



# Rethinking your performance management program

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“Performance management” sounds wholly positive. After all, who can argue with better performance? And effective performance management (PM) programs can deliver significant, tangible benefits such as:

- 5% or more increase in time spent on strategic priorities
- 3% improvement in employee productivity
- 15% jump in project completion rates
- 13% or more decrease in turnover<sup>1</sup>

Yet most PM programs never capture these rewards, and many collapse under their own administrative weight. Often too much time is spent on administration and compliance, with far too little time devoted to dialogue and development. The importance and necessity of real discussion, frequency, transparency, and employee involvement are only going to increase. Forty-one percent of the incoming Millennial workforce prefer to be recognized for their work at least monthly<sup>2</sup>.

## What can be done to address these deficits, and capture the benefits possible with more effective programs?

The fact is that the world of work is being revolutionized, with 41 percent of companies increasing investment in socially enabled business processes.<sup>3</sup> Up to 80 percent of the workforce will be Millennials in 2016.<sup>4</sup> And 70 percent of US business leaders are concerned about the availability of key skills.<sup>5</sup> Yet, despite these shifts the performance review has remained largely unchanged. There is an increasing need for business agility. More frequent assessments, sharper focus on the needs of employees and their expectations, and greater ability to quickly respond to changes are all important to business success in a rapidly changing and increasingly global environment.

By 2016 up to 80 percent of the global workforce could be Millennials. Does your performance management reflect these employees’ technology preferences and development needs?

1 SuccessFactors cross-industry analysis

2 PwC NextGen: A global generational study, 2013. Available for download from [http://www.pwc.com/en\\_GX/gx/hr-management-services/pdf/pwc-nextgen-study-2013.pdf](http://www.pwc.com/en_GX/gx/hr-management-services/pdf/pwc-nextgen-study-2013.pdf)

3 6th Annual Digital IQ Survey, 2014. Conducted by PwC, and found at [http://www.pwc.ch/user\\_content/editor/files/publ\\_techno\\_pwc\\_digital\\_iq\\_2014\\_e.pdf](http://www.pwc.ch/user_content/editor/files/publ_techno_pwc_digital_iq_2014_e.pdf)

4 PwC NextGen: A global generational study (2013, PwC).

5 17th Annual Global CEO Survey, 2014. Conducted by PwC, and available for download from <http://www.pwc.com/gx/en/ceo-survey/2014/download.jhtml>

These shifts call for a reboot of performance management. This paper examines common problems of underperforming performance management programs, suggests interventions and tools that can enhance PM within our evolving business world, and outlines how HR leaders can ensure that programs help both individuals and organizations achieve their goals.

## Rebalancing program priorities with an eye on the prize: employee development

Most performance management programs claim to achieve two important objectives: acknowledge and reward past contributions (often distilled as employee rankings, ratings, and promotions), and facilitate employee development. These goals, while laudable, stand in vivid contrast to how many employees feel about their organizations' PM programs: fearful, defensive, and confused.

The disconnect often occurs when companies struggle to balance these two disparate objectives – in part because emphasizing one can detract from the other (Figure 1).

While company approaches differ, there are several common causes of imbalance:

- **Timeline-driven analysis.** Many companies try to achieve both objectives through only a single annual or semi-annual review – a practice that asks too much of both managers and employees. In reality, most of these meetings are taken up by administrative tasks such as inputting data in predetermined formats designed to meet compliance standards. The focus is information gathering, not insight generation.

41 percent of Millennials prefer to be rewarded or recognized for their work at least monthly<sup>6</sup>. Does your performance management process match this?

- **Feedback emphasizes ratings over development.** Employees feel they've been judged, but not supported or understood. Developmental conversations are neither concrete nor frequent enough to make a difference. This leads to frustration and puts employees on the defensive rather than creating an environment in which employees can be open about their development needs.

59.8 percent of US companies say they don't require managers to develop a plan for employee engagement<sup>7</sup>. Do you?

- **Static templates and tools.** Tools designed to support performance discussions instead create barriers to effective dialogue about individual strengths and challenges. Impersonal templates and web-based systems are the opposite of the fluid, interactive conversations necessary to build trust in leadership and motivate change in employees.

<sup>6</sup> PwC NextGen: A global generational study, 2013.

