

Viewpoints

Q & A

Evolving Performance Management

Part 1: Why Managing Your Employees' Performance Is About to Get Harder



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Performance management is one of the hottest business issues today. Traditional approaches are under fire, partly because performance management strategies and programs haven't delivered on their promises to enhance both the employee experience and business results.

In a recent roundtable discussion, Towers Watson experts focused on what's driving the need for change in performance management, and whether making some of the highly publicized changes is the right course of action. Most importantly, they examined how the evolution of performance management will likely influence employees and organizations alike. This article summarizes their discussion.

Q Jesuthasan: Today's business headlines reveal increasing debate about performance management strategies and tactics. Organizations large and small are attempting to rewrite the book on performance management by, among other things, eliminating the rating of employees and creating what's termed "ratingless" approaches. What challenges and deficiencies with performance management are influencing this trend?

A Ishabashi: Quite simply, organizations, managers and employees are running out of patience with the inability of performance management to deliver on its promise of aligning individual performance and development with business strategy. Particularly as business leaders think about the return on investment, the consensus is that today's performance management programs aren't paying off.

We hear quite a bit about the intended purposes of performance management, which include signaling business priorities, aligning individual goals with overarching corporate objectives, identifying high performers, and aligning rewards and development. But despite the resources being poured into the process and the constant tweaking, employers aren't realizing these benefits.

Also, the nature of work is changing dramatically. Today, work is much more fragmented, complex and project-driven than in the past. In this context, traditional performance management is outdated and irrelevant. Organizations and employees are losing patience and simply saying, "There must be a better way."

McAndrew: When it comes to closing the performance management gap, a few specific tweaks might be enough. When the pace of change is rapid, business leaders look to HR to help build a culture of learning and innovation. And when HR is tasked with delivering such a culture, performance management comes into play. Today's programs aren't delivering sufficient impact for the time and effort being applied. These outmoded performance management programs just aren't effective enough.

Q Jesuthasan: Let's examine the rush into ratingless performance management programs. It feels very similar to what we saw in the early 2000s, when many organizations were enamored with GE's use of forced rankings. Is this right for every employer? What are the considerations, both pro and con, of going ratingless – from both an operational and employee-experience perspective?

Recent research has found that only about 6% of employers in Africa, Europe and the Middle East have made the move to ratingless programs or have considered doing so.

A Hoover: The media have created a platform for extensive discussion about going ratingless. So we've had many discussions with organizations that are interested in learning more.

Recent research has found that only about 6% of employers in Africa, Europe and the Middle East have made the move to ratingless programs or have considered doing so. Globally, it's about 10% of employers. It's an interesting, provocative debate that, in many instances, has taken place in the board room or the C-suite, as senior executives have also seen headlines about the ineffectiveness of traditional performance management systems – and know the costs involved firsthand.

But organizations should think carefully and cautiously about their particular business needs before they abolish their performance management system and adopt one that might not be right for them.

For a ratingless system to be truly effective and achieve desired outcomes, you need to have some fundamentals in place. But if performance management is only about completing a form and having a discussion (without any measure of that discussion's quality), and then you're rewarded for completion, that strays far afield of the intent of any performance management program.

What a well-executed ratingless system does is refocus the energy now being expended on completing forms and complying with a sometimes burdensome process. Rather than investing time worrying about whether to rate an employee a two or three on a five-point scale, the supervisor engages the employee in a discussion about his or her achievements, strengths and developmental needs. The supervisor reviews what the employee has demonstrated over the course of the performance cycle, and truly spends time discussing individual performance and how it might be improved. That's the right focus.

But for this kind of meaningful discussion to take place, managers must be equipped with the necessary tools and training to deliver feedback and development coaching. They must be able to help employees assess their own strengths and development opportunities, and to understand alternative paths to achieving their career goals.

Employees must be open and receptive to feedback, and sufficiently self-assured to ask the right questions with development and career progression in mind. The organization's culture really has to support this kind of discussion. For the process to be effective, the employer must make it a priority to provide managers and employees the necessary time, space and tools to do this right.



Bakshi: I think rushing into a ratingless program is a recipe for disaster. Employers need to think this through and not simply follow the herd.

On the upside, some of the apparent promises of this new approach involve positive effects on the employee experience through a greater focus on growth and development and less emphasis on ratings. But to effectively measure performance, organizations will have to gather and report multidimensional data, including the individual's performance relative to objectives, the degree of stretch for each objective, skill acquisition and other factors. This sort of data will support evidence-based decision making, leading to a broader, more comprehensive view of performance.

The downside of rushing into this without proper preparation is that a ratingless system will dilute the performance focus and culture that the organization has built over the years. Before doing away with a system that keeps poor performance in check, organizations should consider the risk to financial performance.

