Introducing the Performance Management Transformation Framework

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Performance management practices are in transition as leaders recognize the value that good employee development can bring to an organization—and understand where their own efforts fall short.

The benefits are clear. A recent SHRM (Society for Human Resources Management) study found that effective performance management leads to 50% less turnover, 40% higher employee commitment ratings, 10-30% higher customer satisfaction and as much as double net profits[i].

The issue, however, is that traditional processes are rarely effective and aren't well received. Currently, 25% of employees dread performance reviews, 50% say they're ineffective[ii] and only 6% of companies think their existing performance management process is worth the time put into it[iii].

Dropping annual reviews isn't the answer either; 25% of managers are "only marginally skilled" at evaluations—meaning that skipping reviews could drive less effective feedback or no evaluations altogether[iv]. The impact is worse for employee engagement: it drops by 6% when removing ratings unless companies help managers improve[v].

Effective performance management leads to:

50%
less turnover

2X
net profits

40%
higher employee commitment ratings

10-30%
higher customer satisfaction

"Once-a-year goals are too infrequent for a real-time world, and conversations about year-end ratings are considerably less valuable."

Josh Bersin, Principal and Founder, **Bersin by Deloitte**

With a rapidly changing workforce demanding new ways of working, there is an urgency for companies to quickly evolve how they lead, manage, develop, reward and assess employees. According to Deloitte[vi], there are six major trends occurring in the market:

1. **The redesign of performance management is accelerating** as organizations rethink their processes, including eliminating ratings and focusing more on coaching, feedback and agile goal management.

2. **Performance and reward are being decoupled** to combat biases and skewed ratings. Instead, salary adjustments are being made based on impact, market position and teamwork.

3. **Organizations are maximizing the impact of goal setting** by increasing frequency, leading to above average customer satisfaction and a 65% improvement in the ability to control costs.

4. **Ongoing coaching and feedback throughout the year is on the rise,** as organizations transition away from annual cadences.

5. **Team performance is viewed as more important than individual performance**, based on research that shows team objectives drive greater collaboration and performance.

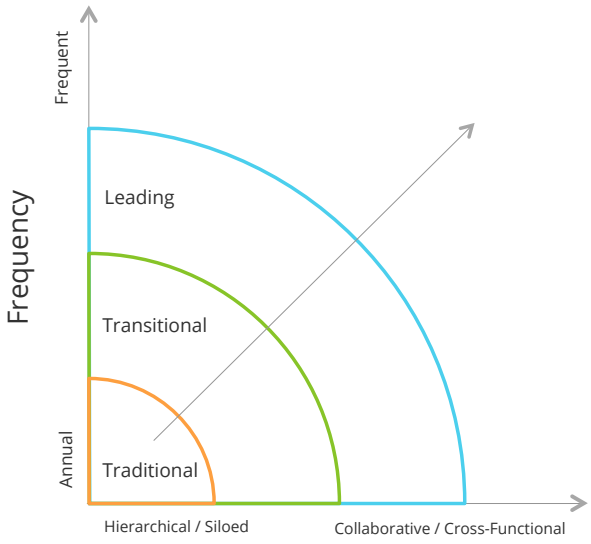
6. **Companies are increasing alignment to business strategy** by connecting performance objectives for individuals at all levels.

How Do You Get There?

To help HR leaders understand how to make the transition from where they are to where they want to be, BetterWorks partnered with Deloitte to develop the Performance Management Transformation Framework. Deloitte conducted in-depth interviews with BetterWorks customers and drew on Deloitte's own years of experience with hundreds of corporations and organizations to research the current state of performance management.

Deloitte categorized typical performance management processes and then, for each category, described the activities of three types of companies: **traditional, transitional and leading**. The framework enables leaders to both evaluate where they are in their current practices and identify the state they want to reach. The following is an abridged version of the framework's descriptions of each type of company under four categories:

- **Goal Setting and Revision**
- **Strategic Planning**
- **Coaching and Feedback**
- **Evaluation and Compensation**



Performance Management Diagnostic Model

Use the model below to diagnose the current and desired performance management processes for your organization.

