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Is performance management performing?

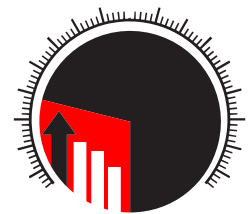
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Organizations are spending millions of dollars and thousands of hours on performance management. Yet too few leaders are confident that their approaches are supporting the workforce of the future or improving the performance of the business itself. That's one of the most striking insights in new research from Accenture Strategy surveying 2,100 leaders and employees from organizations across North and South America, Europe and Asia Pacific.

Performance management is critical to the business. On that, almost everyone agrees. In fact, 94 percent of the leaders¹ we surveyed believe performance management improves business performance. At the same time, only one-third (34 percent) of all respondents believe their current performance management approaches effectively support the delivery of business objectives. And the workforce itself is looking for a better way: 89 percent of employees believe their performance would significantly improve if performance management were changed.

It's time for performance management to really perform. If organizations are to become more agile, they need more agility in their performance management practices, as well. There's a growing need to try out new approaches rather than relying on out-of-date, rearview mirror judgments. At its best, performance management is about the future, not the past—helping people and the entire organization to grow and prosper.

Performance management practices are out of focus with present-day business demands:



29%

of employees surveyed believe their current performance management approaches support the delivery of business objectives



89%

of employees believe their performance would significantly improve if performance management were changed

Business is digital but performance management is still analog

Digital technologies are changing the nature of both work and the workforce, something acknowledged by a large majority of survey respondents, and that's changing what performance management needs to do. Ninety-two percent of respondents report that work is changing: It's faster, more networked and collaborative, and demands ever-evolving skills. Organizations need to innovate to keep pace. And 91 percent agree that the workforce is changing. Workers are more mobile and more diverse, including both the traditional and extended workforce. Employees have greater expectations for transparency and accuracy. They expect to collaborate and participate, and they expect training and career development.

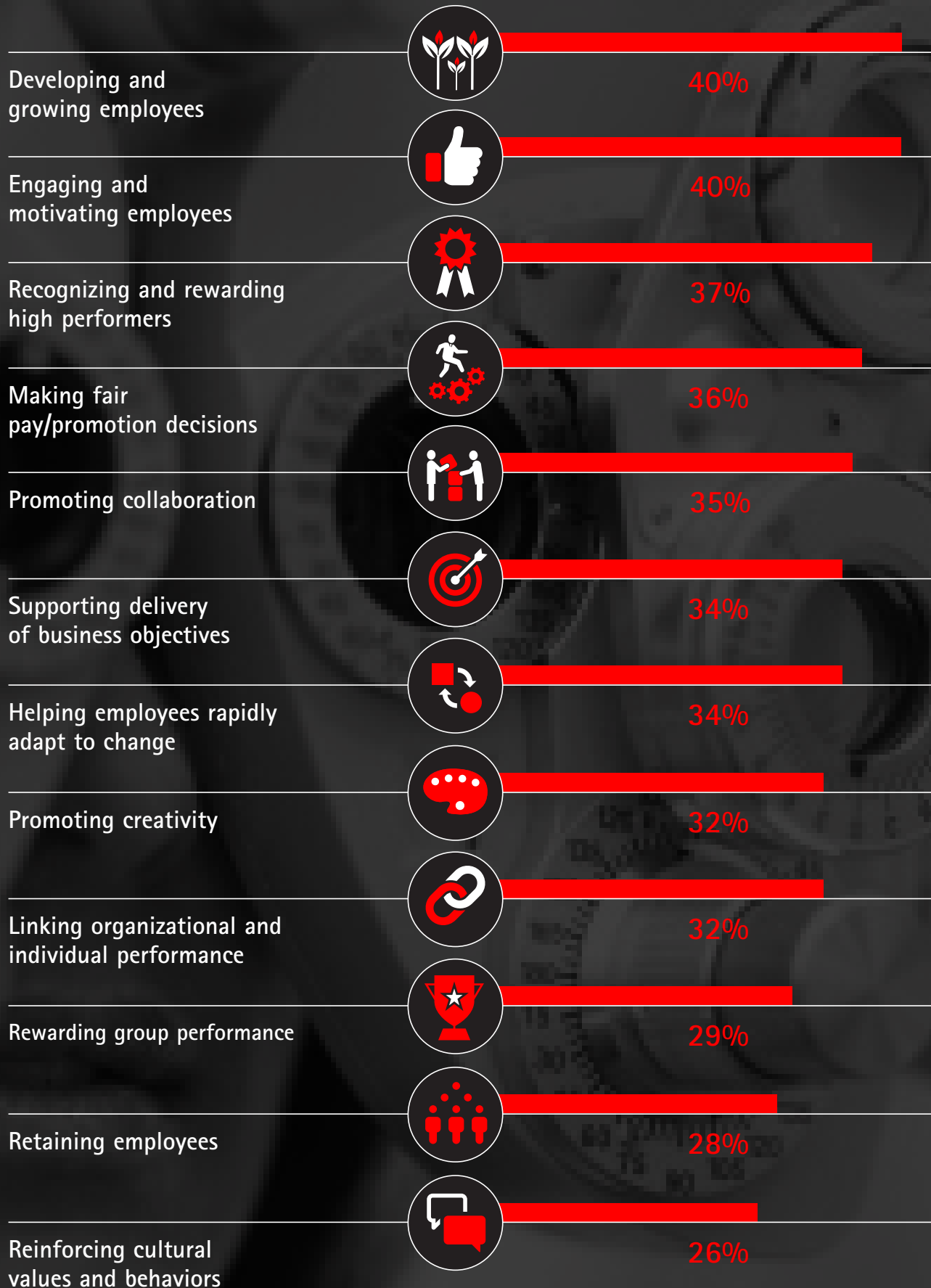
How effective is performance management at supporting this new environment? At best, there is room for improvement. Look, for example, at the low numbers expressing confidence in the basics of performance management: Developing and growing employees (just 40 percent), retaining employees (28 percent), engaging and motivating employees (40 percent), and making fair decisions regarding bonuses, pay raises and promotions (36 percent).

