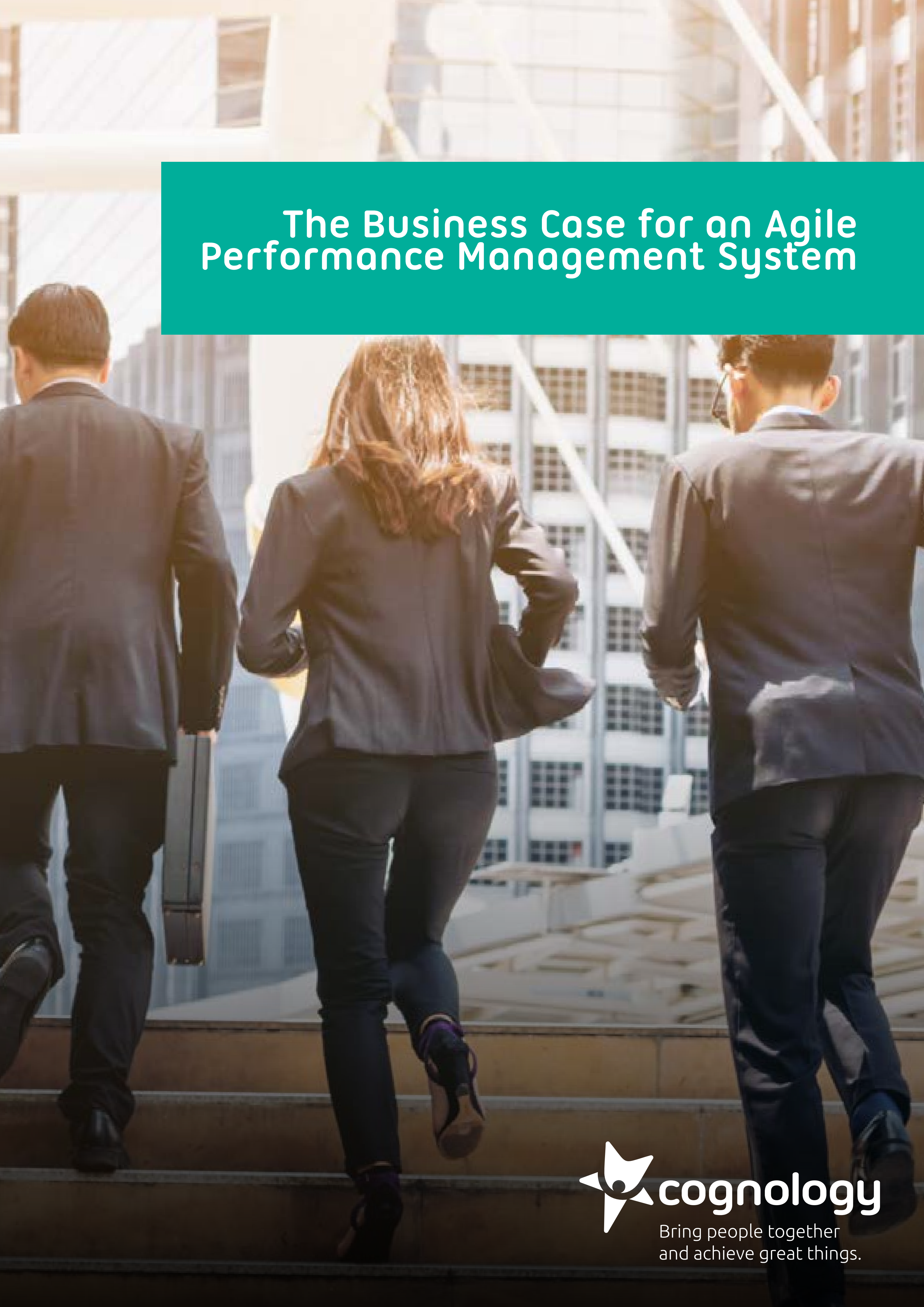
The Business Case for an Agile Performance Management System



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72% of organisations report that their performance management processes are “somewhat effective” or “not at all effective.”[1]

Recent research by Gallup has revealed that only one in two employees clearly know what is expected of them when they go to work every day. It also found that just 20% of employees believe their performance is managed in a way that motivates them to do outstanding work.[2]

Without wanting to sound glib, these statistics are hardly surprising. When something has been maligned for as long as performance reviews have, we probably shouldn’t be shocked. This research has scientifically proven what we many leaders have long suspected...

