

The changing performance management paradigm: evolution or revolution?

Is there a future for performance management?

October 2015



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Introduction

Within the context of disruptive innovations and rapidly changing business environments, performance management has recently become one of the most debated topics with the HR arena. Some organisations have thrown their traditional performance management system out of the window and have adopted a completely new approach. Other organisations are rethinking their current framework, considering one or more changes. From our research it appears there is no need to build the case for change: about 90 per cent of surveyed organisations made major changes in the past two years or are planning multiple changes in the next 12 months.

With all this change occurring, PwC wanted to build a stronger base of evidence on the state of performance management today. It feels as if everyone is planning some radical changes. This sentiment, together with common employee frustration with performance management, is leading to widespread framework reviews. But how much change is really needed, or occurring as a result?

Based on the recent debate on performance management, you may be inclined to conclude that (i) performance management systems are completely broken, and (ii) drastic changes are underway. Either one or both of these statements may hold true for some organisations – abolishing the traditional system may then be the right choice from a business perspective. However, our survey reveals a somewhat different landscape for large employers in the Netherlands – in line with other international PwC surveys on this topic:

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

Secondly, organisations are keeping the existing frameworks but tweaking them to make them leaner and more impactful, for example by simplifying the mid-year review, improving the goal setting process and/or introducing more frequent feedback throughout the performance year. Such changes are also triggered and supported by the increased technological abilities and digitalisation of the performance management process, allowing for real-time reviews and a simplified process.

The above leads to the conclusion that in terms of fundamental change to performance management in the Netherlands, organisations that abandon traditional performance management approaches are still first movers. In that perspective, we believe innovation in performance management approaches may be justified, but only if such innovation is aligned with the organisation's business needs and connected with its purpose and values. Values and value creation as a shared singularity rather than a balancing act. This also requires companies to embed their performance management approach in the broader HR agenda. Therefore, in our view the further evolution of performance management requires the adoption of 3 significant themes:



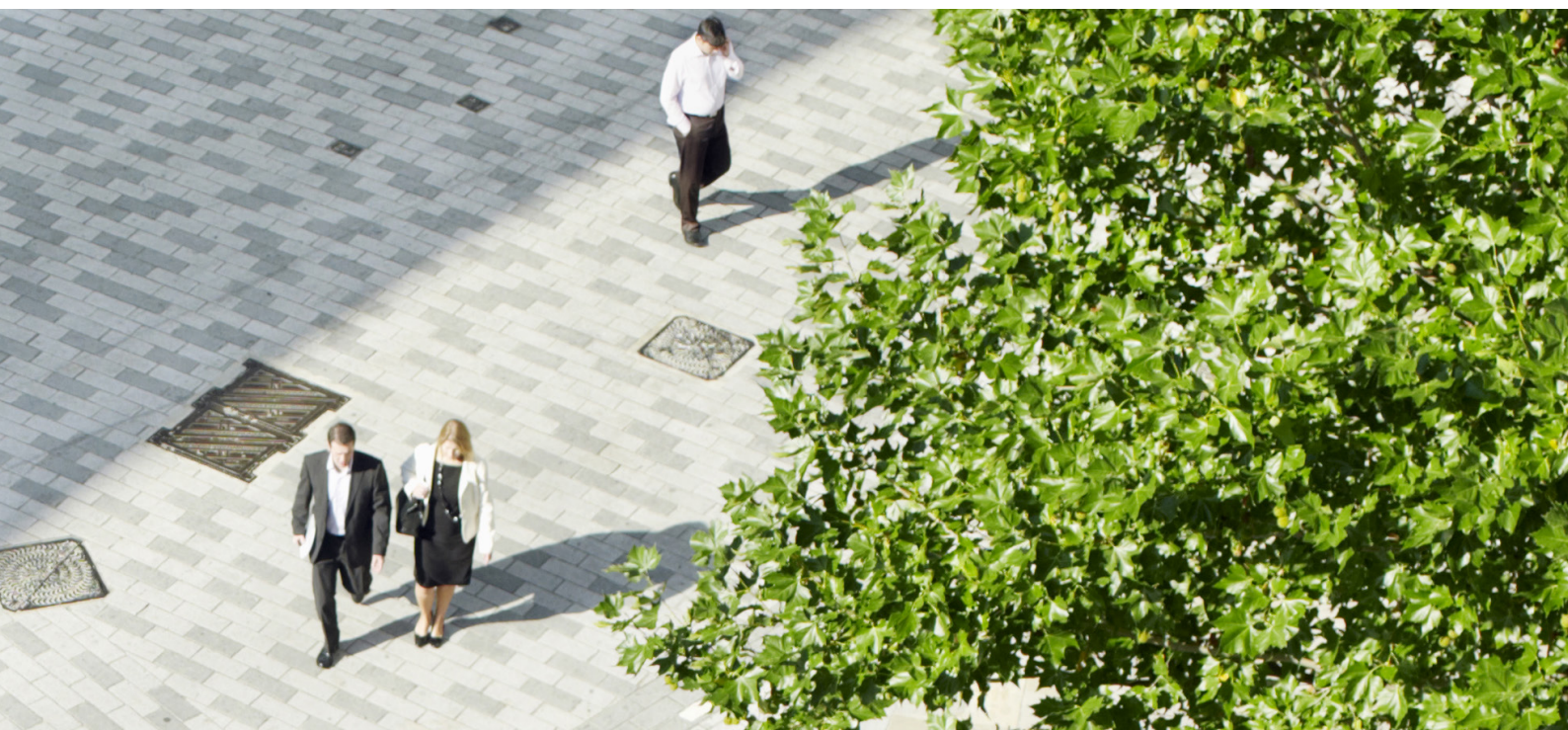
Connection with the business: The majority of the organisations surveyed perceive performance management as crucial for, or supportive to, a high-performing organisation. This is consistent with the research of The Conference Board that high performing organisations are recognised for excellence in combining strong financial management with strong people management. Changes to the performance management practices are, therefore, crucial to the success of the organisation going forward.

