

HEALTH WEALTH CAREER

PERFORMANCE MANAGEMENT

TIME TO STOP THE PROCESS
OUTSHINING THE PURPOSE



MAKE TOMORROW, TODAY



2016 marks a year for change in performance management, with half of organisations we surveyed planning to make changes. Following the wide press coverage of new approaches to performance management in 2015, a wealth of fresh ideas has emerged. However, sometimes the rhetoric exceeds the reality. The challenge for organisations attempting to change performance management is a need to move past a dialogue centred on process. Questions of “to rate or not to rate” and “how to distribute reward” are now at the heart of the performance management dialogue, with process outshining the purpose. The current dialogue loses sight of the bigger question: What is the point of performance management?



2015: THE YEAR THAT KILLED PERFORMANCE MANAGEMENT

Performance management has, for many years, been a process united across organisations. Our survey of 1,056 organisations in 53 countries found remarkable consistency in performance management process despite organisational differences in geography, industry, size, and market. Ninety-five percent of organisations set goals at the start of the year, and 94% assessed delivery at the end, many with a half-year review. Eighty-nine percent rated employees' performance — 57% using a five-point scale and 33% measuring against a distribution. Eighty-nine percent of organisations surveyed used the process to determine pay and/or bonuses.¹ This universality prompts the question of why so many organisations follow the same process — particularly when performance is delivered in such different ways and the culture of performance is so markedly different across organisations.

Organisations and employees are beginning to hold performance management to account, with dissatisfaction growing:

- In the business, only 3% think exceptional value is delivered by performance management.²
- For managers and employees, 95% are currently dissatisfied with performance management.³
- In HR, 48% are currently reviewing performance management or plan to review it.⁴

In previous years, this dissatisfaction was met with incremental change, centred on greater use of technology, improvements to process, and manager effectiveness. By contrast, 2015 signalled a radical shift, with leading organisations announcing fundamental changes to performance management. Although the rhetoric has sometimes exceeded the reality, the degree of change is greater than anything seen in the last 30 to 40 years of performance management. The danger occurs when the rhetoric calls organisations into action, championing shifts in performance management based on a discussion of process and losing sight of why we need performance management at all.

What we can take from this period of change is the start of a shift away from universal performance management process. Crucially, no single change or silver bullet has emerged. There are, however, common shifts:

- Moving towards an ongoing rather than annual process.
- Greater emphasis on the capability to perform.
- Questioning the value or need for performance ratings.

¹ Mercer. *Global Performance Management Survey 2013*.

² Ibid.

³ Corporate Executive Board Corporate Leadership Council. *Breakthrough Performance in the New Work Environment*, 2012.

⁴ Mercer. *Performance Management Snapshot Survey 2015*.

Not everything has changed. The enduring ideas remain that people need to be aligned with business goals, need to have the capability to perform, and value feedback and recognition.

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2016: THE YEAR OF THE PERFORMANCE CULTURE

Mercer’s point of view is that performance management should be right for your context: challenging the status quo and the rhetoric to find the right approach to drive actual performance in your organisation.⁵ The changes planned to performance management in 2016 reflect organisations seeking to create a performance culture. We have unpacked the concept of the performance culture to understand what it is and how to create it.

In a strong performance culture, we know what good looks like – we know when we see it, and we know when we do it. The implicit notion is trust for the individual; there is an embedded understanding of “what good performance looks like” and a commitment to act if good performance is not being delivered. In practice, performance management in a strong performance culture is aligned to how work is done and how performance is delivered. For example, performance management approaches would differ in sales versus research and development to reflect the distinct nature of performance. Typically, sales performance has transparent indicators that can be measured on a short-term basis as part of routine work. Research and development performance is less transparent, with performance outcomes beyond the yearly cycle based on project timescales. Heterogeneous organisations with multiple lines of business have multiple contexts and may therefore require segmented and nuanced performance management approaches.

Building a performance culture can change the focus from *managing* performance to *inspiring* performance. The ubiquitous term “managing performance” connotes a culture of command and control based on an implicit notion of distrusting individuals. It implies ownership for performance sits with the organisation and management – managing others into performing. Inspiring performance democratizes the responsibility for performance: an individual can be inspired to perform by others and can also inspire others to perform.

In a strong performance culture:

- We all know what good looks like.
- We know when we see it.
- We know when we do it.