Traditional performance management does not work.

Learning from our mistakes

Ahh, the value of hindsight... Looking back to see where we went wrong. What we could have done differently. What we need to be doing in the future.

With the advent of Human Resources in the 1980’s many organisations were swept away by a series of best practice processes being introduced. We adopted performance reviews because it was what everyone else was doing. Most companies introduced some version of the same thing - an annual performance discussion with a rating system. Most companies are still monitoring performance this way, with recent Gallup research revealing that 74% of employees still receive a review as frequently as once a year or less.[2]

The annual review earned a bad reputation pretty early on. We placed a lot of pressure on managers to get performance management right in one high stakes discussion. In many situations we made them evaluate the performance of employees based on little more than their own opinions and gave them standardised forms and boxes to fill in with subjective ratings. Staff too became disenfranchised. More often than not, the first they knew of their achievements or failings was in the annual discussion with their manager. Sometimes employees didn’t even understand what was required of them in their job until their manager advised them they weren’t living up to expectations. Trying to rate staff on a numeric or descriptive scale also became an uncomfortable and inexact process for many managers. In the absence of very clear criteria and robust measures, management ratings were subject to a whole raft of personal perceptions, biases and preferences that influenced the results.

From an organisational perspective, we busied ourselves gathering ‘data’ from the performance management process to make salary decisions or to determine who might be fast tracked to management. We also used the results to measure the effectiveness of other HR fulfilment processes such as recruitment and training. In short, we made a lot of important decisions based on the collective results of one person’s view of their staff.   This has been a heavy burden for managers to carry - particularly in situations where they didn’t know their staff member well or didn’t spend a lot of time with them day to day.

We’ve gotten lost in process. We’ve being doing basically the same thing for over 30 years without stopping to evaluate why and whether it still adds value. We’ve reduced performance to numbers on a spreadsheet. We’ve forgotten that behind that data are the skills, knowledge, abilities, goals, motivations and experience of very real people.

Is it no wonder then that both managers and employees hate the process so much?

The workplace is changing. Performance management needs to change too.

This is not to say that traditional performance management was a complete disaster. It wasn't. When it was first introduced it did motivate people. It did improve productivity. It did recognise high performance. Back then. In the past. But it wasn't built with today's challenges in mind.

In a recent article for People + Strategy, a Deloitte manager referred to the review process as "an investment of 1.8 million hours across the firm that didn't fit our business needs anymore." The way we do business has changed dramatically in the last 20 years. And technology has had a big hand in it.

The need for agility

Communications technology, automation, and the internet have opened up opportunities for companies to conduct their business across the globe. Globalisation has seen employees increasingly work across borders - requiring them to learn new languages and navigate new cultures.

In recent years we've also seen the disruption of traditional markets by online players. Whole industries have found themselves on the wrong side of these trends requiring them either to evolve or give up. For staff this has meant job losses or dramatic changes in how they work. A 2016 Productivity Commission report into digital disruption suggests that over the next 10 to 15 years, nearly 40 per cent of jobs are at risk of automation.

Helping staff make the transition to new jobs and skills

Transitioning your workforce to new jobs and skills is a complex change management task. It requires high levels of consultation and communication to adequately explain what changes are being made and what it means for each individual. Identifying the skills required to make a successful transition, and working with staff to develop new competencies has become a critical part of performance management.

Traditional performance management processes were designed in an era where large numbers of people held the same role, and worked to the same performance standards for long periods of time. They were not built with the amount (and pace) of change we are now experiencing.

To stay competitive, businesses need to be able to respond rapidly to changes in the internal and external environment, without losing momentum. In short, to better prepare for the future and take advantage of the opportunities it brings, businesses must adopt an agile approach to performance management. Thankfully, the redesign of performance management is picking up speed, with 79% of executives rating it as a high priority in a 2017 Deloitte survey.[3] Companies that don't, will fall behind.

The needs of the new workforce

The generational mix of employees is shifting in today's workforce. As baby boomers retire, millennials are quickly becoming the largest population of employees and majority of new hires with gen Z hot on their heels.

Technology

Gen Y's and Z's are more comfortable with technology than any generation before them. They are the "digital natives" intuitively able to work across multiple platforms. They expect to be able to access technology to work, share and access information and develop social connections across your business.