Agile processes: With companies making changes to their organisation structures – e.g. working in hubs, tribes, clans – to provide for better resource planning and foster more teamwork and flexibility, there is a need for more real-time, more evidence based and less top down performance management. This is facilitated by the further digitalisation of HR management.

Alignment of HR: These developments require the further alignment of the various HR expert teams in order to deliver a consistent model. Especially further alignment of reward, performance management and talent management is required to excel in people management and ensure a continuous connection with the business.

Notwithstanding our above views on the future, this report summarises what most organisations are actually doing now which is enhancing existing frameworks. We, therefore, hope that this report will provide comfort that you are 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 your business and culture requires to do so.

*Tommes Krullaars
Janet Visbeen*



Executive summary

Five themes emerged from both our research and experience of the most common issues companies face with their performance management. We explored the implications of these themes and what companies are planning to do, or could do, to solve their problems. Our key findings and recommendations in relation to the five themes are presented below.



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 is not widely seen yet in large 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:

- Review current practices and whether these are effective in the various businesses and regional markets.
- Think bold and create opportunity for business aligned, evidence based innovation, but don't innovate for innovation's sake. Changing your performance management is also likely to affect your reward practices, talent management, organisational culture etc. Therefore, refrain from fundamental changes if they do not serve business need or do not contribute to a high-performing organisation and are supported by your organisational design.
- Be realistic about your organisation's requirements and capabilities and the steps necessary to implement a change.
- Establish measures to support the case for change, quantify impacts and report on these. Test and correct if desired results are not being observed.



Over-service the executive population when setting and drafting goals

Our findings:

- While all 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.

Our recommendations:

- Distil business strategy into simple actionable measures and values that allow for a culture of rigor and standards.
- Hold leaders accountable to set clear goals and create effective teams.
- Foster a culture of entrepreneurship and innovation through facilitated goal setting workshops that include cross-functional representation and that allows to learn from failure.
- 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

Our findings:

- Around 70 per cent of the surveyed organisations see line managers not prioritising performance management conversations and feedback.
- Building line manager capability is a focus area for more than half of the companies, but only 22 per cent 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, approximately 60 per cent of employees participating in the international survey¹ believe they are equally responsible.

Our recommendations:

- Hold leaders accountable to ensure clear and consistent messages and objectives.
- 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.
- Invest in increasing management capability to increase team and employee engagement.
- Separate performance and development discussions.



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

Our findings:

- 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.

Our recommendations:

- Create rationale for more frequent feedback sessions (e.g. monthly performance/development topics).
- Consider using technology to enable providing feedback instantly and more frequently.
- Provide structure (e.g. periodical performance themes) to avoid the waffle and unhelpful feedback.
- Use feedback to support business ownership at the unit or team level, supported by reward structures.

¹ Refer to Survey demographics on page 24 of this report.



Start with the 'Why' – connect purpose and performance

Our findings:

- Building a high performance culture starts with a clear connection between purpose and performance. Once clear on its purpose, an organisation can determine the core values and beliefs that reinforce this purpose. Together with the business strategy, these elements form the basis of an organisation's moral compass and provide a reference point for managing performance.
- All respondents recognised the impact of the following factors on the performance culture of their organisation:
 - leadership
 - engagement
 - development
 - values and beliefs
 - simplicity of objectives
 - frequency of feedback
 - talent assessment
 - differentiation of performance, and
 - reward and recognition.
- The factors that were considered to have the greatest impact on the performance culture of the organisation were:
 - feedback: quality and frequency of performance feedback given to employees throughout the year
 - leadership: leading with a clear purpose, vision and business strategy, visibility of role models and tone at the top
 - agility: differentiation of high and low performance, and
 - reward and recognition associated with performance.

Our recommendations:

Be clear on your purpose and values, and connect these to performance.

- Understand current practices around giving feedback (frequency, quality, preparation, etc.) and consider using (digital) technology to encourage real-time feedback throughout the year.
- Consider the high impact of leadership on the performance culture of your organisation. Empower leaders to embed a values-based approach to performance management year round – during feedback conversations, goal setting and performance reviews.
- Ensure that the desired performance culture and beliefs is matched by actual experience. Performance differentiation is, therefore, an essential feature of high performing organisations. Determine what this differentiation looks like for high and low performers within your organisation.
- Use the insights from research into the key success factors of high-performing organisations, that is, the common elements and strategies that are characteristic for such organisations. For instance, studies of high performing organisations show that a culture of rigor and accountability is required to successfully execute the organisation's business strategy.