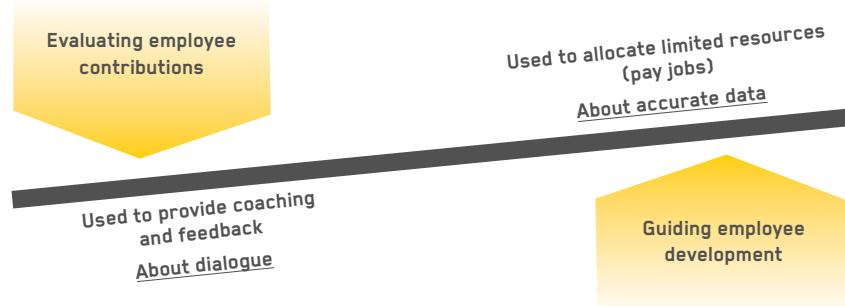
<sup>7</sup> PwC Saratoga's 2013/2014 Human Capital Effectiveness report, 2013. Available for download from <http://www.pwc.com/us/en/hr-management/publications/human-capital-effectiveness-state-of-workforce-report.jhtml>

To deliver business results, companies need a balance of contribution and development activities. Accurate data and records of past contributions are needed for promotion decisions, compensation adjustments, and succession planning. Development discussions are also essential to align employees' work and capabilities with company strategy and goals and expand organizational capability.

Currently, we're seeing a trend of rebalancing performance management to emphasize the employee development aspect. Many companies have redesigned previously ratings-focused programs to favor development, correctly recognizing that younger employees are motivated by opportunities to expand their skills and turned off by forced rankings.

A shift in mindset is just the beginning – emphasizing employee development in a way that serves both company and employee requires new tools and new mindsets.

**Figure 1:** Seesaw of PM Goals



## Enabling employee development by harnessing the power of technology

78 percent of Millennials say that technology makes them more effective at work<sup>8</sup>. Do you have the performance management technology tools to help them?

Many of today's employees are "digital natives" who expect the digital and social tools they use in their personal lives to be available at their workplaces as well. These demands dovetail with how PM must change or be adapted to increase focus on employees, their needs and their development. In our work with companies, we look to understand the needs of the business and what elements of performance management must be revised, and we often recommend technology and tools that support easier and more natural dialogue and employee coaching. The ability to integrate tools that facilitate various aspects of performance management – such as calibration, 360 assessments, individual goal development and learning plans, and succession planning – can also help managers and employees both gain a broader perspective on performance and focus on discrete skills without feeling overwhelmed. A few places to start:

<sup>8</sup> The power of the net generation: How to engage Millennials using workplace technology. PwC, 2012.  
Available for download at [http://www.pwc.com/en\\_US/us/people-management/publications/assets/net-generation.pdf](http://www.pwc.com/en_US/us/people-management/publications/assets/net-generation.pdf)

## Mobile TouchBase Keeps Everyone Connected

“Touch base” is one of those hackneyed corporate catchphrases – see also “reach out” and “circle back” – but what does it really mean? SuccessFactors’ TouchBase mobile app is designed to help managers and employees stay in sync on priorities, issues, and calendars even when team members are geographically dispersed. When team members are continuously updated on important activities, people are in the loop, work flows faster, and issues are raised and resolved more quickly.

**Meet development needs with dynamic, integrated tools.** Moving from a ratings- or contribution-focused process to one centered on employee development can feel like a seismic shift. Managers will need to take a more consultative approach to performance discussions, modifying their content and talking more frequently. Brief, frequent, and specific development opportunities are easier to digest and act on than after-the-fact analyses of a project completed months earlier.

But how can managers find the time for such connections? Use tools that are a part of employees’ everyday lives, such as mobile apps or company social networks. User-friendly social and mobile tools such as SuccessFactors’ TouchBase (see sidebar) support more natural communication than do Gantt charts and spreadsheets. Sharing updates on activities or development priorities through a dynamic forum like TouchBase helps maintain ongoing dialogue about development, rather than confining the topic to rare formal discussions. These platforms also allow people to give and receive feedback in a way that matches their natural flow of communication.

**70 percent of employee learning takes place on the job<sup>9</sup>. Does your performance management program consider this?**

**Make formal performance management dimensions easier.** Even with a development-centered PM program, companies still need formal processes to set goals, synthesize feedback and evaluations, and calibrate performance. In these areas, companies and employees are more appropriately served by PM processes and tools that capture useful data consistently and accurately and update it frequently.

