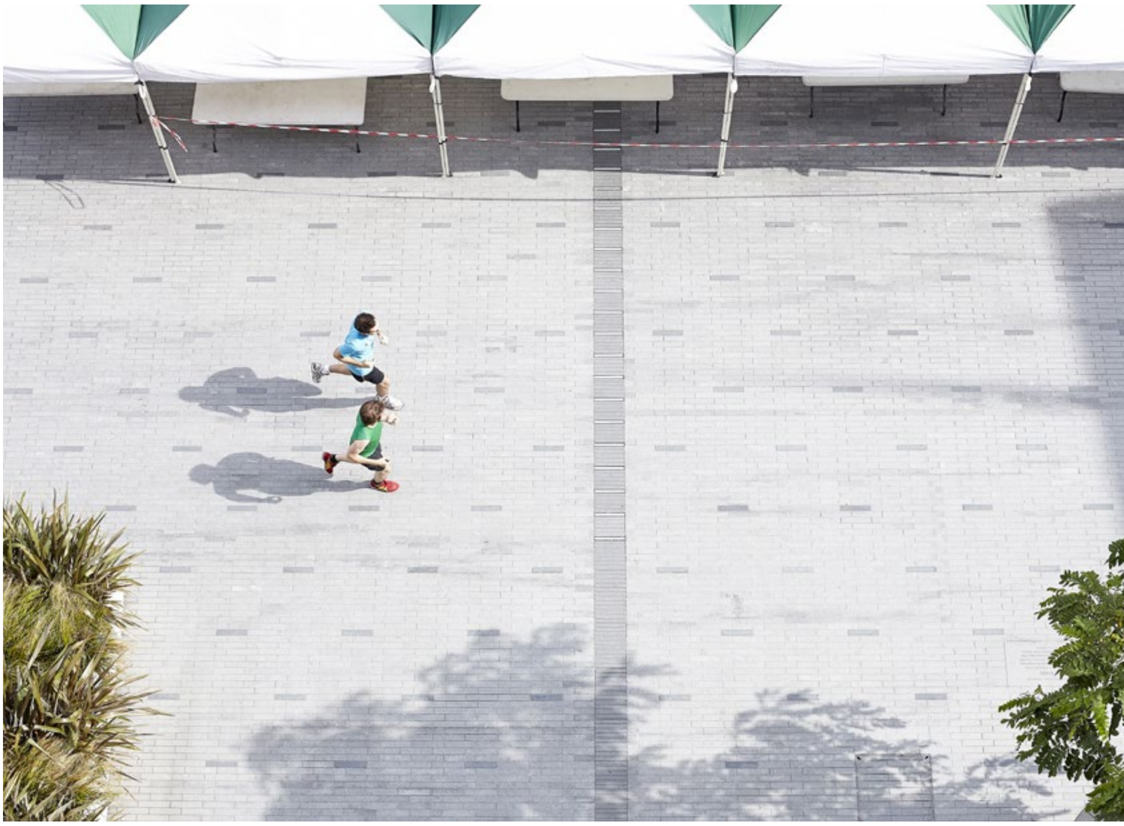
Performance management

Change is on the way but will it be enough?



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Performance management is changing

Are performance management systems changing enough? Recent or planned changes include:

"Work on people leaders' ability to have constructive conversations."
HR Director

"Revising our definition of 'talent' to encompass broader considerations than just a performance rating."
Head of Reward

"Greater delineation between performance and development discussions."
Head of Talent Management

"Greater focus on team over individual objectives."
Head of Talent Management

"Simplify the process to ensure focus is on the conversation and feedback, not filling out forms."
Remuneration Committee Member

"Improving the capability of managers to have quality performance and development planning discussions."
HR Manager

"Adopting a new four point rating scale and, more importantly, replacing language like 'meets expectations' with engaging terms that real people would use."
Head of Reward

"Change to the process to enable more flexibility."
Head of Reward

"Bringing it to life as part of business as usual, rather than the once a year task."
Head of Reward

"In the ideal world I would totally separate the performance management cycle, including salary reviews from year-end processes which really equate to incentives"
Head of Reward

"Introducing a feedback tool to capture real-time feedback across employees for ongoing development discussions to support performance."
Reward Manager

"Removing formal assessments annually."
HR Director

"Streamlining the KPI setting process and calibration."
Reward Manager

"Reduce the number of objectives to focus on key achievements not operational outcomes."
Remuneration Committee Member

Introduction

Emma Grogan

Performance management has been a hotly debated topic of late. There is no need to further build the case for change. Organisations are convinced, with 96 per cent of surveyed organisations having recently changed, or planning significant changes in the next 12–18 months.

With all this change occurring, we wanted to build a stronger base of evidence on the state of performance management in Australia today. It feels as if everyone is planning some radical changes. And this sentiment, plus frequent employee frustration with performance management, is leading to widespread framework reviews. But how much change is really occurring as a result?

If you tuned in at all to the performance management debate, you most likely concluded that:

1. performance management systems are completely broken, and
2. wholesale change is afoot.

Whilst I'm sure one or both of these statements are true for some organisations, our survey reveals a somewhat different landscape for large listed companies in Australia.