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.

“We will embark on a new performance management scheme: new definitions of behaviour, simplification of rating scale, introduction of performance reviews after milestones or projects and integration in a new HR information system.”

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 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 of 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 high tech organisations. A radical approach doesn’t necessarily make sense for all. Ensure your changes are fit-for-purpose, i.e. driven by business needs.

- 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.

Seven innovative practices

The seven innovative practices below signal a move away from traditional performance management systems. They are listed as related trends that are getting more substantial traction, along with details of where they tend to work well and risks to manage upon implementation. Innovations within existing performance management frameworks are outlined in more detail under the upcoming themes.

1 Abandoning the annual performance review cycle

What:

Shortening of review periods or de-linking from a standard cycle altogether, moving to continuous feedback

Why:

- Creates flexibility for line managers and employees to link the review to a specific business objective, project, assignment or milestone – enabling alignment with the real pace of business
- Removes the complex, time-consuming annual performance management processes, in particular the year-end performance reviews

Works well where:

- The focus is already on – or can be shifted to – continuous employee development and performance improvement

Be aware of:

- Active performance reviews and difficult, robust conversations on performance will not happen with some managers where there is no clear structure and/or hard deadlines
- May not be effective or perceived as equitable where compensation decisions (fixed, variable) are tied to annual review results

2 Releasing the focus on evaluation and appraisal

What:

Putting less emphasis on the backward-looking assessment, i.e. year-end appraisal against fixed goals, aiming for a forward-looking approach with dynamic, agile goalsetting and regular conversations on development and performance

Why:

- The traditional appraisal process includes a year-end rating, often setting the tone of the conversation that managers are reluctant to have and employees do not like either. The governance and rules around ratings can erode fairness and trust, which are essential for employee loyalty and engagement
- Robust conversations on performance need to happen, but there seems to be a case for having these conversations in the moment, providing real-time feedback and focusing on future growth rather than past performance
- Agile goalsetting creates more flexibility both from a business perspective as from an individual employee's development perspective

Works well where:

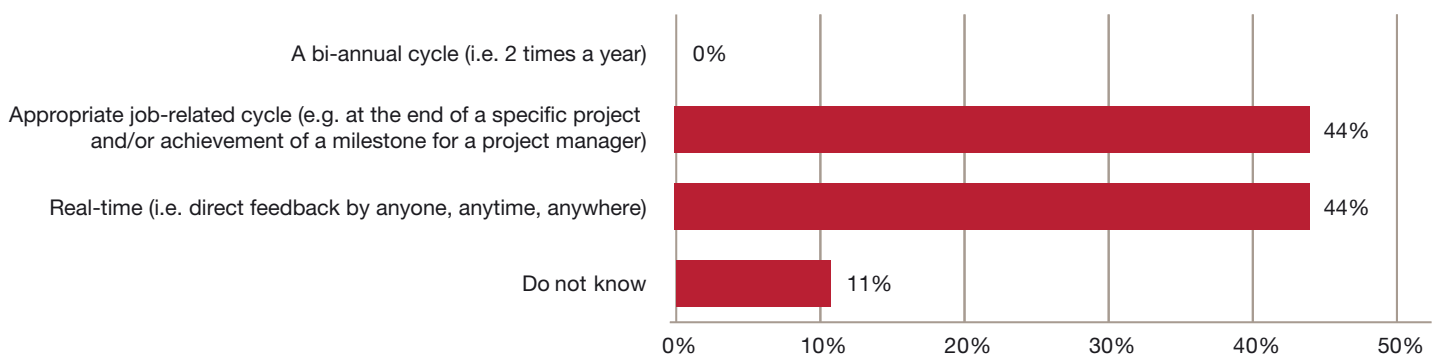
- Organisations with medium to high coaching capability
- Dynamic business environments where adaptability and an agile workforce is key
- Organisations are ready to adopt a more dynamic performance appraisal process and encourage commitment and participation in an improved process from different stakeholders: senior leaders, HR, line managers and employees
- Organisations with a higher proportion of younger workers; millennials favour career development and embedding behaviours – they favour work-life balance over money and reject formal corporate structures

Be aware of:

- Need for an economical and sustainable way of deploying coaching capability
- Requires strong change management skills for this approach to succeed
- Fair allocation of annual variable pay pool still requires relative ranking of individual employees on performance, potential and critical skills

“We will not change the current framework, but rather adjust it by tweaking some bits and pieces.”

Assuming Performance Management in your organisation is currently an annual cycle and this cycle were discontinued, what would be most effective in your view?