Powerful tools such as SuccessFactors’ Goal Library and Mobile Goals include mobile-enabled manager self-service and employee self-service functions that make goal planning and progress updates easier and more dynamic because they are accessible 24/7. The result: Development becomes more central to performance discussions.

Intuitive tools that help guide ongoing discussions can also help managers identify developing problems and nip them in the bud, increase employee focus on and chart progress toward agreed-on goals, and support real-time insight into team dynamics. They also help reduce the number of gaps and surprises in performance assessments – factors that can show employee mistrust and undermine confidence. The win-win result: less “winging it”, paint by number reviews and data overload for managers and a clearer, more trustworthy process for employees.

<sup>9</sup> The Center for Creative Leadership, May 2013.

## Clarifying HR's critical role in evolving PM

The HR function plays a critical role in evolving performance management from a “one and done” approach to a process that constantly and consistently enhances the employee, their development, and the organization. New technology, processes, and tools can address some issues that undermine performance management programs, but to ensure that PM actually improves company and employee performance, a change in mindset must take place. Managers need to refine coaching and communication skills to support development. Organizational leaders need to model new behaviors from the top, even by using the tools themselves. And HR must help the organization adopt and keep employee development as the focus of the PM process. To get organizational buy-in on the new PM focus and make it routine HR leaders must:

- **Develop and communicate a compelling business case.** HR should quantify the risks and costs of maintaining a “ranking and rating” approach to PM vs. focusing on development. Consider the cost of recruiting new employees vs. retaining current personnel, time spent on administrative tasks associated with PM vs. coaching, and the overall impact of employee satisfaction, engagement, and attrition. Quantifying potential productivity gains and reductions in administrative costs can make a strong case for changing performance management. The business case should also outline how a pilot program of new PM processes would be rolled out and assessed.
- **Partner closely with the Learning team.** Your company’s Learning team plays a pivotal role in employee development; its strategy and services should be tightly integrated with performance management. With more emphasis on employee development, Learning may need extra support – HR can facilitate a shift in resources. For example, personnel charged with PM compliance and quality assurance activities could be redeployed to produce job training aids, one-on-one coaching training for new managers, or formal coursework.
- **Evolve HR’s focus.** HR processes may also need redesigning to emphasize development. For example, organizations may find that segmenting employees beyond level – say, by function or talent cluster – facilitates more specific and productive development planning. To make sure that development is the priority, companies could track and compare the amount of time managers spend on development activities (such as reviewing learning plans) vs. rating or compliance tasks. Those insights can help HR leaders refine processes to emphasize performance and development and reduce the administrative burden of PM activities.

While HR practitioners, managers, and employees each have a role in enabling PM to actually improve individual and organization performance, HR leaders are better positioned to make the case for – and actually evolve – key processes.

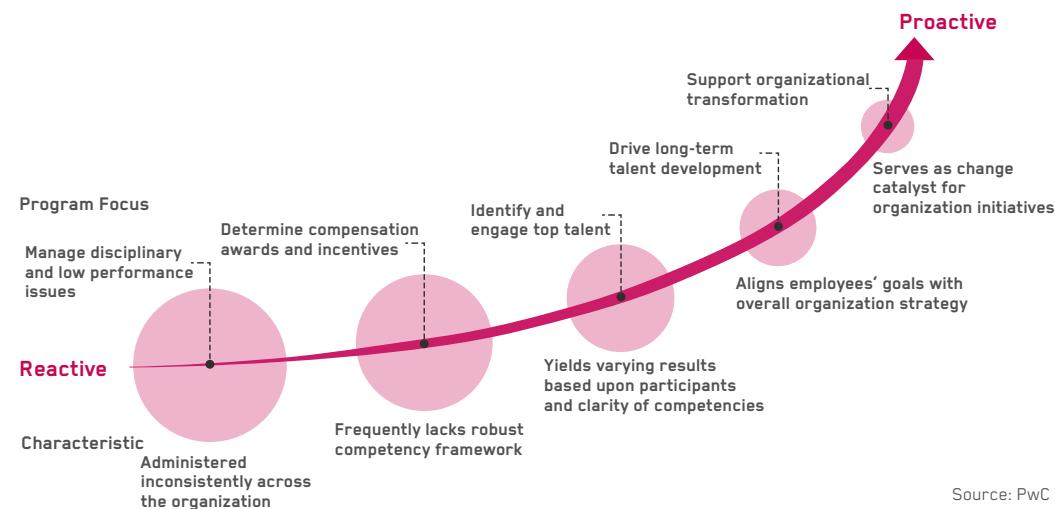
Defining a desired work environment or “performance culture” requires asking and answering the following questions:

- Which skills and behaviors matter most to your business success?
- What kind of individual and team behavior do you want to encourage?
- How do practices such as incentive pay, performance ratings and forced distributions either help or hinder the attainment of these objectives?