⁵ Mercer. “Performance Management: Finding the right fit for your context,” presented at the CIPD 2015 Performance Management Conference.

BUILDING A PERFORMANCE CULTURE THROUGH PERFORMANCE MANAGEMENT

Our point of view outlines three steps to understand and build a performance culture through performance management. They build on the idea that a performance culture will not be developed through a discussion of performance management process or views of what other organisations are doing. A performance culture starts with a back-to-basics approach to create an aligned understanding of the purpose of performance management.

1. **Define Purpose:** Why is performance management needed? How does it underpin strategy execution?
2. **Understand Performance:** How is work done and performance delivered?
3. **Design the Approach:** What is the right process to inspire performance in your context?

1. DEFINE PURPOSE

The first step to a performance culture is defining what performance management is meant to deliver. This starts with the business model and strategy. An academic perspective on performance management suggests that “rarely in the history of management can a system have promised so much and delivered so little.”⁶ Performance management has been pulled in different directions to become a cast of characters:



The issue is that the cast of roles are often in conflict: aiming to celebrate success and motivate performance while dividing a limited pot of reward; or looking backwards to correct performance but also looking forwards to motivate a future career path. The roles are also split across a number of stakeholders and interests, as in the perennial issue of individuals seeking motivation and celebration juxtaposed with organisations needing to distribute limited outcomes (pay, performance, jobs). It is often very difficult to articulate the exact purpose of performance management in an organisation, and it’s likely that different individuals would understand different purposes from their own perspectives. Any change to performance management approach centres on what the point of performance management actually is.

⁶ Institute of Employment Studies. *Performance Management: can the practice ever deliver the policy?* 2010.

2. UNDERSTAND PERFORMANCE

Performance management in a strong performance culture is aligned to how performance is delivered. However, organisations can underestimate the difficulty of defining performance. The academic perspective is that “performance is not a simple thing to define and we should not try to make it simple.”⁷ Our analytical research into performance in organisations has identified four issues that impact how individuals drive performance: “hand dealt” – the extent to which individuals control their performance; right “level of analysis” – whether teams or individuals drive performance; “input or output” – whether performance is best defined as results or capabilities; and the inherent distribution of performance.⁸

Performance and “the Hand You Are Dealt”

An ideal performance management approach should be able to assess the impact of random environmental factors on performance. Absolute performance measures often camouflage actual performance. There are individuals whose raw numbers appear to be low but who have, in fact, performed well despite adverse conditions. There are individuals who have “good” numbers, but who, in reality, performed less well than one would expect given very favourable conditions. How can measures overcome the impact of external factors to create a fair reflection of individual performance?

Appropriate Level of Analysis

The nature of work has changed, and it is increasingly difficult to isolate individual performance and contributions; for example, in sequential work processes where the output of some is the input to the work of others, or in parallel processes where cooperation is required to meet group goals. The average employee works with between 10 and 20 people every day.⁹ With the changing nature of work, is performance best measured and assessed at the individual, group, or organisational levels?

Distinction Between Inputs and Outputs

Performance at work is not just about what employees do but what they bring to the organisation. Performance management needs to determine the relative weight of outputs of performance, such as goals achieved, against inputs to performance, such as effort, diligence, capability, and the right behaviours. How can measures balance inputs and outputs to create a holistic view of performance?

Gauging the Real Distribution of Performance

Using forced distribution to fit a normal curve brings the assumption that individual performance is normally distributed. However, the validity of a normal distribution depends on the measure used for performance. Research suggests that performance measures may conform to a skewed distribution or even a Pareto distribution.¹⁰ Organisations are in danger of forcing employees into a fit that doesn't reflect the differences in performance in that population. What is the right distribution based on the defined performance measures?

⁷ Campbell JP and Wiernik BM. “The Modeling and Assessment of Work Performance,” *Annual Review of Organisational Psychology and Organisational Behavior*, Volume 2 (2015), pp. 47–74.

⁸ Mercer. *Navigating the challenges to effective performance management: the value of analytics*, 2015.

⁹ Corporate Executive Board Corporate Leadership Council. *Breakthrough Performance in the New Work Environment*, 2012.

¹⁰ Beck JW et al. “On the Distribution of Job Performance: The Role of Measurement Characteristics in Observed Departures from Normality,” *Personnel Psychology*, Volume 67, Issue 3 (2014), pp. 531–566.