Social media

Social media channels are now the main source of news and opinions of millennials. The number of friends and followers you have has become central to personal happiness and professional success. Our new workforce is very social...

Feedback and Development

Gen Y's and Z's have grown up with a high degree of structure in their lives. They prefer supportive environments and are motivated by positive and relative feedback, rather than absolute, performance feedback.[4]

If they feel their needs are not being met, they loose commitment to the company and start looking for fresh opportunities. In fact, 60% of millennials in the U.S. workforce are currently looking for a new job.[2]

Gen Y's and Z's are multi-modal learners and demand communication and personalised training that accommodates their individual approach to receiving knowledge. They aren't interested in traditional training methods and prefer a mix of interventions including on-the-job learning, eLearning, shadowing, buddy programmes, group discussions and mentoring.

Collaboration and connection

Y/Z employees are used to working as part of a team, having often been educated in group environments. They like to get to know their team and share experiences with colleagues. It is important to provide opportunities for Y/Z's to develop relationships across the business so that they feel a strong sense of belonging - irrespective of their hours and shift rotations.

Career

Millennials and their younger counterparts have very high expectations for their career trajectory. They want to know what they need to do to get promoted and how long it will take to get there. They will also expect to hear how you intend to develop their skills and increase their responsibilities over time.

Purpose

More than any other generation, Gen Y/Z's want to understand 'why'. Context is key. Understanding how their role contributes to the overall business strategy and objectives is essential to getting their commitment and buy-in. When employees understand how their overall role contributes, 91% will work towards business success. However, when they don't this figure sharply drops to 23%.[5]

Shifting towards performance development

As the workforce evolves, so too must the way we manage it. Employees, particularly millennials, are demanding a shift away from traditional performance management practices and toward "performance development". They want a process that acknowledges and supports their individual talents, performance needs and sense of purpose backed by clear expectations, accountability and ongoing feedback and coaching.

Rather than a boss, they want a coach. Rather than direction and instruction, they want clear expectations, accountability, opportunities to learn and feedback.

And they want it NOW.

It's time to face up to the fact that traditional performance management is dead, gone, done, kaput. It's time to shift the focus.

Agile performance management - the way forward

Business researcher Josh Bersin estimates that about 70% of multinational companies are moving towards an Agile Performance Management model, even if they haven't arrived quite yet.[6]

We are seeing many industry leaders such as Accenture, Adobe, Cargill, General Electric, Google, Microsoft and Netflix evolving performance management into a series of shorter, but more regular formal and informal reflection, goal setting, coaching and feedback discussions that support performance.

As opposed to the traditional once-a-year talk fest and form filling exercise, new generation performance management has become an ongoing, future focused conversation about a person's development.

Reflection and assessment

Agile performance management begins with self-reflection under the guidance of a supervisor, coach or mentor. We all learn by experiences and mistakes. Unless we question our perceptions and acknowledge our strengths and weaknesses, we can't make changes. This is why setting aside some time to reflect on performance is worthwhile.

Reflection starts with an accurate understanding about what is expected of a person in their job.

Setting performance expectations

To perform well, employees need to understand:

- why a job exists;
- where it fits into your organisation;
- how it contributes to the overall objectives of your organisation;
- what is expected of the person's performance; and
- how their past performance measures up

Reflecting on past performance

Part of good performance management is helping staff take a step back to ask themselves what it is they are actually doing, and how well they're doing it.

- What results have I produced?
- What impact has my work had on the people I serve?
- How have I acted with clients, colleagues, and supervisors?
- How have I demonstrated our organisation's values?
- Have I followed process and procedures

Capability frameworks

Job performance is comprised of results (outcomes and objectives that must be achieved) and behaviours (actions and how your people go about their work).

Behaviour is often overlooked as one of the key levers of performance. But in an age where your business reputation can be irreparably damaged in the space of a few minutes on social media, you need to be sure that your staff understand how to conduct themselves and that they represent your brand. You want to be confident that they embody the values of your organisation in every way.

When you and your employee agree on what must be achieved (the results) and how to go about achieving it (actions and behaviours), you establish a formula for success.

Development focus

We know from past experience that performance measurement on its own can be a threatening and alienating experience for staff. Looking back at past performance should always be done with a future focus. How can we build on performance for even greater success in the future. To do this, there needs to be strong links between development plans and multiple modes of learning.

Multiple modes of learning

Investing in learning and development doesn't mean you have to spend huge amounts of money on formal training or subsidising higher education.