3 Simplifying the process supported by tools and technology

What:

Getting rid of the complex, time-consuming and potentially bureaucratic performance management process moving towards easy, direct solutions supported by tools and technology (e.g. online real-time feedback and engagement)

Why:

- Belief that there is an imbalance between the total time spent on traditional performance management process and the ultimate return on that time investment
- The need for a fresh perspective on what purpose performance management should serve, i.e. essential business needs. A radical change of the business model may make it necessary to go back to the drawing board
- The search for powerful and compelling tools providing immediate feedback for meaningful conversations in the moment

Works well where:

- The current process is perceived as unnecessarily complex, time-consuming and burdensome
- Employees are curious, eager to learn, open-minded and skilled in the use of software tools

Be aware of:

- Throwing the baby out with the bath water, i.e. abandoning the process altogether before setting the basics for a new performance culture
- Over-engineering and/or over-emphasising the role of technology, e.g. a wide use of a 360 degrees feedback tool

4 Removing individual performance ratings

What:

Removing individual year-end performance ratings, in any case forced distribution rankings, allowing the performance discussion to become a meaningful conversation on personal development and career progress

Why:

- Avoids the negative consequences of 'being judged': disengagement, fixed mindset, demotivation
- Creates a culture that learns from failure
- Studies show that people are more effective at laddering (i.e. ranking) employees rather than rating them

Works well where:

- Organisations or business units with a high fixed to variable pay ratio, i.e. relatively (and/or absolutely) low incentives
- High talent populations, e.g. Netflix, Atlassian, who pay top of market for fixed pay and are recognised as employer of choice

Be aware of:

- Opening the door to bias: absence of structure leads to managers projecting their own potentially biased rules
- Allocating incentives is harder without individual rankings
- Removing the official ranking system may result in an unofficial ranking system

5 Changing the link between pay and performance

5A Strengthening the pay-performance link

What:

Performance and reward cycles are shortened from the annual cycle, e.g. incentives are paid quarterly or immediately following an event

Why:

- Annual cycles impose an artificial and arbitrary time horizon and are not necessarily aligned with the needs of the business
- Possibility to recognise extraordinary performance shortly / immediately

Works well where:

- There is an accurate and efficient measurement and payroll processes
- There are natural performance cycles, e.g. project based or based on monthly / quarterly results

Be aware of:

- Increase of administrative burden
- Risks decoupling with organisation's results

5B Separating pay and performance

What:

Retaining performance management practices, but removing incentive payments and/or standard fixed pay increases

Why:

- Incentive systems may include perverse stimuli and drive pursuit of short-term company performance at the expense of customers

Works well where:

- In business environments where trust is a competitive advantage
- Recognition and reward may be in conflict with better customer outcomes

Be aware of:

- Removes a key impetus for performance management to happen. 82 per cent of the respondents indicate that the effect of linking reward to performance ratings forces the performance management process to be taken seriously by all parties
- Requires more flexibility in fixed pay practices and potentially increases fixed costs

6 Gaining insights from data

What:

Using the results of various technology-supported tools to analyse the individual employee's performance and potential, in particular relative to his/her peers. For example: interim appraisals upon closing of a project, input from periodical 'check-ins', performance snapshots, real-time feedback, 360 degrees instruments

Why:

- Collecting relevant data throughout the year provides a more objective and reliable basis for meaningful conversations on performance than the traditional ranking and rating at year end

Works well where:

- Organisations have decided to consider improvement of performance as a continuous, ongoing process that also requires frequent input
- People are eager to use new technology and tools to boost their own performance and that of the teams they work in

Be aware of:

- Over-engineering technology and tools, e.g. a one-sided emphasis on data
- Giving insufficient attention to one-on-one conversations

7 Integrating various people challenges driving business performance

What:

Moving from performance management as a HR silo instrument to a holistic approach to deal with different people challenges in an integrated manner, using broader tooling: engagement, talent management, learning and development, recruitment and retention, compensation and benefits, workforce agility and eventually improved alignment with business performance

Why:

- It's not the performance management system as such that counts, but the purpose it should serve: performance of people and business, so alignment with the business and integration with other people challenges is key
- Performance is not the exclusive domain of HR

Works well where:

- Fast growing organisations
- Organisations faced with different people challenges

Be aware of:

- Good stakeholder management
- Sharing ownership without giving up the driver's seat

The above innovative practices can also be used to improve an existing performance management framework. Such improvements usually relate to process, execution (discipline), and use of technology. We will outline innovations within current frameworks in more detail under the upcoming themes.

Over-service the executive population when setting and drafting goals

Goals matter. Academic research on goal setting has shown that goal-setting theory is among the most valid and practical theories of employee motivation in organisational psychology. 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 (e.g. “Do this . . .”) without explanation, it leads to performance that is significantly lower than for a participatively set goal.

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. As regards the quality of goals, all survey participants said they use SMART goals, however, 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 ‘to be confirmed’ or ‘to be agreed’ – 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. Key to the success of this approach is to hold executives accountable for setting clear goals.

Align the executive population

Based on interviews with respondents of PwC’s international surveys, 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, e.g. KPI libraries.

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. Respondents indicate that (i) the execution of performance management is a shared responsibility of senior leaders, line managers, HR and employees, but (ii) the management board and HR are more or less equally accountable for the effectiveness thereof. 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, e.g. customer alignment of goals.

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 global companies such as Google and Juniper.
- **Use balanced scorecards:** provide a consistent framework to cascade goals. 18 per cent of the companies surveyed in the Netherlands use balanced scorecards when setting performance objectives.
- **Encourage staff buy-in:** But purely top-down approaches will fail if staff do not 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 do not have the time and because other priorities in performance management get in the way.

69 per cent of employee respondents in our international surveys 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 the link to reward (43 per cent) and a 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:

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 versus 11 per cent).