When we turn to the more complex workforce needs of the digital age, confidence is similarly low. Only about one-third believe that performance management effectively promotes collaboration (35 percent) and creativity (32 percent).

And organizations are struggling to align performance management with business performance. As noted earlier, only 34 percent of respondents believe that their current performance management approaches effectively support the delivery of business objectives. The same low number have confidence that they are helping employees rapidly adapt to change. And even fewer (32 percent) believe performance management is providing a clear line of sight between organizational and individual performance. It is difficult for an organization to achieve agility and market responsiveness if their people cannot be responsive to the business.

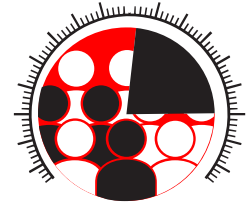


Few employees and leaders believe current performance management approaches are highly effective at driving goals within the organization



Your customers are unique—so are your employees

In business, personalized service is fast becoming the standard, with organizations improving the customer experience to drive sales and retention. That same orientation toward "experience" is increasingly being applied to employees, as well, to improve attraction, development, engagement and retention of top talent. In part this is about attention to diverse types of workers—traditional employees who are performing very different kinds of work, as well as freelancers, part-timers and other nontraditional workers. About half of the leaders surveyed (48 percent) say increased workforce diversity is creating a greater variety of employee motivations and expectations.



77%

of respondents believe that customizing performance management practices to individuals or groups is mandatory

Organizations are entering an era of "hyper-personalized" talent discussions.

The problem: Performance management practices struggle to keep up. More than three-fourths of respondents (77 percent) believe that personalizing performance management practices to individuals or groups is mandatory to meet the needs of the workforce of the future. And 41 percent say that "one-size-fits all" performance management practices have a major negative impact on performance management. Only one-third of respondents (34 percent) say their organization has moved away from a standardized performance management approach.

What about ratings and rankings? Many organizations are either eliminating ratings in some cases or reducing their role in determining rewards and advancement. Sixty percent of respondents believe that the use of ratings creates a negative experience for everyone except the few at the top. And 63 percent of leaders in organizations that use forced rankings believe eliminating them would simplify performance management and improve the performance of their people.