Traditional training workshops have their place, but aren't always the answer to every problem. In fact, training alone rarely brings about a change in behaviour or practice.

Professional development activities are most successful when staff have the opportunity to make sense of new information using a combination of interactive approaches. This is a bit like the 70:20:10 model for learning and development first founded in the 1980's. It maintains that individuals obtain 70 percent of their knowledge from job-related experiences, 20 percent from interactions with others, and 10 percent from formal educational events.

In addition to traditional training methods you should be considering other professional development options such as:

- research projects - a staff member is given a task requiring them to independently seek out knowledge and then apply it back on the job;
- peer discussions and collaboration - groups of staff are brought together in a facilitated discussion to talk over issues and develop strategies for dealing with them
- field observations - individuals are paired with a subject matter expert that models how new knowledge can be applied effectively on the job
- coaching - occurs when a supervisor or experienced colleague provides guidance and on-the-job performance feedback
- mentoring - a carefully selected, more experienced person provides wisdom and advice to help an employee achieve their goals
- just-in time - web based learning that can be accessed on demand when the learner needs it.

Flexible goal setting

Armed with a more realistic picture of their performance and what they want to work on, staff are then in a strong position to focus on goal setting.

Employees with a manager who involves them in goal setting are four times more likely to be engaged. When employees are part of the process and empowered to choose their own goals, they instinctively want to transform them into successful outcomes. In fact, employees who set their own goals perform almost 40% better than those who are assigned goals.[7] Collaborative goal setting has also been found to be more motivating and ensures that expectations are fair, relevant and challenging. Yet currently, only around 30% of employees are given the opportunity to set their own goals.[2]

Changing goals mid-performance cycle

It sounds logical to set long-term goals and then work towards them. Planning over the long term isn't a bad thing; but a lot can happen during that time.

You may discover that a goal that once seemed desirable may end up seeming like a bad idea (for a whole barrel of reasons) or potentially becoming a waste of time in the wake of a new development. Managers should work carefully to align goals with the changing needs of the organisation. Those that do will benefit from a 56% rise in productivity [8] and significant boost in engagement. To accomplish truly meaningful goals, all participants must be willing to question assumptions and re-evaluate as necessary. Is this a realistic goal for the individual? Is this still a priority? Are there more pressing or productive ways the person could be investing in their development?

That's why agile performance management isn't a once a year thing. You need to be catching up more regularly both on a formal and informal basis to make sure that the right focus is maintained.

Frequent feedback and regular check-ins

Evidence suggests that employees that receive daily encouragement, recognition or feedback from their managers are 3 times more likely to be engaged and 3.6 times more likely to feel motivated to do outstanding work than workers that only get feedback once a year.[2] Now, this is not to suggest a manager needs to be giving performance feedback every day, but it does tell us that a good mix of informal quick connects to discuss work loads or progress on specific tasks, in addition to more formal monthly check-ins or quarterly reviews, does increase engagement. The right amount may vary according to the type of work, and of course, the needs of the individual. Some staff will love lots of contact, whilst others will see it as micromanaging.

Feedback doesn't always have to involve a scheduled sit-down meeting either. Some of the best feedback occurs spontaneously - in the moment, on the job. Where and how it happens doesn't necessarily matter (as long as it is done respectfully). What is important is that the feedback is specific, timely and meaningful. This offers employees the opportunity to apply lessons learned immediately.

Type of feedback

Simply replacing or supplementing reviews with more regular check-ins is not enough to improve performance. Coaching conversations must be purposeful, motivating and meaningful, without leaving the employee feeling micromanaged. These conversations can also have a great impact on engagement, as employees whose managers recently reviewed their greatest successes are 3.8 times more likely to be engaged.[2]

On average, 3 in 10 employees believe there is someone at work who encourages their development. When this figure increases to 6 in 10 employees, profitability increases by 11%, retention by 28% and customer satisfaction by 6%.[2] Acknowledging strengths will also boost engagement and motivation. The content of feedback and coaching conversations clearly has substantial value.

However, only 5% of employees believe their managers are skilled in having a candid discussion about their performance.[9] Furthermore, a demotivating performance evaluation correlates with lower self-esteem, receptiveness to feedback and performance.

Employees need to receive positive and achievement-orientated feedback to be more receptive and perform better in the future.