With answers to these questions in hand organizations can evolve the balance of PM activities to meet their goals. As depicted in Figure 2, next-generation PM programs aim to proactively deepen organizational capability in specific, tangible ways and, in doing so, transform organization performance.

Figure 2: Evolutionary Journey

## Evolving performance management program (circle size indicates relative % of organizations at level)



Source: PwC

Some HR teams are already on that evolutionary journey. Hilton, for example, retooled and integrated its performance management activities to better align development with its global growth strategy.

## Hilton Uses Integrated Performance Management to Support Expansion

Hilton Worldwide is a global hospitality company that owns more than 3,700 hotels and resorts in 85 countries. The company owns, manages, and/or franchises a portfolio of leading brands including Waldorf Astoria Hotels & Resorts, Hilton Hotels & Resorts, and Hampton Hotels. Hilton Worldwide is owned by the Blackstone Group, a private equity firm.

### Challenge

Hilton Worldwide depends on efficient operations to manage its global business and aggressive growth plan, especially in emerging markets such as China, India, the Middle East, and South America.

Within the expanding organization two distinct employee populations exist – employees in corporate offices and employees working in the hotels. In addition to the challenges inherent in managing a large and diverse workforce, Hilton Worldwide had inconsistent compensation processes globally. Streamlining compensation for staff in 85 countries required the establishment of a globally consistent approach, and implementation of a comprehensive tool to support it.

### Solution

In 2009, when a new HR leadership team took the reins, they allocated significant resources toward implementing SuccessFactors' technology. SuccessFactors' products – Goal Management, Employee Profile, Compensation Management and Performance Management – were introduced to a control group before expanding the footprint. Currently, more than 12,000 employees are using the system and the number will increase steadily until it serves the entire organization.

Companies can begin the process of evolving performance management by exploring the dimensions and assets that impact performance management most. Questions to think about include:

- **Strategy:** How does your performance management program align with your business strategy?
- **Governance & Risk:** What is your risk and governance model?
- **Process:** What is your current performance management process, and how will it change?
- **Change Management:** How adaptable is your employee population to change? How receptive will the workforce culture be to new performance management processes and tools?
- **Technology:** Would you rank your company as “tech savvy?” How does social performance management fit with your HR IT architecture? What percentage of your employee population works with technology?

## Conclusion

In addition to exploring current capabilities companies should consider four steps to evolving their performance management program<sup>10</sup>:

- 1. Get real.** Take a hard look at your current practices and outcomes and be willing to see what Performance Management practices are actually delivering, and whether these are your primary objectives. Determine how employees and managers perceive current PM efforts and if they are participating. Look at the data and formally measure success.
- 2. Take aim.** Work with key business leaders to review findings and create a vision for the organization’s performance culture going forward. Use your business strategy, vision, mission and values, and reassess the role that performance management needs to play in realizing each of these. Create a group of vocal senior leaders to champion the change.
- 3. Be thorough.** Review each of your current performance management practices and determine if any change is required. Are you providing the right tools and resources? For example, are processes and systems enabling sufficient dialogue? How can you reduce or eliminate burdensome administrative tasks? What developmental interventions will be most impactful?
- 4. Adjust.** Implement changes, with business leaders visibly advocating the new approach. Provide training and coaching to drive behavior change. Consider a “pilot” program, then broadly communicate new philosophy and benefits. Use surveys and other data to demonstrate benefits of the new program.

The tools are out there. Rebalancing the performance management process to focus on development, embedding PM activities into managers’ and employees’ daily lives, and harnessing intuitive tools can go a long way toward fixing what ails so many performance management programs.

<sup>10</sup> Are you getting the most from your talent? Understanding and overcoming the common pitfalls in performance management, PwC, 2012. Available for download from [http://www.pwc.com/en\\_US/us/people-management/publications/assets/are\\_you\\_getting\\_the\\_most\\_from\\_your\\_talent\\_pm\\_piece\\_final.pdf](http://www.pwc.com/en_US/us/people-management/publications/assets/are_you_getting_the_most_from_your_talent_pm_piece_final.pdf)



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