Firstly, whilst many large listed organisations agree that they could improve the execution of their performance management system, nearly all believe their system effectively contributes to strategic, commercial and operational outcomes.

Secondly, whilst considerable change is occurring, organisations are keeping the existing frameworks but tweaking them to make them leaner and more impactful, for example by simplifying the mid-year review, shifting to a 3–4 point rating scale, and improving the goal determination process.

In terms of fundamental change to performance management in the Australian market, only a few organisations are abandoning traditional performance management approaches. That said, we believe greater innovation in performance management approaches may be justified.

This report summarises what most organisations are actually doing – enhancing existing frameworks. It explores whether more innovative practices could be applicable to large, established organisations, and if so, what risks and benefits should be considered. We hope that this report will provide comfort that you're not alone in choosing evolution rather than revolution, but will also give you the confidence to push for a more radical change in your organisation if that is what is truly needed.

Executive summary

Innovate beyond, as well as within, existing frameworks

Our findings:

- The vast majority of survey respondents retain the key process steps associated with traditional performance management systems.
- Radical change to performance management isn't widely seen yet in large listed organisations – rather innovations to existing elements.
- The more radical changes include removing performance ratings altogether, removing the link to reward and abandoning the annual review cycle.

Our recommendations:

- Think bolder and create opportunity for evidence based innovation, but don't innovate for innovation's sake.
- Be realistic about your organisation's requirements and capabilities and the steps required to implement a change.
- Establish measures to support the case for change, and quantify impacts and report on these.
- Test and correct if desired results aren't being observed.

Manage what matters most with just the right amount of process

Our findings:

- 100 per cent of survey respondents endorsed seven key objectives for their performance management system suggesting there is significant opportunity to simplify.
- 78 per cent of companies said a focus on process rather than quality of discussion and outcomes was an issue.
- 67 per cent said performance management was seen as a compliance exercise.

Our recommendations:

- Be less ambitious – obtain consensus on two to three key objectives and nail those.
- Reduce process but maintain strong sponsorship from leaders within the business.
- Ensure you effectively manage risk where your business is increasing discretion.

Over-service the executive population when setting and drafting goals

- While 92 per cent of survey participants said they use SMART goals, our work with clients suggest that less than a third of goals are typically SMART in practice.
- The benefits of goal setting are well proven, organisations are recognising that to improve the effectiveness of goal setting, they need to start from the top.
- Companies are particularly focussed on change that targets the executive population to improve *alignment* of goals to business strategy, and enhance the *quality* of those goals.
- Capability development is typically focussed on managers rather than employees.

- Distil business strategy and culture into actionable measures and values.
- Foster business ownership and collaboration through facilitated goal setting workshops that include cross-functional representation.
- Use scalable tools like publishing executive goals and balanced scorecards to cascade goals in a cost effective manner.
- Provide additional support and conduct spot audits to ensure quality of goals and associated targets

Drive more effective conversations targeting both managers and employees

- 69 per cent of companies see line managers not prioritising performance management conversations and feedback as an issue.
- Building line manager capability is a key focus and 46 per cent of companies intend to improve their coaching and feedback in the next 12 months.
- While most organisations emphasised HR and senior leadership being responsible for performance management effectiveness, 61% of employees believe they are equally responsible.

- Building line manager capability is costly so it is important to consider how to scale and apply it across the different parts of your organisation.
- Consider the role both leaders and employees play in performance management effectiveness and invest accordingly.
- Separate performance and development discussions.

Go digital to encourage real-time feedback, but with structure

- Most organisations are de-emphasising the mid-year review meeting to encourage more regular feedback.
- Technology is being utilised to support frequent and multi-source feedback.
- Companies are commonly using two approaches to enhance the feedback experience: open and honest feedback driven by values, and rapid feedback driven by technology.

- Create reasons for more frequent feedback sessions (eg monthly performance/development topics)
- Use technology to provide feedback in real-time.
- Provide structure (eg periodical performance themes) to avoid the waffle and unhelpful feedback.

So where are companies improving the performance management framework?

Most organisations are retaining the familiar key elements of traditional performance management systems, and innovating within these frameworks.

Business strategy and focus areas

- Alignment of business planning sessions and scorecard development (strategy owned)
- Facilitated sessions to support co-development of goals both within but also across business units
- Making scorecards public, particularly those of leaders
- Appointment of formal or informal performance alignment roles to oversee the cascade process
- Including coaching capability uplift/people management as a mandatory business focus area for all leaders

Performance and development goals

- Reduction in the number of individual metrics
- Greater emphasis on team/network contribution metrics
- Auditing of goal quality and additional support to improve quality of goals
- Conduct of upfront calibration sessions to obtain agreement on what ‘good’ and ‘exceeds’ looks like

Mid-year review

- Positioning of mid-year review as just one of many feedback conversations throughout the year
- Shift in focus to be more of a check-in to consolidate real-time feedback received through apps and project completions to date
- Provision of tools and conversation guides to ensure a more structured conversation
- Removal of mid-year/ tentative ratings
- Greater focus on development

Calibration guidelines

- Introduction of bias tests
- Removal of guided distributions
- Defining performance differently so that most employees are expected to be top performers rather than meeting expectations