Other sources of feedback

Even the best leaders can't be across everything their staff do. In fact, only 34% of employees strongly agree that their manager is aware of what they are currently working on.[2] Significant contributions could easily go unnoticed or ideas and innovation go unrecognised if a staff member's only source of feedback is their supervisor.

It is important to empower employees with the tools to seek feedback from other sources as well in order to gain a more rounded view of themselves.

Peer feedback

Co-workers performing similar jobs can sometimes have a better understanding of their peer's performance than supervisors and upper management. They can also provide a valuable perspective for the feedback process.

Customer Feedback

If a staff member is in a customer facing role, customer feedback is probably going to provide the most direct and valuable insights into a person's performance.

Subordinate Feedback

Collecting feedback from subordinates enables leaders to really understand how their reports see them.

Rewards, rating and recognition

As you move towards agile performance management, your business will need to decide how you want to recognise high performance beyond day-to-day encouragement and feedback.

Pay for performance

The virtues of pay for performance is a whole debate on its own.

The links between salary reviews and performance ratings can be pretty tenuous at the best of times and in fact, only 21% of employees are motivated by pay or incentives to reach their goals.[2] Compensation decisions are rarely based on performance ratings alone. Increases are more often influenced by the financial performance of the company, regulatory minimums, and the pressure of market forces. Companies are often compelled to pay more in order to attract new recruits or to prevent current staff from leaving to work for competitors.

Incentives or bonuses are an alternative to increasing salaries but can still be difficult to administer in situations where outputs or achievements are difficult to measure.

Performance ratings

49% of HR leaders have eliminated or are considering eliminating performance ratings altogether from their performance management systems.[10] This decision shouldn't be taken lightly though. Studies have shown that by removing ratings, companies have experienced a 28% fall in the productivity of their high performers.[11] Harvard Business Review also reported that Deloitte, PwC, and others that tried going numberless actually ended up reinstating performance ratings - although with new and improved methods.

We shouldn't ignore that traditional methods of rating staff in annual performance reviews do have a motivating effect for staff that achieving high ratings. So, if your preference is to move away from annual performance ratings, you are going to need to find new ways to recognise the contributions of your high performing staff.

Peer and Social Recognition

Peer and social recognition are becoming increasingly popular methods to motivate and recognise high performance. Broadcasting employee accomplishments across multiple and highly visible forums such as newsletters, dashboards and internal social media platforms are just some of the methods being used effectively by organisation to recognise employee achievements. Some businesses also provide opportunities for peers to recognise each other through nominations for awards or prizes.

The role of managers

Investment in managers is fundamental to Agile Performance Management.

Younger generation employees want to make deeper connections with their leaders. The quality of the supervisor-employee relationship is strongly related to how receptive employees are to performance feedback.

We need to be equipping managers to make these connections and to be stronger coaches. We need to move them beyond the action-oriented traditional management functions of planning, organising, staffing, coordinating and controlling, and help them master the subtle art of focusing, challenging, influencing, encouraging, and developing their staff.

Providing a safe environment

One of the reasons for breaking performance management down into bite-sized chunks rather than just a once a year, formal discussion, is to make it less threatening. Staff need to feel safe that if they open up about their struggles or admit to failings that they aren't going to be punished for it or marked as an underperformer on their annual performance review. When employees trust their manager and sense they have a vision for them, they are more receptive to feedback. They take on board criticisms and advice knowing their manager has their best interests at heart.

Quick comparison of traditional vs. agile performance management

Traditional Performance Management	Agile Performance Management
Designed for hierarchical environments.	Designed for a collaborative environment.
Emphasis on apprasial.	Emphasis on development and forward looking performance.
Twice a year appraisal conversations.	Regular check-ins.
Lack of recognition.	Social recognition.
Goals set once annually (often at the beginning of the year).	Goals can change if priorities shift.
Little feedback.	Regular feedback.
Training courses for development.	More use of coaching and just-in-time learning.
Limited scope.	Crowdsourcing.

Using technology to drive agile performance management

Performance management software can really make the process easy. A great system guides managers through the process of reflecting on performance (objectives and behaviours) and helps staff structure their development goals. A system that is paper free, easy to use and mobile compatible will also ensure that records of feedback and development activities such as training and coaching - even from multiple sources - are always kept in one place for easy reference. Introducing performance management technology says to staff that "we've invested in this because you're important." It builds trust and meets the expectations of the millennial workforce.