At the same time our data says, "Proceed with caution." High numbers of leaders (92 percent) and employees (89 percent) believe traditional rankings and ratings should have some role in determining rewards. Fifty-five percent of respondents work at organizations that still use ratings and/or forced rankings.

The insight here is that some sort of evaluation guidance and standards is important, as long as that guidance is balanced with an attention to employee uniqueness. This focus on uniqueness will require new behaviors from leaders. We are entering an era of "hyper-personalized" talent discussions based on the impact a person has rather than traditional peer-to-peer comparisons. Leaders therefore must have intimate knowledge of that impact, be able to describe it and then translate that knowledge into rewards.

You say "performance management," your employees say "professional development"

Employees have new expectations for their work, framed around opportunity and active participation, and they expect employers to provide development opportunities, as well as motivational and real-time feedback. Yet performance management practices are still often about top-down control—and are focused on assessment of the past rather than development for the future. Nearly two-thirds of our respondents (65 percent) agree. And almost one-third of leaders complain of too many top-down rules and that practices have become a mere "box-ticking exercise."

To be effective, organizations must focus on both evaluation and development. Performance management needs to be much more about ongoing, constructive conversations and coaching than about annual performance reviews. Fifty percent of the leaders surveyed believe that employees are increasingly looking for development and coaching opportunities. And 53 percent contend that personalizing feedback and coaching would significantly improve employee performance.

But too often, "administrivia" rules. Leaders say they spend too much time on formal documentation and too little time on employee conversations and coaching. Fifty-two percent of leaders say that the annual review process is used as an alternative to engaging in actual performance development. And 73 percent of employees have not seen performance management practices move from a focus on paperwork to a focus on conversations.



EARLY SIGNS OF CHANGE

A large majority of survey respondents say that performance management needs to perform better. At the same time, our data also indicates that many companies are making efforts to improve their performance management approaches.

Seventy-nine percent of those surveyed say their organizations have moderately or significantly changed performance management practices in the past few years. And innovation is happening. For example, nearly half of our survey respondents (45 percent) report that they have shifted from annual feedback to ongoing feedback in the past five years. That's big news.

On the other hand, almost three-fourths of our survey respondents (73 percent) agree that performance management needs to change. Companies lack confidence that the changes being made are effective and that they will achieve the greater goal of aligning employee performance with business performance, especially as the nature of work and the workforce changes with blistering speed.

Prescriptions for revitalized performance

Our research suggests that employees and leaders believe that five major changes will result in improved performance for employees as well as the business.



Develop people through constructive conversations and coaching

Organizations need to provide frequent coaching—as well as ongoing, informal, real-time conversations—if they wish to move beyond “managing” performance to “improving” performance. Performance management is about more than the formal assessment of performance. It's about the vital information employees need from their leaders and from one another to develop to their full potential.

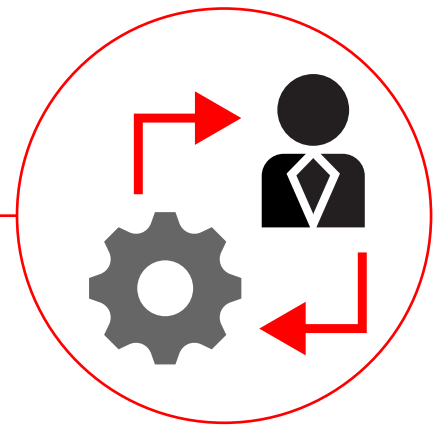
Some organizations are working to ensure that feedback conversations are structured in a non-threatening way, that feedback is focused on building on strengths rather than correcting weaknesses, and that conversations not only focus on revisiting goals but also include development with a forward-looking focus.

In our research, coaching surfaces as a critical dimension of the new performance management. For example, when Google's well-known people analytics team examined data from thousands of employee surveys and performance reviews to find out about the behaviors of its most effective managers, coaching (including help with career development) topped the list.²

Create a culture of openness and transparency

Employees are rightfully suspicious—and can become unmotivated—when performance management is treated as a “black box” where both inputs and outputs are obscure and inconsistent. Seventy-nine percent of leaders and 69 percent of employees believe that making performance management transparent to employees is expected and even required in an era of open information sharing. Some companies are therefore sharing performance feedback, goals, rewards and more.