Performance rating

- Simplification of rating scales
- Use of more positive and qualitative labels

Annual review feedback

- Separation of performance feedback and pay outcome discussion
- Focus on capability uplift of managers to support year-end conversations
- Greater support provided to managers to support higher quality conversations
- Re-balancing of conversation towards future capability and development

Basis of the survey

When we speak to our clients about performance management, the conversation often focuses on pain points and opportunities for improvement. Australian companies know that something about their system isn't working quite as it should – as evidenced by symptoms such as employee disengagement and distrust with the process, lack of credibility, and a perception that the process wastes time rather than enables performance. Yet most large organisations continue to run some form of performance management program, even if far from perfect, as they recognise that when done well it can unlock commercial, financial and operational value.

Whilst it has been common knowledge that performance management is underperforming in the Australian market, there was no consolidated evidence base or benchmark for current practices, the relative effectiveness of those practices, and what organisations were looking to improve. Our colleagues in the PwC UK firm surveyed performance management practices in 2014[1], and we developed a similar survey for the Australian market. After reviewing established research, we investigated what was (and wasn't) working through:

- Surveys of performance management system owners in 27 ASX150 companies
- Detailed one-to-one interviews with eight of the survey respondents
- Surveys of 220 system users (ie employees) using our proprietary market research tool, AskU.

This report presents our research findings and our views on the opportunities for organisations to optimise their performance management processes.

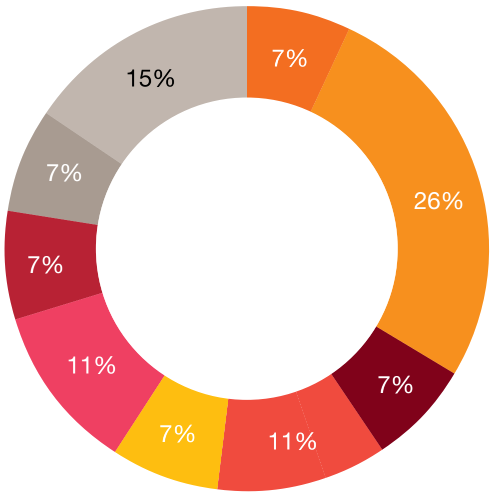
Participants included:

- Asciano Limited
- AusNet Services
- Brambles Limited
- Caltex Australia Limited
- carsales.com Limited
- Commonwealth Bank of Australia
- CSL Ltd.
- DuluxGroup Limited
- ING Direct
- Insurance Australia Group Limited
- Lend Lease Group
- Mirvac Group
- National Australia Bank Limited
- Oil Search Limited
- SEEK Limited
- Tabcorp Holdings Limited
- Telstra Corporation Limited
- Westpac Banking Corporation.

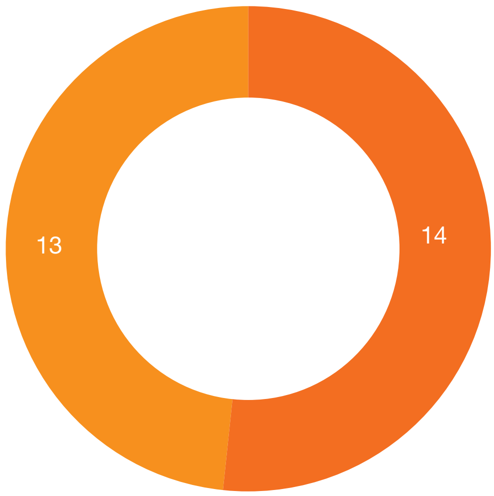
Note: excludes participants requesting their company name be withheld

1. Survey of 77 organisations from the United Kingdom and Europe, with the majority employing over 10,000 employees

Participants by industry



Participants by company size



Snapshot of survey findings

Performance management: not 'outstanding', but far from hopeless

Survey respondents reported a number of real concerns with their companies' performance management approaches. However, many also said that performance management positively contributed to business performance, and shied away from disbanding performance management altogether.

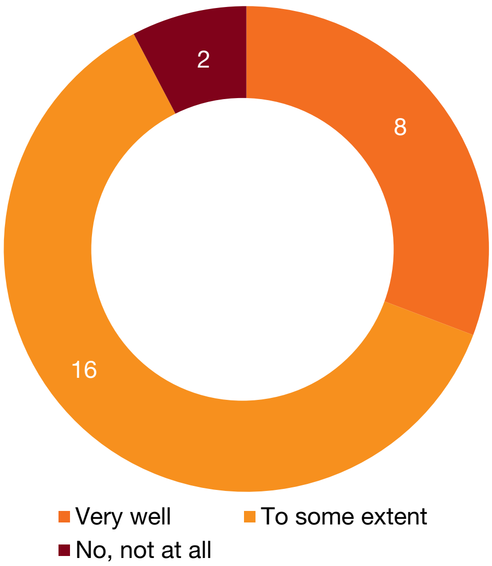
On balance, performance management appears to be 'partially meeting expectations', but needs to be improved rather than dumped.