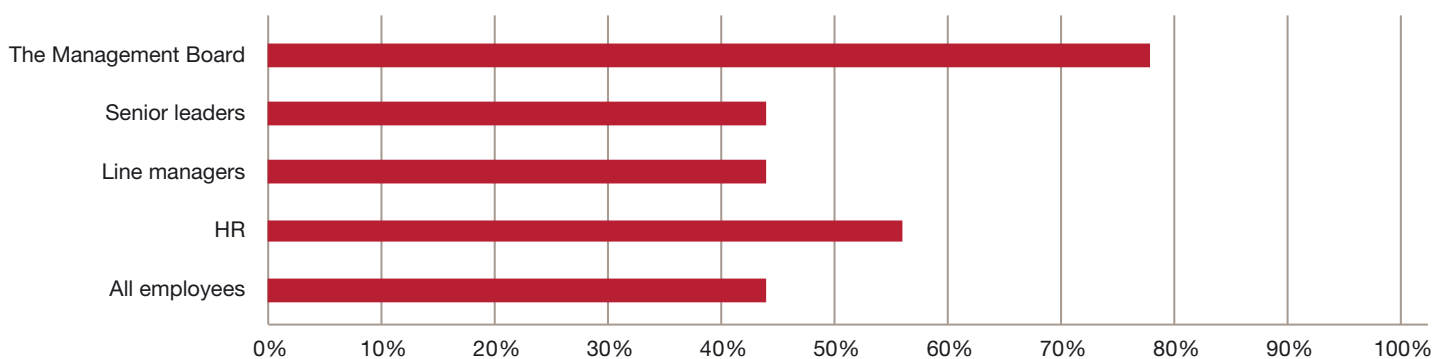
Look for sustainable approaches

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) and/or 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.

“Work on people leaders’ ability to have constructive conversations.”

Who is accountable for the effectiveness of performance management in your organisation? Please select all that apply:



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, 61 per cent of the employee participants in our international surveys said employees should be accountable for its effectiveness, followed by senior leaders (53 per cent) and line managers (47 per cent).

“Focus on line manager capability training.”

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 per cent see all employees as accountable.
- For companies who rate their overall execution as somewhat effective, 50 per cent 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.

How is performance management discussed at the level of the Management Board?



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

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 halftime huddle to comments from the side-lines, 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 is 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 is much more likely that you will 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 tooling and technology (e.g. mobile apps, web-based feedback, social media - crowdsourcing platforms, Yammer).

Changes planned in the next 12 months

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

“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.”

“New online performance management system – deployed to replace various e-mail based processes.”

“Allowing for more timely feedback based on business activities.”

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

Other planned changes include:

Use technology but provide structure

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 (e.g. 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 midyear 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. 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.

Start with the ‘Why’ – connect purpose and performance

Building a high performance culture starts with a clear connection between purpose and performance. An organisation’s purpose is founded in its ‘reason for being’. Purpose addresses the ‘why’ and seeks to understand an organisation’s role in society. Once clear on its purpose, an organisation can determine the core values and beliefs that reinforce this purpose. Together with the business strategy, these elements form the basis of an organisation’s moral compass and provide a reference point for managing performance.

In our view, high performance is an outcome of a culture founded on purpose and values. The alignment between purpose and performance empowers leaders to take a values-based approach to performance management. For example, good performance conversations begin with purpose and connect to performance. The same can be true for other components of performance management, such as goal setting, performance reviews and the link to reward.

For this reason, when concentrating solely on performance processes and systems, the bigger picture can often be overlooked. Processes and systems are an important dimension of cultural change, but only one perspective¹. To be firmly anchored within an organisation’s culture and aligned with business needs, performance management must also align with an organisation’s purpose, values and beliefs.

All respondents recognised the impact of the following factors on the performance culture of their organisation:

- leadership
- engagement
- development
- values and beliefs
- simplicity of objectives
- frequency of feedback
- talent assessment
- differentiation of performance, and
- reward and recognition.

The factors that were considered to have the greatest impact on the performance culture of the organisation were:

- feedback: quality and frequency of performance feedback given to employees throughout the year
- leadership: leading with a clear purpose, vision and business strategy, visibility of role models and tone at the top
- agility: differentiation of high and low performance, and
- reward and recognition associated with performance.

DNA elements and strategies of high-performing organisations

The Conference Board provides a diagnostic tool, *Elements of High-Performing Organizations – The 15 strategies associated with increasing levels of high performance in an organisation*. This diagnostic tool is one offering from a suite of research products on the common elements – the ‘DNA’ – of high-performing organisations. See www.conferenceboard.org/high-performing-organization.

“Companies need to build the internal capability to deal with a world where volatility, uncertainty, complexity and ambiguity are the new normal (a ‘VUCA world’). In such a world, employees as well as leaders must be strategic, innovative, agile, and resilient while delivering an increasing level of performance just to remain competitive. We explore the competitive advantage for companies where CEOs, CHROs, and human capital professionals partner to deliver results; how higher performance delivers greater impact; and how organizations build a high-performance culture.”

