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What If Your Performance Management Were an App?

ABSTRACT

There has been no shortage of media attention given to a few major brand companies dropping their performance ratings and shifting their annual performance management process to more frequent, feedback-rich, and manager-centric formats. As the trend toward simplification persists, there is a strong possibility that companies will find themselves following the consumer model of performance—one of immediate feedback and customized rewards. This paper comments on this trend but does not commit to a particular solution for performance management—at least not yet.

If you followed popular media clamor lately it would be old news to tell you that some big-name companies have scrapped their traditional annual performance appraisal processes and made room for more agile, employee-friendly and manager-centric evaluations of employee performance. As the so-called “check-ins” are gaining acceptance replacing burdensome year-end reviews, it will not be an understatement to say that HR as a whole—and its talent management function in particular—are undergoing a major review.

Attention catching language has been used to signal a radical breakaway from the familiar annual performance appraisal routine. Provocative headlines, such as “Kill Your Performance Ratings” (*strategy+business*), “The Trouble with Grading Employees” (*The Wall Street Journal*), “Stop Basing Pay on Performance Reviews,” (*Harvard Business Review*) “Three Reasons Companies Should Abolish Performance Appraisals” (*Forbes*), and similar titles, herald the coming of a new age in human resource management. It marks the most radical pivot forward in organizational

practice since the creation of management itself. To be sure, legacy annual performance appraisal systems were created in the industrial era. The prevailing management philosophy then was about management control and oversight of individual employees. It specifically targeted identification of those who were failing to deliver. On paper, it seemed to be the perfect system to go after “the guilty” and spotlight “the top performers” and “high potentials.”

According to new PricewaterhouseCoopers (Pwc) research in the U.K. (June 2015), two thirds of large companies are making changes to their end of year performance reviews, with 5 percent of organizations considering dropping performance ratings altogether.

In the U.S., that number is even greater and the research and media are hardly able to keep up with the trend. In reality, there are more questions remaining about what the right thing to do is than there are answers to the escalating challenge.

ITS ALL ABOUT BUSINESS AFTER ALL

Today's business objectives have dras-

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tically shifted. Business now is looking to shift away from those industrial age structures and unlock the talent potential of all employees. High performance is achieved through collaboration among employees at all levels who act more like free agents than “the organization men.”

The call for the radical overhaul of the internal appraisal systems first came from the high-tech sector known for its low tolerance for tradition. Urban Legend takes us back to Adobe’s Head of HR Donna Morris’s legendary interview on her trip to India in 2011 when she announced that the company would no longer use ratings in their performance management system. What prompted Donna to make such a radical move? Her business is the answer. Specifically, the new Agile Product Development methodology.

EVERY REVOLUTION HAS ITS MANIFESTO

Back in February 2001, seventeen independent minded software engineers came together to disagree on many matters but converge on the new set of design principles that became the original Agile Manifesto.

- Individuals and interactions over processes and tools
- Working software over comprehensive documentation
- Customer collaboration over contract negotiation
- Responding to change over following a plan

As coding and production values have shifted from right to left, they triggered a domino effect of subsequent realignments in all other organizational systems, HR being no exception. That is where Adobe took its cue from for the new “rateless” Performance Management model.

Microsoft, in turn, were facing their own challenges with the deeply unpopular forced distribution curve. Rating the majority of their employees as “meeting expectations” sent them home discouraged and disengaged. As the leadership of the company has changed and business model has shifted with the new focus on innovation and teams, ratings had to go to allow for collaboration to take place.

Now the “rateless” trend is spreading across other industries, affecting every type of organization. A global shift toward a more inclusive, development-focused performance system has been unleashed and seems unstoppable.

JUST ANOTHER UPGRADE?

Take away the hype and face the facts. In the language of technology, Performance Management overhaul is just another much overdue upgrade to the next generation operating process. Compare this trend to your daily upgrade reminders that have become a normal way of life in the crowded world of consumer electronics. Reminders pop up on our screens urging us to get on to the next version of software or to download a new and improved app. Whether we like it or not, we are reminded that the system we currently have has passed its expiration date and is no longer supported. It leaves us with no other option but to upgrade—or be left behind. In just the same way, traditional performance appraisals are late to the party and are in need of an upgrade.

Back to Adobe. Recently profiled in *Fortune* as the world’s No. 124 largest capitalization company, Adobe ditched annual performance reviews in 2011, replacing them with frequent check-ins. This radical move has paid unexpected dividends (“How Adobe Keeps Employ-

ees from Quitting,” *Fortune*, June 16, 2015).

The company accelerated its product development cycle, improved its market performance, and kept its employees engaged and motivated, outcompeting its rivals in Silicon Valley’s overheated talent market. Four years into its transformation, Adobe is leading the market in performance. The company’s stock price has increased from \$30 to more than \$80 since its performance management transformation was launched.

Later, other companies cautiously followed Adobe’s bold move. Those were mostly technology innovators pressured by their business models and cultures to change the performance management process. The trend has accelerated in the first half of 2015 when a handful of the most visible brands, such as Deloitte, Accenture, and GE joined in in the performance transformation movement. Announcements of the later adopters started to pour into the media almost weekly spreading across the main stream business press such as the *New York Times*, the *Wall Street Journal*, the *Washington Post*, *Fortune*, and even *Vanity Fair*.

WHO OWNS THE CONVERSATION?

