Performance Management 2018:
The Evolving Landscape
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Performance management has long been a major challenge for human resource professionals and managers alike. Surveys (e.g., Corporate Executive Board (CEB), Society for HRM) find that over 90% of managers are dissatisfied with the way their companies conduct performance reviews and employees, even when motivated to learn, do not respond well to negative feedback.

Articles and research in the last several years suggest that the reputation of performance management, particularly in the guise of the annual performance review, has sunk to all time lows.

"Antiquated", "bureaucratic", "top-down", "demoralizing", "demotivating", "un-empowering", "like a visit to the dentist" and similar descriptions abound. "As toxic for innovation, integrity and morale as media reports made it out to be and then some", a former employee of Microsoft said of the forced ranking feature of that company's performance management system, which has since been eliminated. Performance management is variously described as costly, onerous, time consuming and adversarial, inhibiting collaboration, increasing internal competition and dramatizing office politics. It is further blamed for highlighting extrinsic rewards over more motivating intrinsic rewards, such as creating value and meaning at work. It is accused of discounting the manager's role, especially when it involves forced distributions. Traditional performance management is described as backward rather than forward looking with the annual review in particular being prone to recency bias. Another failing is the tendency to have one system for very different jobs and work settings based on the misconception that there is one "best" way to do performance management.

Many observers suggest that a radical retrofit of performance management is in order and some go so even further to suggest that it be thrown overboard entirely, like S. A. Culbert in "Get Rid of the Performance Review".

But just because few of us relish a visit to the dentist doesn't mean it is a good idea to stop going. At the end of the day, every business organization, from a mom and pop burger restaurant to public or private corporations employing hundreds of thousands needs some way of knowing how their people, who often represent the greatest operating cost, are executing the work they are on the job to perform. So while effective performance management is as elusive as ever, the need remains for data to drive HR decision making and improvement and development of individuals employees.

The Changing Face of Work, Management and the Workforce

Traditional performance management can be traced back to a model of job performance that originated with Frederick Tailor more than a century ago in which work is broken down into discrete tasks to optimize performance and productivity. Taylor's "scientific management" model assumes that job performance follows the normal distribution, meaning that the performance of most employees clusters around the average with a smaller number performing at the top and bottom of the distribution.

In the last several decades the nature of work has gone major change. In the last several decades the nature of work has gone major change. At one end of the spectrum, many jobs have evolved to require greater expertise, more judgment, better problem solving and increased responsibility. There is an emerging recognition that performance at this end of the job spectrum may not always be normally distributed so that a relatively small proportion of high performers are responsible for a high proportion of output. Where performance is described by such a Pareto distribution, trying to make fine gradations of employees in the middle of performance is a waste of effort.
More recently at the other end of the spectrum many jobs have become tethered to a live digital platform that closely regulates employee activities, monitors performance, and provides feedback and motivational communication on a continual basis. Such "platform-mediated work" is becoming a central feature where work is managed by computer, such as in transportation, financial services and call centers.

This divergence in the nature of work more than ever supports the notion of strategic performance management, i.e., that performance management must be tailored to particular jobs and organizational environments. For example, companies like Google\(^7\) are focusing more identifying and rewarding the top performers rather than distinguishing between performers in the middle of the distribution.

Another major change in the workplace is technological, with a vast increase in the volume of data available to track employee performance in real-time. Performance management is becoming more analytical and driven by real-time data, with numerous potential benefits such as less forms and bureaucracy, the ease of multi-source input and flexibility in goal setting, reduced bias, greater legal defensibility and more targeted employee development.

Concurrent with the growing ease with which the work process can be monitored technologically, the ratio of employee to managers has doubled in recent years, according to the CEB\(^8\).

Overlaid on top of all these changes the workforce itself has been evolving in the last decades with one major change being the ubiquitous penetration of digital technology into all aspects of life. Millennials in particular, used to continuous feedback from on-line sources such as social media and consumer ratings, find traditional performance management unhelpful. They not only expect ongoing feedback on the job, but have an urge to control and organize their work based on feedback.