The biggest challenge by far would be in making reward decisions. The conventional approach is generally effective at justifying reward, promotion and termination decisions. Once that's gone, organizations may struggle to find a replacement that seems as coherent and objective. There's a very real risk that, without controls and increased manager discretion, subjectivity and bias in reward and performance decisions will increase.

Q Jesuthasan: The points made about the cultural implications are quite interesting. I wonder whether employers are questioning the role of performance management itself. Do they see it as something that shapes culture or something that's primarily focused on distributing compensation?

What specific changes are organizations making, and how are those changes affecting their business model and culture?

Q Ishibashi: We see a fairly broad spectrum of changes. As previously mentioned, quickly jumping into a new solution is rarely successful. Organizations that are considering change must think through quite carefully what the major changes may be. Where do they want to go, and how fast?

Some employers are starting to think differently about the ways they set and cascade goals. The notion of impact goals is what's resonating. It is moving past setting S.M.A.R.T. goals, to setting goals and then measuring the impact an employee makes or the contribution she has on not only her immediate area and teams, but also the broader organization. For example, is she contributing to the performance of another division? Is she leveraging the good work of others? Switching to this type of thinking signals a move away from a competition-driven culture to one characterized by more collaboration and sustained performance.

We've talked quite a bit about redefining individual performance, but what does that really mean? Historically, it's always been about driving results, but many organizations are moving toward incorporating forward-looking aspects of performance, such as employees' potential and possession of the critical skills needed to drive the business forward. So it's about taking a longer-term view of performance, being agile and focusing on continuous improvement.

Getting rewards and recognition right remains important. Some organizations are delinking discussions about performance and pay to take a holistic view of performance, and thinking through what actually drives performance versus what affects pay.

McAndrew: I love that many HR leaders are now thinking about that sort of agility — delinking discussions about performance and pay — which really helps enable the cultural aspects of learning that performance management can include. Often, business leaders see HR as forcing scheduled performance discussions on a cycle that takes many hours without a lot of action. Being more agile when it comes to performance management will bring it into the everyday and allow supervisors to have those discussions when they want or need them.

For example, I remember leading a talent review with a business leader. He asked, "Can I talk about the performance of this individual?" Your initial instinct is to stay true to the process and say, "No, you can only talk about potential. Performance comes later in the year." This shows one of the ways we've placed barriers around the organization that blocks the agility required to secure real-time feedback. It prevents employees from getting the needed insight into their potential and how they can really make an impact on the business.

Q Jesuthasan: You make an excellent point about some of the arbitrary distinctions that have been placed on businesses in the past. Organizations need to ask how best to motivate and engage talent, and not be constrained by the requirements of an outmoded process.

To Asumi's earlier point, the default position for many organizations has been to focus on the primacy of individual performance. There was a sense that recognizing, motivating and rewarding the best individual performance was the key to boosting organizational performance.

It seems that less formality and more regular communication with managers and peers is the way to go.

Certainly that's true for a number of business models and organizational cultures. But I see some organizations taking a step back and saying, "Given our business model and culture, maybe the network is more important than the individual." I don't think there's one right answer, but it's good to see organizations questioning and challenging much of what's been the status quo for so long.

More and more, we hear that today's employees want constant feedback. It seems that less formality and more regular communication with managers and peers is the way to go.

How can employers do a better job of meeting this need?

A McAndrew: It starts with thinking of employees as consumers. We live in a world in which real-time feedback is readily available, whether it be via social media or in online shopping. When we shop on Amazon.com, for example, the real-time consumer ratings that we see are important to our experience. So there's definitely a movement toward getting more feedback – more frequently and more technology-enabled – and having more transparency.

So what do you do about it? There are three things you have to think about. First, define your desired culture of feedback. Do you need feedback that you can use to improve learning and development, or do you need feedback to accelerate innovation? And how do you connect that type of feedback to how you define a career at your organization?

Second, focus on manager capability. We hear that managers feel time pressured and unprepared. Their ability to have conversations with employees is valuable. Our research has found that these manager-employee conversations are falling short of expectations. In one organization, the employee engagement survey found that only 36% of employees felt these conversations were meaningful.

The third is all about employee empowerment. Research suggests that feedback isn't only about the giver, but also about the receiver. How do you create awareness among employees, and enable and empower them to seek feedback? You must find ways for employees to sit down more frequently with not only their managers, but also their mentors and others throughout the organization to seek feedback.

Ishibashi: Managers need to help employees build their networks, and create and foster an environment where talent development is a shared agenda. That means feedback can come from anywhere, anytime. It's not just up to managers.

Q Jesuthasan: Angel, based on your experience, what does effective performance management look like, and how might it differ from one organization to the next?