Most companies agree that performance management systems continue to add value

Overall, companies are relatively satisfied with the contribution performance management makes to the delivery of business objectives:

- **92 per cent** say performance management contributes "**to some extent**" or higher to strategic, commercial and operational outcomes
- 70 per cent say that discontinuing performance management in their organisation would worsen their **business performance**
- 80 per cent say discontinuing performance management would **reduce their ability** to engage and manage high and low performers.

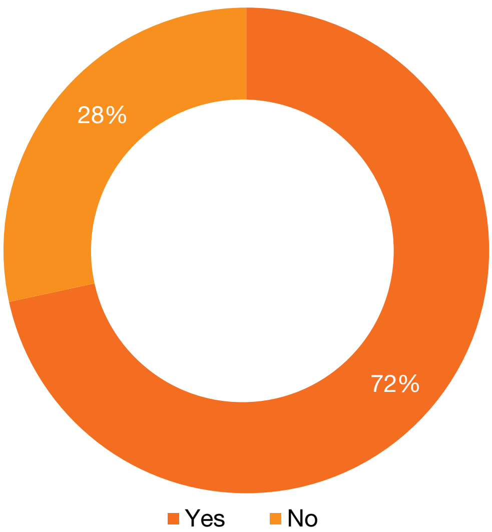
Does performance management enable strategy?



Whilst employees also agree performance management systems are effective, almost half say they would feel no impact if the systems were discontinued

- Almost **three-quarters of employees** agreed that their organisation has an effective performance management system in place.
- Performance management isn't necessarily seen as a 'must have' by employees. When asked what the impact would be on them personally if performance management were discontinued in their organisation, **42 per cent of employees anticipated no impact** while 35 per cent said there would be an impact on their engagement and motivation.

Employees: does your organisation have an effective performance management system in place?



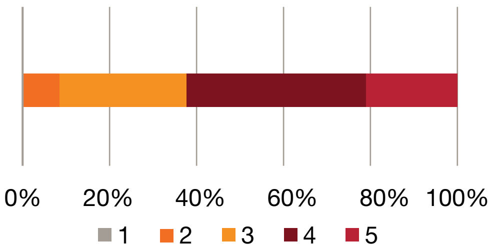
Performance management is mostly true to its key objectives

Companies also reported that they are **relatively satisfied** with how well performance management systems **achieve their key objectives**. Between half and three-quarters of companies rated their performance management system as average or above average at achieving its key objectives.

...and seems to be achieving some key outcomes

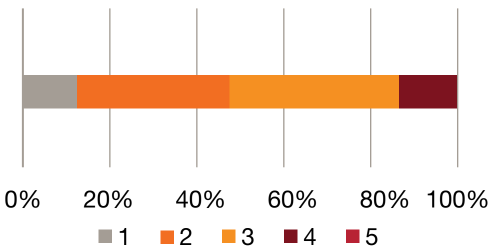
Please state how effectively your performance management process achieves these key objectives (1=not effective, 5 = highly effective)

Ensure differentiated recognition and reward

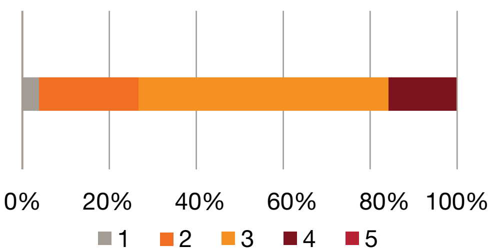


...but others less so

Promote creativity and initiative in employees



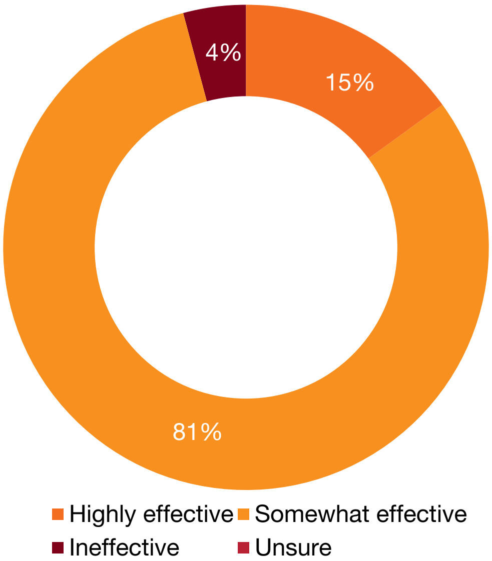
Engage and motivate employees



...but execution needs to improve

Many companies agreed that there is at least some room to improve the execution of their performance management system. Only 15 per cent of respondents said execution is highly effective in their organisation and 80 per cent said their organisations needed to improve their execution of performance management.

How effective is the overall execution of your performance management ?



Many see too much process and insufficient leadership capability as common derailers

Despite consensus that performance management systems deliver value, respondents noted derailers that stop performance management from being really effective. Six derailers were common to nearly all companies, with the most common being focus on process rather than the quality of discussion, line managers not prioritising performance, and line managers not having the right ability of support.

Which of the following are the biggest issues preventing performance management from achieving its core purpose?

Where to from here?

Five themes emerged from both our research and experience of the most common issues companies face with their performance management systems. We explore the implications of these themes and what companies are planning to do, and could do, to improve their performance management systems.