**Where Do We Go From Here?**

Many large organizations such as Accenture, Adobe, Google, GE, Goldman Sachs and Microsoft have been making significant changes to their performance management systems in recent years. A summary of some of these is shown in Table 1.

One general trend is a move away from a formal annual review done by a supervisor. One general trend is a move away from a formal annual review done by a supervisor in favor of more frequent informal "forward focused" multi-source feedback on an "as needed" basis with feedback that is linked to organizational milestones such as project completion. An example of forward-looking feedback is Adobe's new process called "Check-in" with feedback tied to assignment completion. Priorities are still set annually by Adobe leadership, then employees and managers translate these into accountability for employees. Adobe also abandoned forced rankings\(^9,10\).

Another trend is the use of real-time data for performance feedback. Another trend is the use of real time data for performance feedback. Examples of "platform mediated performance management" include the custom made apps developed by Zalando, and General Electric's "PD@GE" app that collects both quantitative and qualitative data using coaching/developmental language. This app does not replace a performance conversation between a manager and employee\(^5\).

Some organizations are reconsidering how they think about the distribution of performance in relation to performance appraisal and reward. Google, for example, is focusing more on employees at the top and bottom of the performance distribution rather than on fine gradations of performance of employees in the
middle, and pay large bonuses for top performers⁶.

**Rating Scales.** Abandoning rating scales has not had universally positive results. A survey by CEB of more than 9,000 managers and employees across eighteen countries and found that scrapping ratings actually degraded the performance conversations employees had with their managers. Employees who previously received the highest ratings missed them most. Abandoning ratings also reduced the employees' confidence that their pay was related to performance, increasing the perception that pay increases are more linked to favoritism. Without a rating to focus on, Brian Kropp of CEB said, managers may feel it's harder for them to deliver a clear message. The survey also showed that when companies drop ratings, managers spend less time on performance management. There have been reports of positive results, however, by such firms as Microsoft and Accenture, and it is possible that time is required for an organization to adapt to a system without ratings. It is also possible that in a performance management system with no ratings the real-time and analytics provide by apps can replace the ratings of more traditional performance management.

**Frequency and Focus.** According to the CEB¹¹ survey the new face of performance management has reported success in terms of more frequent, less formal, milestone-related and multi-source feedback. It appears that creating a culture where employees share responsibility for gathering their own feedback is a step in the right direction. Interestingly, the new approaches are not expected to reduce cost of performance management but to yield a better return on investment.

**Looking Down the Road.** It is likely that the trend towards incorporating platform-mediated data on an ongoing basis into the performance management equation will continue to grow. The use of data derived from feedback apps has many advantages but is not without its own dangers. For one thing, employees with social media proficiency could game the system to inflate their feedback or deflate that of rivals. Another danger is that collecting real-time feedback data may negate the attempt to make performance management more participative and empowering by giving employees a "Big Brother is watching" feeling.

Finally, there is a significant risk that organizations "put the cart in front of the horse" in their rush to move to platform-mediated performance management, adopting apps that are optimized in terms of technology but not in terms of an effective management process. Technology can enhance performance management but should not dictate the process, which may be why companies who have the resources to do so are creating their own custom-made apps. Organizations should be certain that apps acquired from third party vendors can be readily adapted to fit their jobs, organization culture and specific performance management requirements.

**Conclusion**

The future of performance management might be a two part model, with the first part, the appraisal side, based on platform-mediated data, the second part consisting of a future oriented coaching interaction between manager and employee. In conclusion, a possible future of performance management is a two part model: the first part being an evaluation and appraisal component, the portion that drives HR decision making like promotion, pay raises and termination, being achieved via platform-mediated continuous, results oriented, multi-source appraisal data; The second part of the model being a future oriented coaching component for development, motivation and employee recognition that fosters a collaborative, empowering form of management.
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