Kevin Cox, CHRO of American Express, challenged his academic audience at the 2015 Academy of Management annual meeting. While receiving the Distinguished Human Resource Executive Award, Kevin asked the learned gathering to pay attention to where the conversation about performance management should really belong. He challenged his fellow HR professionals not to give up the lead on this important organizational topic. The matter is much too complex and too central to organizational function to give it up to popular media to judge about what needs to be done with

it next.

The bigger and more strategic question looming over the current performance management media hype is one of the extent to which we are witnessing consumerization of HR, including employee performance management.

Granted, the future of work may ultimately be shaped by a handful of nimble technology startups whose population consists of fearless free agents. When it comes to larger and more mature firms, the rateless environment has not been tested and may bring about many unintended circumstances and legitimate questions raised about differentiating talent, paying for performance, deciding on promotions, and managing risk and compliance. In the words of one of the HR leaders from a mature manufacturing organization, a radical shift in the performance management cycle affects about seventy different organizational processes that need to be aligned and adjusted to the new system.

It was when Accenture with its 300,000 employees announced its change to a “no ratings” system, joining the likes of Adobe, Microsoft, Dell, and Deloitte, it became clear that abandoning performance ratings was more than a fad or a domain of the Hi tech start-ups and serious review of the process needed to get started. Just as Kevin Cox has urged us.

GE ENTERS THE SCENE

The announcement about GE’s dropping performance ratings hitting the news wires this summer could not have been better timed. With GE on board with the changes, Performance Management Revolution has been propelled to a much more visible and strategic level.

If there has been an enduring icon of performance excellence out in the industry, it has unquestionably been GE.

The most strategic of HR practitioners are taking risks unheard of before, leading the charge and shaping the future of work.

Potential hires that are able to articulate the role of work for the personally and what intrinsically drives them, will show higher tendencies of a purpose-driven orientation.

Now that more and more companies have officially announced that they were embarking on new performance management journey and embraced the rateless model, there is no doubt among corporate practitioners that the tide has turned and the next generation performance management was finally under way while the forced distribution management era was officially over.

As the majority of companies are just about coming of the new performance age and as the new ratings performance management switch is finally turned on, it still remains to be a risky undertaking. The new performance designs have just come out of the box and they have not come with any warrantee or a detailed user manual.

The full scope of transformation required still remains to be unknown, particularly for the mega size global multinationals. As the first cycle of these corporate transformations will have come full circle, we are going to learn a huge amount about corporate perfor-

mance, shaping a new corporate culture and an accelerated change management process. All eyes are on Microsoft, Accenture and GE now to further test out their processes.

RESEARCH IS SLOWLY CATCHING UP WITH PRACTICE

The transformation started with the “big bang” experiment. It was a bold, “just do it” move when a few pioneers in the field “crossed the line of courage” and abolished ratings. Now, the movement has accelerated to the full blown change management process with many companies trying to figure out what is involved in making it work for them.

HR is stepping up to the challenge and taking on the bold lead in this unprecedented performance management experiment. More trend watching and further analyses are currently under way.

Evidence is building to support the case for the broad scale performance management overhaul. The *People + Strategy* journal wrote about the chang-



es already in 2013 and held an expanded panel discussion on this topic at its annual conference in 2015. Josh Bersin of Deloitte partnered with Markus Buckingham to redesign Deloitte's performance system. Collectively they presented the business case for change in an article "Reinventing Performance Management" in *Harvard Business Review* last spring.

SIOP (Society for Industrial and Organizational Psychology) dedicated its Leading Edge Consortium (LEC) to the topic of Organizational Performance giving platform to a broad range of companies to contribute to the conversation. At SIOP, Google sat down with GE, Deloitte told their story along with Gap and Pfizer. New York-based Neuroleadership Institute is about to unveil at its annual Neuroleadership Summit in November 2015 its own trend analysis of 50 companies who dropped performance ratings. World of Work is partnering with the Center for Effective Organizations (CEO) at the University of Southern California to combine their insights on the "before and after" analyses of companies that have gone through the transformation. A special issue of the *World at Work* journal on this topic will appear in the second quarter of 2016.

WHAT'S UP WITH THE APP?

To return to our headline, and leaving all the current experimentation aside, the day is close when a performance check-in will be no more than a matter of installing and accessing another APP on your office mobile device. If you want to know your performance level, along with your health and wellness ratios, the weather forecast and market updates, just turn on your smart phone or your smart watch and check yourself in. With the most current information literally at

your fingertips, you will know when to dial up or to dial down your effort and which direction to go. Besides, your just in time feedback and your coaching advice will always be waiting and available on the same app and just in time. This future is already here, and it is upon us to accelerate its adoption and acceptance with the minimum fallout and maximum return on performance investment.

The future of performance management is emerging as we speak. Managers have now entered front and center on the performance stage. Major investments into management development and supervisor training have raised the bar on the expectation for the day-to-day supervisory role. But managers will not be the endgame in this performance transformation endeavor. Big data and social technology will contribute their share. There are a few compelling cases of experimentation with the big data (Deloitte) and social technology (Mozilla, Hootsuite) into the performance equation, but the signs are clear: Technology and data will be the next frontier on the performance transformation cycle.

The experimentation with new approaches to performance management on a mass scale has just begun, and as Kevin Cox called out in his Academy of Management address, there needs to be a much broader, richer, unbiased dialogue to support transformation on a massive scale. Those few bold companies that went ahead are setting the pace with their innovative solutions. And, yes, for some of them, performance management is already on an app.

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