Innovate beyond, as well as within, existing frameworks

Manage what matters most with just the right amount of process

Over-service the executive population when setting and drafting goals

Drive more effective conversations targeting both managers and employees

Go digital to encourage real-time feedback, but with structure

Innovate beyond, as well as within, existing frameworks

Innovative performance management approaches are exciting. They present the possibility of authentic connection to strategy, selfless collaboration, and increased employee engagement – "everybody wants to do performance management here!"

And yet truly innovative approaches are still rare

Historically, performance management frameworks in large listed organisations had these steps: performance planning during which KPIs were mutually agreed, a mid-year and annual review, calibration to finalise annual performance rating, and determination of an annual bonus through the performance rating. Our research confirms that most performance management systems still follow these same steps.

While innovative approaches are not yet mainstream, we do expect to see more 'sensible' innovation, both inside and outside of existing frameworks within the next 12–18 months. Given the world of work has changed so substantially since traditional performance management systems were introduced, we believe there is room for bolder approaches to be considered. However, a little scepticism may be wise:

- Beware the 'sample of one' – when exciting results appear from companies breaking the mould, be cautious of one-hit wonders riding good luck and self promotion rather than good management
- There is no silver bullet that applies to all – many stories of truly innovative approaches to performance management are coming from small to medium hi tech organisations. A radical approach doesn't necessarily make sense for all. Ensure your changes are fit-for-purpose
- Nurture new approaches carefully and realistically. Don't be led so much by where you want to be in 'best practice' that you miss out on important steps on the journey. It is important to be realistic about your organisation's capabilities.

"One of the problems is that HR don't design for adoption, they design to win AHRI awards."

Head of Reward

"In the next 12 months we will consider whether we do formal annual performance reviews at all."

HR Manager

Below are five innovative practices that signal a move away from traditional performance management systems. They are listed as examples that are getting more substantial traction, along with details of where they tend to work well and risks to manage if introducing them to your organisation.

Rationale	Particularly useful where...	Risks
No performance ratings: ratings are removed, allowing the performance discussion to become the focal point of the assessment process		
Avoids the negative consequences of 'being judged': • Disengagement • Fixed mindset Studies show that people are more effective at laddering (ie ranking) employees rather than rating them.	• Incentives are low • High talent populations, eg Netflix, Atlassian (pay top of market for fixed pay, employer of choice) • Fewer employees	• Invites bias: absence of structure leads to managers projecting their own potentially biased rules • Managing incentives is harder • Often results in an unofficial ranking system • Requires strong change management skills to transition the business
No link between pay and performance: retaining performance management practices, but removing incentive payments and/or standard fixed pay increases		
Incentives may drive pursuit of short-term company performance at the expense of customers	• Trust is a competitive advantage • Recognition and reward may be in conflict with better customer outcomes	• Removes one impetus for performance management to happen • Requires more flexibility in fixed pay practices and potentially increases fixed costs
Stronger link between pay and performance: performance management and reward cycles are shortened from the annual cycle, eg incentives are paid quarterly or immediately following an event		
• Annual cycles impose an artificial and arbitrary time horizon	• Accurate and efficient measurement and payroll processes • Natural performance cycles, eg project based and sales roles	• Increases administration • Risks decoupling with organisation's results
Decoupling the coach and assessor role: performance management becomes focused on how to grow talent, with less focus on assessing		
• Strategy is to hire top talent and continually grow them	• Coaching capability is med-high • Recognised as having high talent across the board • Dynamic business environments where adaptability is key	• Need an economical and sustainable way of deploying coaching capability • Complexity associated with multiple roles • Harder to rally employees around organisational objectives
Abandoning the annual review cycle: review periods are either shortened or de-linked from a standard cycle altogether		
• Creates flexibility for line managers and employees • Removes the stigma and time drain associated with year-end performance reviews	• The focus is on employee development and experience • A strong culture of performance reviews and line manager judgment already exists	• Active performance management just won't happen with some managers where there is no hard deadline • May not be effective or perceived as equitable where incentives are tied to annual review results

As to innovations within existing performance management frameworks, we'll outline these in more detail under the upcoming themes.

Manage what matters most with just the right amount of process

One of the most critical risks to getting performance management right is being clear about its most important purpose. Where we often see performance management systems fail is when they try to be all things to all people – with strong links to reward, talent management, development and employee engagement – which often have conflicting objectives.

> ***"Having worked in HR for many years and seen various incarnations of performance management processes, I'm still not 100 per cent convinced the business benefits are commensurate with the impositions placed on managers and employees."***
>
> Head of Reward

What are the key objectives of your organisation's performance management system?

Agree on what fantastic performance management looks like in your organisation and design your system around that

In our survey population, 100 per cent of respondents endorsed a minimum of seven key objectives for their performance management system, ranging from assessing and rewarding performance (differentially and even relatively) to supporting developmental coaching and feedback. Is that reasonable, or asking too much of the system? For example, employees are likely to be too afraid to talk honestly about any weaknesses during developmental coaching in case it jeopardises their bonus.

