (pay or promotion related) and work to ensure that performance discussions during the year focus on one or the other, but not both.

■ Feedback should not be linked to compensation decisions.

■ Management Information is harder to gain and requires different metrics, for example attrition measured against promotion prospects.

■ When ratings are not in place it can be challenging to have a clear "cut-off" for saying the employee will not receive an increase or bonus.

■ Given well and on time, feedback can be invaluable, but given poorly it will do more harm than good. Significant training is required as well as effort to build the right culture.

■ When the data driven decision making is gone, managerial discretion plays an important role in determining salary increases. Compensation teams need to provide a solid framework, guidance and tools to support managers to make effective pay recommendations.

■ A clear talent strategy needs to be in place so that high performers are identified and rewarded and recognised in ways other than receiving a rating.

■ Without ratings, identifying poor performers needs to be driven from the top down. They must be identified and managed effectively.

■ Performance management needs to be seen as a fair process, in order to be effective.

A new model has emerged: continuous performance management

While some are still experimenting, the new performance management is steadily moving towards a continuous process, with some key elements present across the board: regular feedback with a forward looking perspective, more flexibility in goal setting and reviews and



Real time feedback and coaching

Continuous performance management puts feedback at the heart of the process, moving away from an exercise whose key purpose is to assess past performance and produce a rating that will influence the individual's remuneration or career progression to a continuous, forward looking process focused on development and coaching employees for increased performance. Such a process allows individuals to ask for and receive "just-in-time" feedback, so the quality of the feedback is greatly increased by being more timely, specific and actionable. This continuous approach offers actionable insights to employees and their managers to improve and reach their goals faster than ever before.

Flexibility

Instead of setting objectives and then revisiting them once or twice a year, organizations encourage setting dynamic objectives that take account of the reality in business, as well as setting objectives around key projects, and then setting new objectives when the next project starts. At the end of the year, all of the progress and feedback is collated in one place.

Social approach

Social tools now let people share goals, recognition, and work-related information in a transparent way. This creates a new peer-to-peer dynamic for performance evaluation. Individuals on the same team can see each other's goals and can provide feedback. There is also an emphasis on increasing the importance of individual's online reputation. Although a trend that seems to acquire many supporters considering the social era in which we live, feedback from the adopters varies largely. According to IBM Smarter Workforce Institute's research in 2015, preferences for public versus private positive feedback vary, and there is a clear preference among employees for giving and receiving coaching feedback privately.

more support and coaching from managers.

Benefits of continuous performance management

While this approach is still in its early stage, feedback from employees and results reported by companies provide strong arguments for companies that are still considering the next steps in performance

54% OF EMPLOYEES THINK FLEXIBLE GOAL SETTING HAS IMPROVED PERFORMANCE

92% OF EMPLOYEES BELIEVE RECEIVING FEEDBACK FROM MORE PEOPLE IS VALUABLE

77% OF EMPLOYEES REPORT COACHING FEEDBACK HAS CONTRIBUTED TO THEIR PROFESSIONAL GROWTH AND WORK PERFORMANCE

30% DECREASE IN EMPLOYEE TURNOVER REPORTED BY ADOBE, AFTER CHANGING ITS PERFORMANCE MANAGEMENT APPROACH

Source: IBM Smarter Workforce Institute, Implementing Agile Performance Management – Employees views of the early days, Forbes, How Adobe scrapped its Performance Review System and why it worked

management: increased motivation and engagement, reduced employee turnover, increased productivity.

Timely and actionable feedback motivates employees, which leads to reduced employees turnover and absenteeism

Giving feedback once a year almost guarantees that it will be vague and largely irrelevant by the time employees

hear it. Apart from that, waiting for a year to communicate constructive feedback, mostly focused on the past, is also detrimental to morale and often hurts engagement and productivity.

A continuous approach to feedback leads to increased employees' motivation as they are in constant contact with their managers, in an open two-way communication, they always know where they stand and receive the opportunity to work on their areas of improvement. As a result, employees are more engaged with their job, which means they are more productive, motivated and dedicated to their company. Increased engagement is demonstrated to lead to reduced employees turnover and absenteeism.

Continuous performance management offers more clarity regarding goals and expectations

Through ongoing, real-time feedback, managers can communicate their expectations and vision to the team in a transparent and continuous manner. Such feedback helps employees get more clarity and less uncertainty regarding goals they need to pursue and expected behaviors, as well as progress against expectations.

Frequent feedback leads to constant development of employees, which results in professional growth and work performance

Giving feedback to employees only once or twice a year prevents them from being able to improve all year long. Constant feedback, in turn, enables employees to identify areas that require improvement on time and thus develop and enhance their performance constantly.