Linking agile performance management to strategy

With your business strategy defined, aligning the organisation and building the capabilities to deliver on strategy becomes a challenge.

Strategic fit

Agile Performance Management provides a critical framework for focusing staff performance around the priorities of the business. Organisations must strive for a culture where their people feel a strong sense of accountability and purpose in their role. A culture where leaders enable rather than control, where work is characterised by collaboration and innovation. This is what Agile Performance Management is all about.

Organisational capabilities develop when the right people with the right competencies meet efficient and effective processes and progressive technology. This is what turns strategy into action. To deliver on strategy, you must identify and build the competencies that will be critical to your success.

Agile Performance Management is development focused. It ensures managers and staff are identifying the competencies required for a person to do their job well and goes about building on and enhancing them in tangible ways. Organisations with excellent use of competencies are four times more likely to have a performance-driven culture.[12] Competency management maturity and effectiveness also correlates positively with quality of talent, business success, brand quality and revenue.[13]

Rapid changes in competition, demand, technology, and law have made it more important than ever for workforces to remain agile. Incorporating regular reflection and review into performance management processes ensures goals and development activities can be recalibrated if the focus and priorities change.

The effect on your organisation's financial performance

Gallup research found a compelling link between frequency of feedback and staff engagement. We know that when employees are engaged in the business, they work harder, they care about what they do and how they do it, and are more productive. Employee engagement has a huge significance for the bottom line of the business. Further research by Gallup confirmed that companies with highly engaged employees experience 21% higher profitability, 20% higher sales, up to 59% lower turnover and 17% higher productivity. On the other hand, Gallup estimates disengaged employees cost the U.S. up to $1.2 trillion each year due to poor management and lost productivity.[2]

More effective individual goal setting and review processes have also been proven to drive business performance. In research by Deloitte, companies that managed goals quarterly reported 30% higher returns than companies that manage them annually.[14]

Deloitte has also shown that companies that prioritise collaboration are twice as likely to outgrow competitors. [15] Greater collaboration between peers and between supervisors and staff is at the heart of agile performance management processes.

Return on Investment (ROI)

You should think about your investment in performance management in the same way you think about any investment: How much is it costing me? What value is it producing? How can I make it more efficient?

ROI is an indicator often used by businesses to look at the value an investment is returning or the profitability of their expenditure. Forecasting the benefit of an initiative over time minimises the risk of making a poor business decision. It also provides a great measure of success once you have made the decision.

As you implement Agile Performance Management, substantial financial gains will be evident through:

- Increased productivity - teams that have implemented more effective performance feedback processes have seen productivity improvements of 12.5%[16]
- Reduced turnover - a study revealed that turnover was reduced by 14.9% when employees were given feedback that helped them understand and develop their own capabilities.[16]
- Reduced training spend - training costs can be slashed by as much as 50% with a more effective mix of learning methods [17]

There are also going to be many benefits that are more difficult to quantify. For instance, by collecting objective, detailed performance data, you can reduce the risk of legal action by employees such as unfair dismissal or adverse action claims. Not only do you save on costs associated with legal action, you save yourself the time and distraction of dealing with it. More effective performance management also reduces the risk of safety incidents by correcting unsafe practices and recognising excellence.

If your company links salary review or bonuses to the performance review process (pay for performance) you want the ability to scrutinise ratings and results to ensure there is fairness and consistency across the board. Performance management reporting tools can you give you a better birds-eye view of performance data across managers and give you the ability to take a deeper dive into individual results as required. Greater scrutiny and calibration of performance management may save you money in salary increases and bonuses - or at least ensure incentives are being used effectively to reward performance.

Finally, having all of your review data in one place makes it easier to identify the talent pools you can draw upon for tomorrow's leaders and specialists. Agile performance management systems not only highlight who your superstars are, but also help you identify any skills gaps that could leave you vulnerable.

Develop a business case for an agile performance management system.

If you are recommending an Agile Performance Management System to your executive team, you need to have a clear idea of the problems you are facing as an organisation and exactly how you propose to solve them. Adopt a design mindset. Look at the situation from multiple perspectives and develop a vision for what you want your agile performance management system to do for you. Research and compare methods and review technology providers and products and consider a holistic solution in light of your organisations unique needs. Also make sure you fully cost your recommendation. Present to the C-Suite in language they understand

Finally, when making a presentation or writing a business case for the C Suite, use words that show your focus is the same as theirs: improving the company's performance. Explain how performance management will drive better business outcomes. Key phrases you should use include:

- Increase customer satisfaction
- Increase revenue
- Decrease our operating expenses
- Improve employee productivity
- Reduce our compliance risks

Demonstrate your commitment to the bottom line by introducing metrics, running some projections and setting targets. Show your organisation that Agile Performance Management may be a soft management technique but it produces hard results.