The data also indicates that when performance ratings are linked to many outcomes (such as bonus, fixed pay increases, promotion, and development opportunities), this does not necessarily translate into higher ratings of effectiveness. In our experience, organisations that are asking less of their performance management system, and obtaining clear consensus as to the two or three key purposes senior leadership should rally around, are more likely to find that their system exceeds expectations. Furthermore, once a clearer and more targeted set of objectives are agreed to, organisations can more easily obtain consensus as to what can be removed or simplified. So what does fantastic performance management look like for survey participants?

"Where there is a clear message to employees on what they need to focus on."

"Absolute clarity on performance expectations."

"Consistent principles but a customised experience."

"Consistent and efficient system focussed on execution and behaviour."

"Supports business objectives and culture."

"Bringing it to life as part of BAU rather than a once a year task."

"Strong coaching and quality feedback."

Focus on fewer objectives and support with process

Performance management is most powerful when it focuses on a small number of key objectives, and is supported by the process, not the other way around. Our survey found that the focus of performance management was more often on the execution of the process, rather than enabling and lifting employee performance:

- 78 per cent of companies said a focus on process rather than quality of discussion and outcomes was an issue
- 67 per cent said performance management was seen as a compliance exercise.

We hear many companies want to simplify the role of performance management in the employee lifecycle. But this is easier said than done, as the links between performance management and other HR processes are often so deeply embedded that organisations are reluctant to change. Reducing this bureaucracy is a priority for many companies that we surveyed, with half planning to change the system they use to administer performance management in the next 12 months, and many reducing the box-ticking and form-filling elements of the process.

Remove unnecessary steps but manage risk

When reducing process, maintain strong sponsorship. Less structure in performance management without the right sponsorship and oversight could risk increasing bias, with people able to project their own bias onto processes[2]. For example, discretionary incentive plans, as opposed to more structured plans, generally reflect more bias.

Here is one strategy in managing risk from a survey respondent: drop guided distributions but adopt pre-calibration meetings to agree on what top performance looks like before the year kicks off. This should ensure ratings stay consistent and aligned to key measures of performance.

And another survey respondent has launched an application to support real-time feedback but with targeted questions/categories to ensure relevance of feedback.

2. http://www.cookross.com/docs/unconsciousbiasinperformance2013.pdf

Over-service the executive population when setting and drafting goals

Goals matter. After reviewing 35 years of academic research on goal setting, Professors Locke and Latham concluded that "goal-setting theory is among the most valid and practical theories of employee motivation in organizational psychology"[3]. They found that from a motivational perspective, an assigned goal is as effective as one that is set participatively provided that the purpose or rationale for the goal is given. However, if the goal is assigned tersely (eg "Do this . . . ") without explanation, it leads to performance that is significantly lower than for a participatively set goal[4]

Goal setting is not easy, however. Many of the planned changes reported by and discussed with survey participants focussed on improving alignment of goals to business strategy, and on enhancing the quality of those goals. For example, many organisations were introducing a start of year calibration step to minimise gaps between business plans and individual performance agreements, and more structured goal setting processes to ensure cross-functional alignment. In terms of the quality of goals, while 92 per cent of survey participants said they use SMART goals, our work with clients shows that the majority of employees' goals are not SMART in practice. One organisation had a third of employee goals not being SMART in practice and 38 per cent of its employees using goals with an objective marked as 'TBC' – two months before the end of its performance year.

In our research, we found that companies prioritising goal setting were deliberately spending much more time on goal setting for the top two to three layers of their organisation, and less time on how they might cascade goals elsewhere. They recognised that the senior management team offered the most leverage: get their goals right and the rest of the business will follow their lead. But if their goals are not right, the business is back to square one.

Align the executive population

Based on our interviews with survey respondents, top practices included:

- **Dissect strategy into actionable measures:** business strategies are often ethereal. To create clarity and consistency, some companies were tasking multidisciplinary teams to translate the strategy and culture into actionable measures and values, eg KPI libraries.

3 Locke and Latham "Building a Practically Useful Theory of Goal Setting and Task Motivation", American Psychologist 2002

4 Latham, Erez, & Locke, 1988

- **Foster business ownership (with support):** it is important for the business to own the process and its outcomes and HR enabled this using a common cascading and alignment approach
  - 90 per cent of companies agree that senior leaders, line managers and HR are each equally accountable for the effectiveness of performance management. While the business needs to drive performance management, HR is still expected to provide the support and system.
- **Tightly manage the vertical and horizontal alignment of senior leader goals:** establish and manage the process of setting aligned goals for senior management. Emphasise strategic alignment, horizontal alignment, and quality drafting of goals.
- **Structure collaboration across business areas:** set horizontally aligned goals to deliver 'network performance' and 'in service of the customer'. Some companies are doing this using collaborative goal setting sessions, including examples of cross-business unit representation.
- **Review goals using different lenses:** goal drafting can be surprisingly poor across executives. To encourage sharing and feedback in a safe environment, one company used 'personas' at its goal sharing sessions, in which the participants adopted a set evaluation role, eg customer alignment of goal.