Enjoy a richer picture of employee performance

Companies that use continuous performance management tend to move towards a multi-source feedback

The new performance management is steadily moving towards a continuous process, with some key elements present across the board: regular feedback with a forward looking perspective, more flexibility in goal setting and reviews and more support and coaching from managers.

approach, where the collected feedback comes from the different sources an employee interacts with in his everyday work - a manager, a peer colleague or subordinate. Consequently, companies enjoy a much more comprehensive picture of an employee's actual performance which leads to a more objective process and less surprises at performance review time.

More efficient and more meaningful performance review

When feedback is exchanged and collected throughout the year, a substantial amount of review is basically already over with by the time managers and employees sit down. Furthermore, all this feedback is readily accessible and therefore provides managers with a real-time cockpit of their employees' strengths and areas for improvement. Managers can now help employees grow and work towards their goals.

Improved Ability to Close Skill Gaps

Nowadays organizations struggle to find people with the skills they need and would often use recruitment strategies that will focus on bringing people that have the potential to become the talent they need but are not quite there yet. Therefore, one of the current challenges many organizations face is the need to constantly upskill their employees. In a continuous performance management process, feedback flows freely throughout the year, and the corresponding data is always available. This allows the manager to get the most out of the talent of employees because they now have a real-time view to spot and tackle skill-gaps immediately. Therefore, managers have the perfect tool at their disposal to evolve from task managers to active coaches that help their employees succeed.

Use of technology

Advances of technology allow companies



KPMG QuercusApp Performance - a cloud-based technology solution that supports continuous performance management

Such a technology solution, recently launched in Romania, KPMG QuercusApp Performance is designed based on the principles of continuous performance management, for the specific purpose of making the exchange of feedback as easy as possible, providing instant people analytics that support manager coaching and career development as well as making the whole performance process more agile.

The application enables real-time feedback exchange on a continuous basis in a platform that is user-friendly, engaging and easy to adopt. Employees and managers can ask for and give feedback in real-time; they can have a constant pulse on their performance and are thus able to act upon it by improving or coaching others every day, not just once a year.

The dynamic objectives and the performance reviews are fully aligned with the continuous performance management principles, allowing companies to create or adjust goals when necessary, to easily monitor them and run reviews as frequent as desired, deciding themselves what to assess in any given performance cycle.

The application can be an attractive solution to companies interested in managing and automating their entire performance management process, from the objective setting stage, to monitoring and developing performance through continuous feedback, up to performance review. All in one place, allowing managers and employees to focus on developing performance rather than on process compliance.

The result is a tool that is geared to make the lives of managers and employees more comfortable and more efficient in driving their team's performance, and the employees' engagement more advanced.

BUSINESS TRENDS

to benefit from simpler, easy to implement and use tools.

Performance dashboards can give automated 'live' information on performance, including historical trend analysis or automatic analysis of feedback which makes identification of areas of development easier for all users.

According to CIPD's research report in December 2016, when monitoring progress towards goals, feedback can be

given in person or through technology equally effectively.

67% of surveyed CEOs in KPMG's 2019 Global CEO Outlook survey believe that acting with agility is "the new currency of business". To respond companies need to fundamentally change how they work towards a more customer-centric, innovation and collaboration driven environment. Traditional performance management has already failed to keep

pace with the changes that have happened in the work environment, so now more than ever new approaches are needed.

If you're interested in learning more about how your company can apply the continuous performance management approach in practice, contact us at team@quercusapp.com. KPMG QuercusApp Performance is a cloud-based application enabling continuous performance management for the future.

References

KPMG, *Trends in Performance Management*

KPMG, *2019 Global CEO Outlook survey*

KPMG QuercusApp Performance - *Top 10 benefits of continuous performance management*

CEB Corporate Leadership Council, *The Real Impact of Eliminating Performance Ratings - Insights from Employees and Managers*

Chartered Institute of Personnel and Development, *Could do better? Assessing what works in performance management*

IBM Smarter Workforce Institute's, *Implementing Agile Performance Management - Employee views of the early days*

Corporate Executive Board Corporate Leadership Council - *Driving breakthrough Performance in the New Work Environment*

Corporate Leadership Council, *Introducing New Performance Management Solutions from PDRI a CEB Company*

AUTHOR



CLAUDIA STAN
Senior Manager
People services
KPMG in Romania



MADALINA RACOVITAN
Partner,
Head of People Services
KPMG in Romania



KPMG Romania
Victoria Business Park, DN1, 69-71
Bucuresti-Ploiesti Road
District 1, Bucharest
Phone: +40 372 377 800,
Fax: +40 372 377 700
Email: kpmgro@kpmg.ro
www.kpmg.ro