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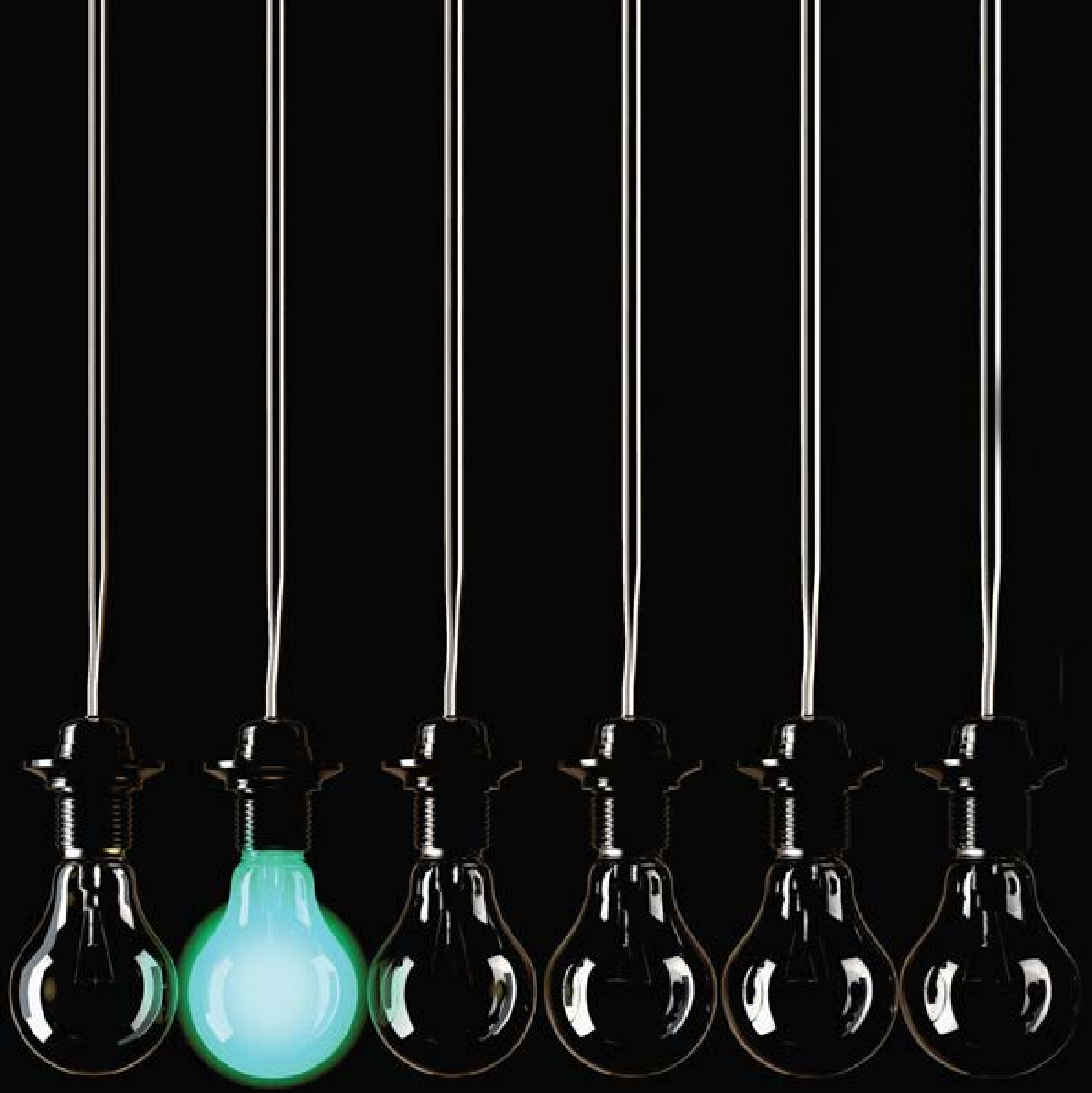

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