Adopt a scalable approach for other employees

It is often too costly to oversee a thorough goal alignment process beyond the top few layers of management. Companies focused on aligning goals further down the organisation adopted some or all of the following practices:

- **Publish executives' goals:** share goals on intranet sites/goal templates for other staff to reference and test alignment, as do overseas companies such as Google and Juniper.
- **Use balanced scorecards:** provide a consistent framework to cascade goals. 73 per cent of the Australian companies surveyed already use balanced scorecards when setting performance objectives.
- **Encourage staff buy-in:** But purely top-down approaches will fail if staff don't buy-in sufficiently. Self-directed goal setting that is aligned to strategic objectives is most effective at engaging employees. But where companies push goals to employees, it was vital for leaders to discuss why the goals were relevant.

Drive more effective conversations targeting both managers and employees

Effective coaching conversations are widely seen as a key objective of performance management. However, line managers often lack the resources and capabilities to lead strong coaching conversations because they don't have the time and because other priorities in performance management get in the way.

- 69 per cent of companies see **line managers not prioritising** performance management conversations and feedback as an issue

This directly impacts employees. When we gave employees the option of prioritising two changes to the performance management system in their organisation, half said that receiving more effective coaching and feedback was the most important change they would make, rating it ahead of link to reward (43 per cent) and better performance definition (29 per cent).

Getting better at the coaching conversation is clearly the focus for our surveyed companies, with **46 per cent** intending to **improve their coaching and feedback** in the next 12 months. When we asked more about these intentions, many said they particularly wanted to develop line manager capability in the coaching conversation. For example:

"Work on people leaders' ability to have constructive conversations."

"Focus on line manager capability training."

"Provide line managers with skill development in assessment and performance feedback."

Prioritise from the top

Two-thirds of companies who see performance management as an effective enabler **discuss it as a strategic people priority at board level**. Where boards are also accountable for the effectiveness of performance management, **line managers are much more likely to prioritise** performance management conversations and feedback (44 per cent vs 11 per cent).

Look for sustainable approaches

Improving coaching tends to be a resource intensive approach for companies. While some companies make substantial investments in coaching employees, others look for more economical approaches:

- Digital solutions (videos, online courses)
- Coaching guides for specific conversations.

Whatever the approach, it is important to consider how to scale and apply it across the different parts of your organisation. And to think through how you can maintain the chosen approach over the long term.

Include employees when improving performance management capability

More employees seem ready to play a greater role than expected in driving performance management. When asked who they see as accountable for the effectiveness of performance management, companies tend to emphasise the role of senior leadership, line managers and HR. On the other hand when we surveyed employees, 61 per cent said employees should be accountable for its effectiveness, followed by senior leaders (53 per cent) and line managers (47 per cent).

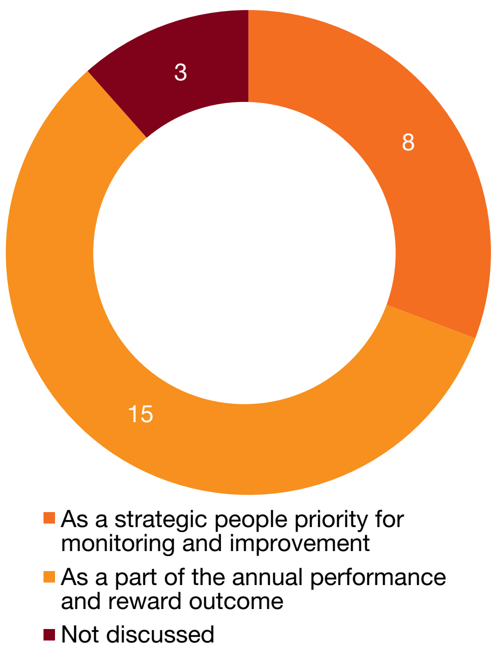
Companies sharing the view that all employees are accountable for the success of performance management also tend to enjoy greater success in the execution of the system:

- For companies who describe their performance management as **highly effective**, 75% see all employees as accountable.
- For companies who rate their overall execution as **somewhat effective**, 50% see all employees as accountable.

While 65 per cent of companies try to improve the capability of their line managers, only 42 per cent invest in building capability for all employees. Creating employee engagement in the process correlates strongly with successful performance management, so it is vital to include a focus on employees and give them the attention needed.

Who is accountable for performance management effectiveness in your organisation?

Is performance management discussed at the Board level?



> ***"Some of our line managers told us they only see their direct reports twice a year."***
>
> Remuneration Committee member

Go digital to encourage real-time feedback, but with structure

Successful coaches in all sports and at all levels know that delivering feedback in the moment is essential for improving performance. From a half-time huddle to comments from the sidelines, players receive constructive feedback and praise from their coaches while the game is being played.

No winning coach who would hold off on all feedback until post-game, and it's virtually unimaginable that a coach would keep quiet until the end of the season. And yet that is exactly what many organisations do by saving feedback on employee performance for a once-a-year review.

Provide timely feedback

The timing of feedback matters, in sports, in learning new skills and in improving performance in just about every area. For example, when presenting do you move your hands too much? Is your eye contact strong and consistent? Do you appear distracted at meetings? It's much more likely that you'll improve your performance if you get immediate feedback rather than waiting until later for it.