A Hoover: When we asked that question in an October 2015 performance management study, we were quite surprised to find that few organizations actually measure the effectiveness of their performance management processes and systems. Among those that do, 45% use the completion of forms as their key performance indicator.

When thinking about defining an effective performance management system, we should question whether the completion of forms is a meaningful metric, given that more than 50% of managers and employees view the process as ineffective. Clearly, it isn't achieving what it's supposed to.

The first thing we recommend is to determine how you want employees to affect business results. What kind of behaviors will contribute to the business's bottom line? Are employees contributing to growth? Improving efficiency? Improving customer satisfaction to help the organization compete effectively in the market?

In setting their individual goals, employees need to focus on the impact they can make by changing their behavior in certain ways and by applying their skill sets in certain ways. That's very important. Most employers believe that, whether they use ratings or not, individual and network performance objectives should align with business priorities.

The process has to be efficient and meaningful. The organization must not only deliver what's expected in terms of business achievement. It also must help employees understand their personal contributions to the business, and how they're affecting their own growth and progression as employees.

There's a mutual return on investment. We need to ensure that employees understand that the system is making the expected business impact, and that their individual goals and objectives are aligned with business goals. And employers need to give employees and their managers an efficient, effective process to support them.

Q Jesuthasan: I think you're spot on. It's very important for employers to consider the efficiency, effectiveness and impact of the overall process. So much of the discourse around ratingless systems has been about the efficiency gains. For example: "We spend 2 million hours a year on the process, and going ratingless will allow us to eliminate that 'unproductive' time."

While that serves one purpose, it may compromise the effectiveness of the process in terms of the employee experience or the overall impact of the process on business performance. So, are you compromising impact while focusing on efficiency? How do we create a consumer-driven

experience that's engaging? And at the same time, we're motivating people to behave and make decisions in the right way, taking into account the different roles people play and how they affect the business.

Employers must balance those three factors – efficiency, effectiveness and impact – as they rethink performance management. I suspect that progressive companies will take a more thoughtful approach to performance management rather than just follow the latest trend of going ratingless.

Consider this scenario: You've been asked to advise the senior executives of a large, global organization on how to deal with performance management. They want to eliminate their program and start from scratch, to reinvigorate performance management. Where should they start?

A McAndrew: It's a great question, and it sounds very familiar. You have to enter the debate thoughtfully and not just rush to an answer. Employers need to look at taking an agile approach to define what they're trying to solve, and how they're going to improve the overall program and experience.

Phase zero is the place to start. It's where you define the challenge. You have to define the root cause of the identified problem or what's broken within your organization. You must enter that debate with some of your senior leaders. Talk and listen to managers, and don't forget the core customer: your employees. Work to understand what they really need when it comes to performance management. Determine how performance management connects with how employees look at their careers in the organization, and the role it plays in helping them achieve their aspirations and potential.

Next, think about how to work with your business leaders, managers and employees to co-create various solutions around those pinpoints.

Third is to think about how to connect those solutions to the total experience. How does your performance management program connect with your talent management approach? How does it connect with your pay-for-performance approaches? It's important to think about the end-to-end experience around the process, people, programs and technology.

Lastly, determine where you can experiment. It could be that your managers need a new way to learn how to give feedback effectively. It could be that your employees want it to be easier to engage in their own performance management. How can you find different ways to experiment and learn from those experiments before you undertake a massive transformation?

Hoover: Also, we need to help senior leaders determine whether the organization is ready – based on their decision about whether they want to take an evolutionary step or a revolutionary step.

Understanding where your organization is and where it needs to go requires you to ignore the headlines and focus inwardly on what's broken within your system. Be sure to really focus on your organization's unique needs and where it stands. If managers are equipped to take on the performance management process in a meaningful way and not only deliver feedback to employees but also encourage behavior change throughout the organization – you've already got a great starting place.

Bakshi: I like the approach of looking at the return on improved performance for different roles. Employers can consider that approach, which asks managers to focus on the fundamental questions of, "Where does great talent really make a difference, and where does 'good enough' suffice?"

Employers need to understand how each role contributes to the business, identify the roles that can potentially deliver the greatest return in business performance, and then build systems that can match people to those roles and build talent, reward and incentive programs around the roles and people. Treating employees like consumers means that HR will have to customize programs for specific employee segments, and sometimes even roles and individuals.

These actions should be built upon three pillars: a measurement culture, a solid managerial infrastructure, and a reliance on decision sciences and technology.

Jesuthasan: I think the point you make of starting with an understanding of the work and then having that understanding actually drive the performance management design is an excellent concluding point. All of our panelists have shared insight into how organizations can best capture the tremendous opportunities offered by effective performance management. Thank you all.

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