Considering these four issues brings an understanding of how work is done and how people influence performance. This is the foundation of a performance culture.

3. DESIGN THE APPROACH

The question of the right approach only becomes meaningful once a clear understanding exists regarding the purpose of performance management and how individuals impact performance. Organisations have a set of tools to play with in performance management: expectations, measurement, dialogue, and outcomes. To understand the variety of available approaches, we interviewed 30 Mercer thought leaders across the globe to hear what their clients are talking about in performance management.¹¹ These reflect the breadth of approaches available.

Expectations

High performance in the DNA: replacing traditional performance management with a rigorous performance culture by embedding high performance in an organisation's "DNA" and values.

Providing purpose: shift towards providing purpose for employees, driving intrinsic motivation by setting the bigger picture for performance.

Dialogue

Continuous feedback replaces yearly ranking: Recognising that the annual nature of performance is artificial, feedback frequency is often increasing, with more focus on the interactions between managers and peers with individuals. More frequent constructive feedback supports behaviour change and allows instant recognition.

Technology-enabled dialogue: As individuals demand more regular feedback and more accurate appraisals, technology is stepping in. Mobile technology is enabling more immediate access to feedback. Interactive tools are being used to more quickly enable managers for conversations. There is also a growing interest in social media approaches to provide employees with ownership for feedback.

Measurement

Big data: Big data is being used to identify performance patterns and make predictions, improve classifications, and identify risks for employees. Automated, system-driven performance analysis (for example, spot polls on energy levels) helps to predict peaks in performance.

Evolution of ratings: Although a performance rating can provide closure to performance management, it is not a critical ingredient for performance. Less differentiation and more simplified ratings assess employees into broader categories, such as top performers, solid performers, and underperformers.

Elimination of ratings: Many high-profile organisations have dropped their performance ratings (for example, organisations like Juniper Networks, Kelly Services, Microsoft, and Motorola Solutions).

¹¹ Mercer's 2015 "Next Generation Performance Management" interview series.

Outcome

Increased focus on capability to perform: Recognising pay is not the only performance management outcome. Performance management is used to ensure that employees have the capability to perform.

Delinking annual performance management and base pay: The formulaic relationship between rating and pay has been questioned with a shift to rewarding sustained performance rather than annual performance. In practice, base pay is defined by fundamental capability and contribution in line with the market; variable pay is then used to reward short-term performance.

Focus on collective contribution: greater focus on overall team or organisation performance.

Trend towards more management discretion and management team calibration to define variable pay from a defined pot.

Performance management approaches also need to consider the strength or weakness of the performance culture today: the stronger, the less prescriptive performance management needs to be, and the weaker, the more prescriptive. A lighter performance management process might be a three-box model. All individuals are trusted to perform and it's assumed they perform well. Managers then have the discretion to identify high performers and underperformers on an exception basis. A more prescriptive performance management process will increase the focus on measurement and define processes for dialogue to ensure managers are held to account.

A closely related issue is capacity to manage change in the context of introducing new performance management arrangements: the stronger, the less prescriptive change management needs to be, and the weaker, the more prescriptive.

The Question Everyone Is Asking: In a World Without Ratings, What Happens to Reward?*

One of the hottest questions of 2015 has been the issue of ratings and reward. The question of ratings or no ratings is one that should only be considered based on the fit with the purpose of performance management, how work is done, and how performance is delivered. Any organisation considering a world without ratings needs to consider multiple potential consequences, including how to allocate rewards, manage career progression, and show the business impact of workforce interventions.

Our research has discovered two myths that exist in this area:

- The myth that performance can be measured accurately.
- The myth that performance is the key driver of pay.

*Read the Mercer article "Is the Performance Rating a Thing of the Past?" published in the *WorldatWork Journal* – First Quarter 2016.

WILL THIS BE THE YEAR WE STOP MANAGING PERFORMANCE AND START INSPIRING IT?

What's clear from our research and experience is that now is a great time to change performance management, with greater momentum than in recent decades. With this urge for change comes a great opportunity to find new approaches. Learning from performance management to date, one size will not fit every organisation.

The right performance management approach will not be found by discussing the process. By letting the purpose come first, a meaningful discussion of the approach can occur. Building a performance culture can change the focus from *managing* performance to *inspiring* performance. Inspiring performance marks the era of the individual: shaping performance management to focus on what really drives people to perform.

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