While some organisations emphasised open and honest feedback via their values, others emphasised rapid feedback and were investing in technology to do this: Yammer, mobile apps, web-based feedback.

Changes planned in the next 12 months

"Integrating bias assessments into annual process to provide more real-time feedback into how ratings are playing out."

"Introducing a feedback tool to capture real-time feedback across employees for ongoing development discussions to support performance."

"Looking to decouple development and performance conversations as these contaminate one another."

"Trialling some mobile and other technology to provide real-time feedback either publicly or privately on employees' performance at any time."

"Make 360 feedback more targeted and customised to different roles and levels."

"New online performance management system – deployed to replace various email based processes."

"Allowing for more timely feedback based on business activities."

These were also seen as helping to make the feedback a more socially rewarding and engaging process.

One survey respondent was also moving their performance discussions away from their annual model, instead providing more structured feedback at the end of projects. Other planned changes include:

Use technology but provide structure to avoid waffle

While more rapid feedback is valuable, several respondents noted that feedback sessions could take a lot of time and were often poor quality.

More structure can improve the value of the feedback, focussing it and speeding it up. We saw this in some companies conducting 360 reviews, which prompted respondents with two questions related specifically to them and their roles.

Periodical performance themes are another approach, where a particular theme (eg customer centricity, safety) is adopted as a performance focus for a set period of time. This approach forces employees, and those providing feedback, to focus on a tight number of important measures until these are embedded as behaviours. Engaging employees and people managers in this way can drive a key change, but it needs performance management to be generally effective already. There is also a higher onus on HR to embed the change over time. Once a performance theme has been successfully embedded into behaviours, a new theme can be introduced.

Keep feedback relevant by design

The relevance and longevity of a digital feedback mechanism is affected by its design. For example, gamification principles suggest that longevity can be increased by incorporating a sense of progression and the ability to increase status. An example of progression is a company structuring its feedback around its capability framework: employees are assessed against the capabilities for their role and, where they achieve above their current level, are more likely to be promoted. Where progression is absent from feedback systems, such as in systems that use “likes” or “high fives” as a form of feedback, they quickly become stale.

Separate your development and performance discussions

Getting feedback on development and performance at the same time creates ‘noise’ for the receiver of the feedback. These are separate but highly important and emotionally charged parts of performance management. Talking about them at the same time can cloud the real issues. We are now seeing many companies separate the conversations on these topics: focus mid-year discussions on development and end of year ones on performance.

Focus feedback for growth

How you frame feedback also affects its impact. Feedback focused on personal attributes – intelligence, capability, charisma – actually encourages risk aversion as people grow concerned about being ‘found out’. Feedback that focuses on the processes that people engaged in – effort, strategies, persistence – encourages people to develop themselves and take on more stretching objectives[5]. Again, another reason to provide structure to ensure real-time feedback is offered in a way that is consistent with a growth mindset rather than a fixed mindset.

5 source: “Carol Dweck, Mindset: The New Psychology of Success, 2007

Conclusion

In conclusion, there is no silver bullet in performance management. Whether or not you continue with traditional performance management, or are looking towards a more radical approach, it is important to manage what matters: over-service the executive population, drive more effective conversations, and provide timely feedback with structure. And as with any change, move at a pace that your business can sustain, and consider the full scope and implications of any change.

And any change should be **testable**. In December 2014, HBR published an article saying "A testable idea is better than a good idea"[6]. Its premise was that testable ideas prompted action and learning in ways that merely good (but untestable ideas) could not.

Are organisations managing their performance management systems using testable ideas? Not really. Most are making do with what they have – semi-relevant questions from engagement and culture surveys, and analysis of rating distributions. While these have some value, you won't be able to test whether your changes – to coaching, goal setting, simplifying – are responsible for achieving results.

Many ideas in performance management can benefit your organisation. Unfortunately, few will be adopted unless there is proof that they work and there are people to make them happen. So we recommend that you:

- **Be bold:** Start with the right question (eg What does fantastic performance management look like?) and design around that rather than starting with the existing frameworks and asking 'how do we make these better?'
- **Establish measures that can be used before, during and after the project is complete:** Without evidence, storytelling rules ('If it works, it's because of us. If it fails, it's because of the economy'). To verify whether your changes are having an impact, establish measures that are sustainable and allow you to test the effectiveness of the change, ideally using pilots and control groups.
- **Report on performance against measures:** Reporting performance is a key part of involving and engaging others throughout the project.
- **Take action when the measures turn up good news or bad news:** Measures are meant to drive action, so use the information to guide the decisions that you make.

In this way, your organisation can ensure that the changes you are making to your performance management system are relevant, effective, and are less likely to leave you wondering: Are we changing enough?

6 https://hbr.org/2014/12/a-testable-idea-is-better-than-a-good-idea

Profiles

Emma Grogan
Partner

+61 2 8266 2420
emma.grogan@au.pwc.com

Daniel Geard
Director

+61 2 8266 0725
daniel.geard@au.pwc.com

Elizabeth Stephens
Senior Manager

+61 3 8603 4844
elizabeth.stephens@au.pwc.com

www.pwc.com.au

127025260