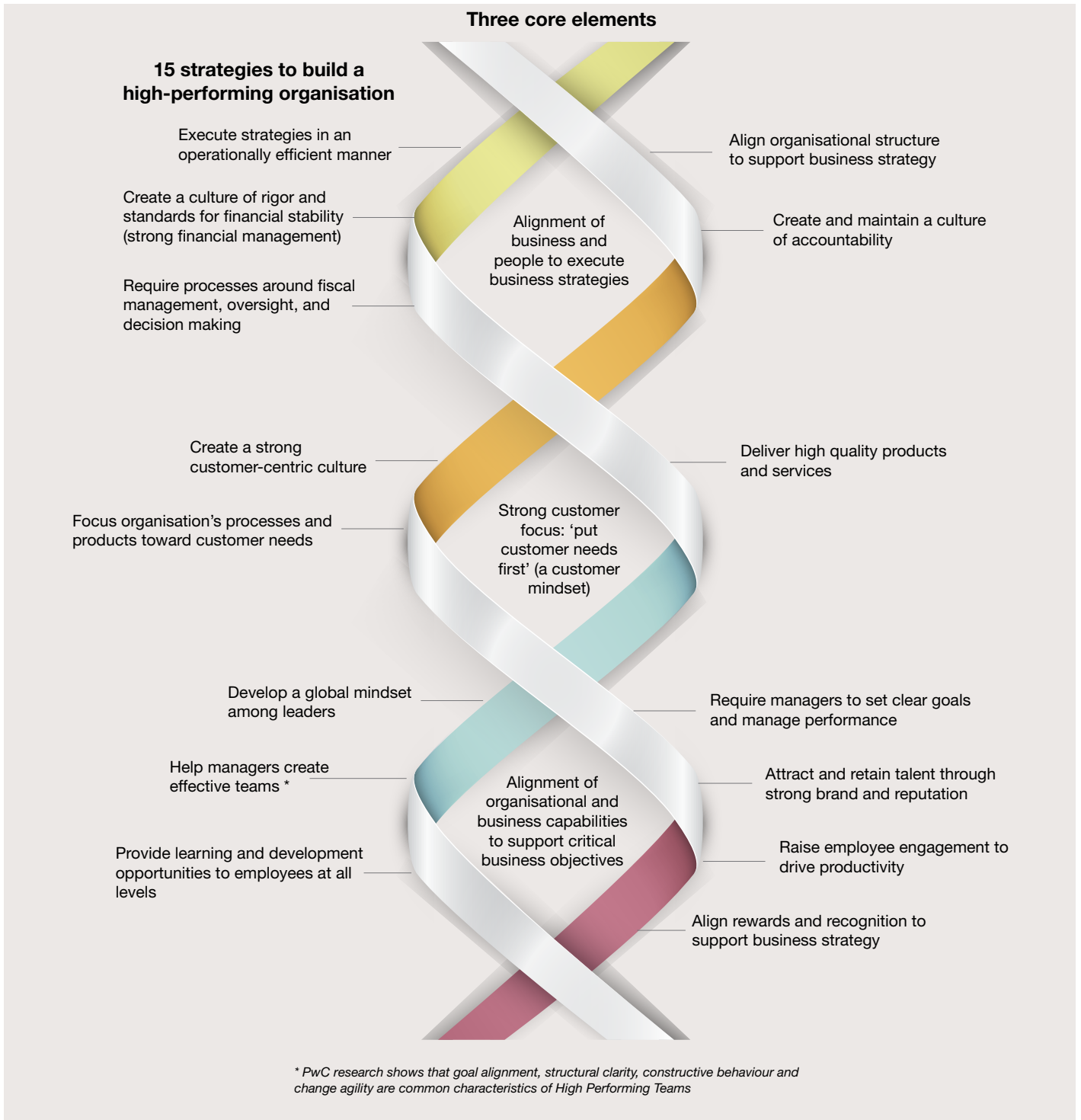
The Conference Board

¹ *Time to get real on culture! Restoring trust in the financial sector*, PwC, February 2015, www.pwc.nl/nl/assets/documents/pwc-time-to-get-real-on-culture.pdf

Of the above 15 strategies, 'Require managers to set clear goals and manage performance' and 'Align rewards and recognition to support business strategy' have a clear connection to performance management. However, embedding a high performance culture requires a focus on *how* these strategies are achieved. This means being explicit about the values and behaviour expected or 'desired' during execution (the 'how').

Respond to underperformance

An important feature for employee engagement in high-performing organisations is addressing underperformance in an adequate manner. 56 per cent of respondents indicated that their organisation is "quite agile" in responding to employee underperformance, whilst 33 per cent said they were agile "to some extent".



Snapshot of survey findings

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

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

The overall execution of the performance management process is considered to be 'somewhat effective' (56 per cent). On balance, performance management appears to be 'partially meeting expectations', but needs to be improved rather than dumped.

Most companies agree that performance management continue to add value

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

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

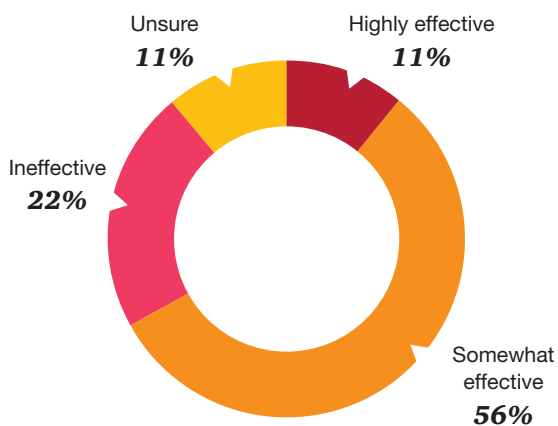
Whilst employees also agree performance management systems are effective, almost half say they would feel no impact if the systems were discontinued:

- Almost three-quarters of employees who participated in our international survey agreed that their organisation has an effective performance management system in place.
- Performance management is not necessarily seen as a 'must have' by employees. In our international survey, we 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.