Key

- Traditional
- Transitional
- Leading

Goal Setting and Revision

What is your organization's process for setting and revising goals and for making them transparent?

LEADING APPROACH

Your organization sets goals quarterly and updates them frequently, encouraging vertical and horizontal alignment. You provide visibility into goals for all employees at all levels across the organization.

TRANSITIONAL APPROACH

Your organization sets goals quarterly or bi-annually from the top down with some employee input, and rarely revises during the period. Employees and managers are encouraged to discuss goals with their teammates, but company-wide transparency is not a priority.

TRADITIONAL APPROACH

Your organization sets top-down goals on an annual/ bi-annual basis. There's little discussion or visibility of goals beyond individual employees and their managers, and goals are tightly linked to performance management.

Strategic Planning

How often does your organization set and revise strategic plans and how transparent is that process?

LEADING APPROACH

Your organization frequently monitors and revises the strategic plan based on environmental changes and communicates changes to the entire organization.

TRANSITIONAL APPROACH

Your organization occasionally revises the strategic plan when a major event or disturbance occurs. You communicate those plans broadly at the beginning of the year, but updates are rarely cascaded beyond senior leadership.

TRADITIONAL APPROACH

Your organization sets and reviews strategic plans on an annual basis, rarely changing them once the year starts. You do not communicate the strategic plan beyond the senior leadership level and have no interest in increasing transparency.

Coaching and Feedback

How often do managers hold feedback or coaching sessions and how do they handle giving feedback?

LEADING APPROACH

Your organization has adopted or is considering an ongoing conversation-based coaching model that utilizes multiple sources of feedback (including peers, team members and upward feedback) and information on performance to hold data-driven conversations.

TRANSITIONAL APPROACH

Your organization holds annual/bi-annual formal performance reviews and primarily uses manager-based feedback for coaching, but would like to incorporate quarterly coaching check-ins and more performance data and peer feedback.

TRADITIONAL APPROACH

Your organization uses annual/bi-annual formal feedback tied to performance management that relies on manager feedback, with little or no interest in incorporating additional feedback.

Evaluation and Compensation

What is your approach to evaluating performance and how tightly linked is it with compensation?

LEADING APPROACH

Your organization decouples/ loosely links performance and reward, using performance as one of the inputs for compensation. You're moving away from single performance ratings to take a more comprehensive approach to assessing performance.

TRANSITIONAL APPROACH

Your company links performance and reward, but you've considered separating performance and compensation discussions and using a mix of annual performance evaluations and ongoing conversations to drive performance.

TRADITIONAL APPROACH

Your organization takes a limited approach to assessing performance through annual performance evaluations and tightly links performance and reward.

References

i. Building a High Performance Culture; A Fresh Look at Performance Management. SHRM Foundation, 2012.

ii. ibid

iii. Global Human Capital Trends 2015. Deloitte University Press. 2015.

iv. Building a High Performance Culture; A Fresh Look at Performance Management. SHRM Foundation, 2012.

v. Removing Performance Ratings is Unlikely to Improve Performance. CEB, May 12, 2016.

vi. High-Impact Performance Management. Bersin by Deloitte, 2012.

Conversations

Schedule frequent check-ins so your managers can become better coaches

Peer Feedback

Easily exchange peer-to-peer and manager feedback in real time

Recognition

Call attention to high performance and employees demonstrating key values

Goal Alignment

Set goals to drive more effective performance and career development

People Analytics

Become data-driven with rich insights into employee performance

betterworks®

Betterworks® aligns, develops and activates your workforce for business growth. Our easy-to-use, integrated software solution replaces outdated annual review processes with powerful Continuous Performance Management® programs to help organizations ensure everyone is working on what matters most and are having the crucial conversations necessary to inspire and motivate their entire workforce to meet today's goals and tomorrow's challenges.

Learn more about Betterworks®, and for more information about the latest HR strategies and best practices visit our resources gallery.

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