Whole Foods, for example, has embraced transparency by making information about everyone's total compensation from the prior year available to all employees. Employees are informed participants in decisions about staffing and operations, something they could not do if pay and other costs in their stores were not transparent.³



Personalize performance management across the workforce

Organizations are increasingly customizing coaching and feedback, the goal-setting process and types of rewards and compensation based on the needs of each individual employee or segments of the workforce.

Highly-personalized and future-focused, Accenture's Performance Achievement does away with annual performance reviews and moves to an approach that allows the company to better understand its people's performance, skills, abilities and aspirations throughout the year. This new approach helps people navigate what's next in their careers at Accenture.

Move people decisions closer to the people

Conventional performance management has long relied on ratings as the basis upon which to make rewards decisions. But many leading companies are removing ratings to improve engagement and performance. In doing so, they are essentially moving away from HR-led decisions to business-led decisions, placing more decision-making power in the hands of leaders—or, sometimes, in the hands of people themselves. Supervisors are given flexibility in allocating rewards based on sound insight that reflects the business strategy as well as the budget.

For example, rewards can be allocated based on real performance data or survey data from all of an employee's project leaders. Or, in some leading-edge cases, employees may determine rewards for one another in a crowdsourced approach.



Clearly define high performance and then track toward that vision

Sixty-five percent of respondents (56 percent of leaders, 73 percent of employees) feel performance management does not adequately identify high-potential employees. The changing nature of work in the digital, networked economy is causing organizations to radically rethink the very definition of exceptional performance. They are redefining high performance to take into account collaborative work, effort or the ability to quickly learn new skills, as well as cultural criteria they want to encourage.

For its employee evaluations, for example, Microsoft has defined three elements of high performance: business impact, impact based on leveraging others, and impact based on contributing to the work of others.⁴



Our research found that performance management needs to perform better. Achieving better business agility and responsiveness depends on continuously aligning employee performance with business goals.

Although there are signs of change, organizations need to move faster to revitalize their performance management practices: To become more aware of the diversity of different segments of the workforce, to become open and more transparent, to foster real-time conversations and coaching, and to move people decisions closer to the people.

Perhaps most important, it's time to make sure that performance management supports high performance for the business, its leaders and the workforce of the future.

Join the Conversation

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Methodology

From December 2015 to January 2016 Accenture Strategy surveyed 1,050 leaders and 1,050 employees from 12 industries, in 11 countries covering: Asia-Pacific, Europe, Latin America, and North America. Our objective was to understand how performance management needs to be refined and updated to better support next-generation work practices, as organizations transform into digital, collaborative, networked businesses that need to attract and retain a new generation of workers. The term leaders is defined as respondents in a variety of roles at all levels with supervisory experience over teams and/or groups.

About Accenture

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Accenture Strategy operates at the intersection of business and technology. We bring together our capabilities in business, technology, operations and function strategy to help our clients envision and execute industry-specific strategies that support enterprise wide transformation. Our focus on issues related to digital disruption, competitiveness, global operating models, talent and leadership help drive both efficiencies and growth. For more information, follow @AccentureStrat or visit www.accenture.com/strategy.

Notes

- 1 Leaders surveyed include a variety of roles at all levels with supervisory experience over teams and/or groups.
- 2 Dr. John Sullivan. "How Google Is Using People Analytics to Completely Reinvent HR," Talent Management and HR, February 26, 2013.
- 3 Sue Shellenbarger, "Open Salaries: the Good, the Bad and the Awkward," The Wall Street Journal, January 12, 2016, and Alison Griswold, "Here's Why Whole Foods Lets Employees Look Up Each Other's Salaries," Business Insider, March 3, 2014.
- 4 Jay Yarow, "Microsoft Just Killed the Controversial 'Stack Rating' Review System That Killed Employee Morale," Business Insider, November 12, 2013.