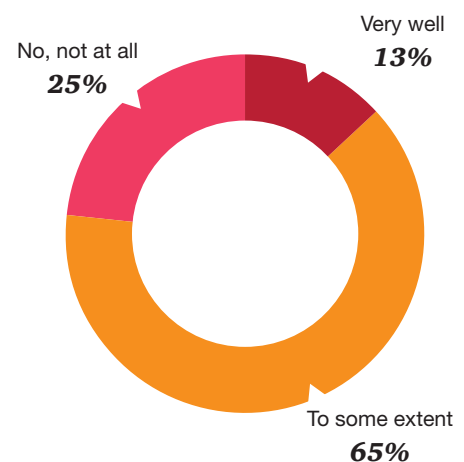
Performance management mostly achieves its key objectives, but execution needs to improve

Companies in our international survey reported that they are relatively satisfied with how well performance management systems achieve their key objectives. Having said that, many companies agreed that there is at least some room to improve the execution of their performance management system. Only 18 per cent of respondents said execution is highly effective in their organisation and 73 per cent said their organisations needed to improve their execution of performance management.

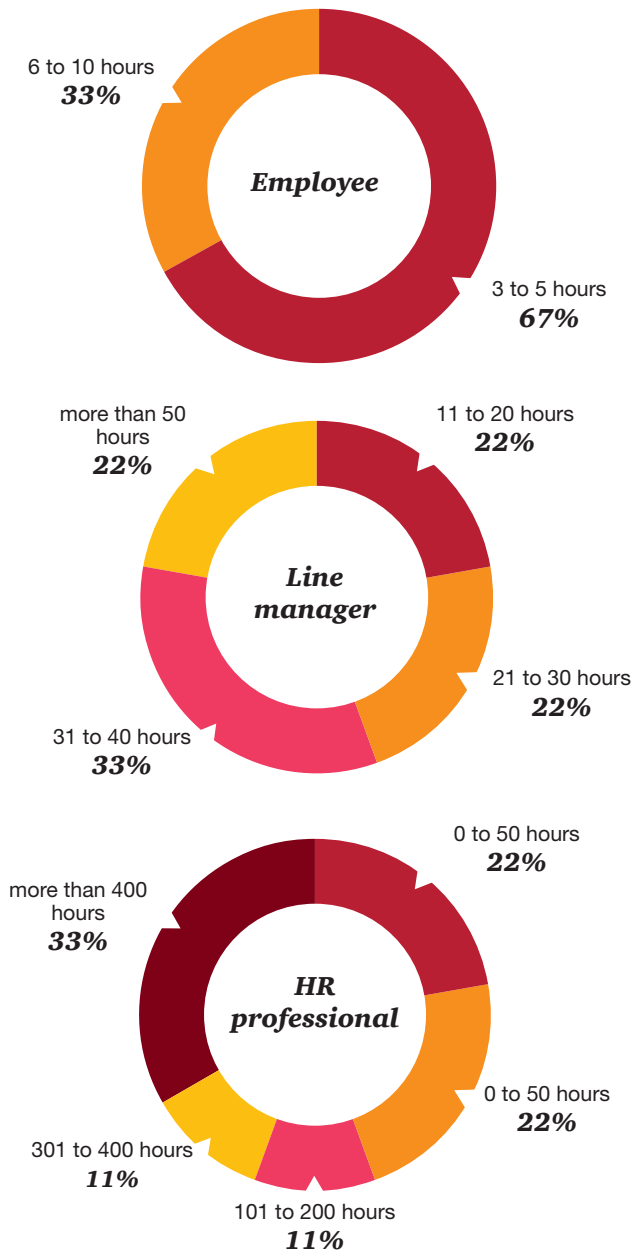
How effective is the overall execution of your performance management process currently?



Does performance management effectively enable strategy?



What is the estimated time spent on the performance management cycle on an annual basis?



Annual performance cycle is time-consuming, but within reasonable limits

The execution of the annual performance cycle can be very time-consuming and burdensome. Total time spent and the potential bureaucratic character may cause organisations to change their approach. But what is the estimated time spent on the performance management cycle on an annual basis, i.e. including goal setting, personal development plan, mid-year assessment and review, end-year assessment and appraisal interview, performance and potential ratings of staff, calibration and moderation meetings? What is the actual time spent by an employee, a line manager (responsible for 7 to 10 employees) and a HR professional responsible for performance management? The answers indicate that the total amount of time spent is not excessive, rather proportional and within reasonable limits.

Linking reward to performance ratings forces the performance management process to be taken seriously by all parties

Individual performance ratings have a direct impact on reward packages (salary, bonuses and equity incentives). Although there are different views on whether to strengthen the link between performance and pay or separate pay from performance, our survey reveals that 82 per cent of the respondents think that linking reward to performance rating forces the performance management process to be taken seriously by all parties.

Overall, what is the effect of linking reward to performance ratings in your organisation



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-serve the executive population, drive more effective conversations, provide timely feedback with structure and build a culture founded on purpose and values. And as with any change, move at a pace that your organisation can sustain and consider the full scope and implications of any recommendation.

And any change should be testable. In December 2014, Harvard Business Review published an article “A testable idea is better than a good idea”. 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 will not be able to test whether your changes – to coaching, goal setting, simplifying – are responsible for achieving results. In this context, technology can enable evidence-based people management.

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 and start with the right question – for example:
 - What do we need to reach the next level towards a high-performing organisation?
 - Is our organisation ready to adopt a holistic approach to solve people issues?
 - 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. 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 in synch with your business needs, relevant and effective, and are less likely to leave you wondering whether there is a future for performance management.

Our special thanks go to the team of PwC Australia - Emma Grogan, Daniel Geard and Elisabeth Stephens - who shared their performance management effectiveness survey materials to enable us to set up this survey for the Netherlands.

Survey demographics

When we speak to our clients about performance management, the conversation often focuses on pain points and opportunities for improvement. Dutch-based companies know that something about their system is not 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 is more or less common knowledge that performance management is not doing well in the Dutch 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 and our Australian colleagues developed a similar survey for the Australian market early 2015. After reviewing established research, we investigated what was (and was not) working through:

- Surveys of performance management system owners in selected organisations in a few selected industries
- One-to-one interviews with a few survey respondents
- Surveys of about 200 system users (i.e. employees) using AskU, our proprietary market research tool.

In this report, references made to ‘the international survey’ regard the surveys of PwC UK and PwC Australia on performance management.

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



Read more

10 recent articles on the evolving insights regarding performance management, performance culture and high performing organisations

Reinventing Performance Management, by Marcus Buckingham and Ashley Goodall, Harvard Business Review, April 2015, <https://hbr.org/2015/04/reinventing-performance-management>

Conducting dynamic performance appraisals, Talent Pulse e-book of Human Capital Institute, November 2014, <http://www.hci.org/hr-research/2014-talent-pulse-conducting-dynamic-performance-appraisals>

Winning Your Workforce: The Essential Guide to Improving Retention and Employee Performance, e-book SABA, March 2015, <http://www.saba.com/us/dynamic-landing/resource/go/ebook-retention-2015-march-1/>

Change is on the way, but will it be enough?, by Emma Grogan, Daniel Geard and Elizabeth Stephens, PwC Australia, March 2015, <http://www.pwc.com.au/people-business/assets/publications/Performance-Management-Mar15.pdf>

DNA of High-Performing Organizations, by Rebecca L. Ray, Amy Lui Abel, Amanda Popiela, The Conference Board, March 2015, <http://www.pwc.com.au/people-business/assets/publications/Performance-Management-Mar15.pdf>

Elements of High-Performing Organizations: The 15 Strategies Associated with Increasing Levels of High Performance in an Organization (A Diagnostic Tool), by Rebecca L. Ray, Amy Lui Abel, Amanda Popiela, The Conference Board, March 2015, <https://www.conference-board.org/publications/publicationdetail.cfm?publicationid=2960>

Learning to Lead a High-Performance Culture through Innovation, webcast on demand at Human Capital Institute presented by Marla Hetzel, October 2014, <http://www.hci.org/lib/learning-lead-high-performance-culture-through-innovation>

How Technology is Overhauling Performance Management, webcast on demand at Human Capital Institute presented by Edward E. Lawler and Gerry Ledford, March 2015, <http://www.hci.org/lib/how-technology-overhauling-performance-management-0>

Five reasons why people management is at the top of the people agenda, by Zsolt Szelecki, article in People agenda blog series, PwC United Kingdom, June 2014, http://pwc.blogs.com/the_people_agenda/2014/06/five-reasons-why-performance-management-is-at-the-top-of-the-people-agenda.html

Are performance ratings heading towards extinction?, by Alastair Woods, article in People agenda blog series, PwC United Kingdom, July 2014, http://pwc.blogs.com/the_people_agenda/2014/07/are-performance-ratings-heading-towards-extinction.html

Why More and More Companies Are Ditching Performance Ratings, by David Rock and Beth Jones, Harvard Business Review, September 2015, <https://hbr.org/2015/09/why-more-and-more-companies-are-ditching-performance-ratings>

Agile Performance Management, HR's Next Big Move – Whitepaper of Human Capital Institute, September 2015, <http://www.hci.org/white-paper/agile-performance-management?CS=NQ>

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The world is changing – fast. Tremendous forces are radically reshaping the world of work. There are new organisational, talent and HR challenges to be faced as business leaders wrestle with global growth, skills mismatches, disruptive innovation and the constant tests of risk and regulation.

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Contacts



Tommes Krullaars

Partner
+31 6 1668 5507
tommekrullaars@nl.pwc.com



Janet Visbeen

Partner
+31 6 5464 2625
janet.visbeen@nl.pwc.com



Melissa Lane

Senior Manager
+31 6 2009 5640
melissalane@nl.pwc.com



Ellen Foks

Manager
+31 6 1222 0848
ellen.foks@nl.pwc.com



Jeroen Nigten

Senior Consultant
+31 6 2009 4472
jeroen.nigten@nl.pwc.com

