Priming performance management

Leaders can build resilience and agility by rethinking their approach to performance management in the wake of the COVID-19 pandemic.

The COVID-19 pandemic has caused a sudden and seismic shift in the way we live and work, forcing businesses to reconsider even the most established business practices. While companies have been in survival mode for the past few months, pure firefighting is now giving way to planning for recovery and return to growth.

One key question currently weighing on business and HR directors is how to best manage employee performance. Many organizations have rightly adopted an employee-first approach during the pandemic, prioritizing employee safety and demonstrating empathy for the radically different circumstances many workers are facing. Employees have been asked to work in a different way, often virtually, and many have been asked to reskill. Goals may have radically shifted. Some employees may be enjoying lockdown in a spacious house and garden and with no commute time, while others are homeschooling two young children in a small city apartment. Under these conditions, how can an organization be equitable—and continue to show empathy—when managing performance? And how is reviewing performance even the right thing to do in the near term?

Such questions have prompted many organizations to consider how they will manage performance reviews both during the COVID-19 pandemic and in the future. These conversations have become more intense, and more focused on treating all employees equitably, in the context of the global protests against racial injustice. Over the past few weeks we have heard organizations deliberating on whether to abandon their current performance cycle, give everyone the same rating, or continue with evaluations as planned.

As technology, digitization, and flexible work schedules have transformed the way companies operate, many had already been experimenting with their performance management approach. Many leaders will find that they can help their organizations manage through the crisis—and beyond—and adopt a long-term process that focuses on agility, adaptability, and innovation. The crisis can serve as a catalyst in adapting the performance review process to build better coaching relationships, increase the frequency of interactions between line managers and employees, decouple performance management from reward, prioritize intrinsic over extrinsic motivators, and more often incorporate learning and team-based objectives.

The purpose of performance evaluations

When considering the best approach, a good place to start is to review the key purpose of an organization's performance evaluations. The core purpose of any performance management system is to enable individuals and teams to perform at their best so they can achieve individual and organizational success. Effective performance management should create alignment: a shared understanding of what has to be achieved and what individuals or teams have to do, learn, and develop to be successful.

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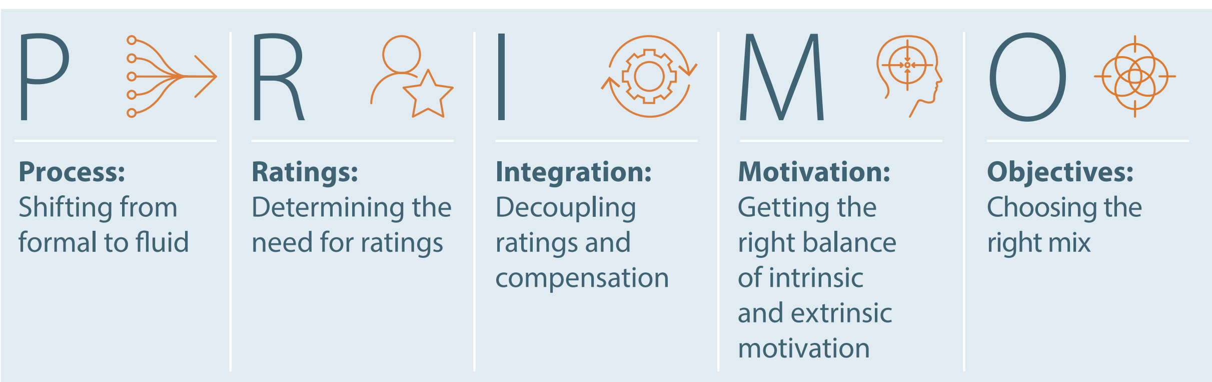
Another important objective is to provide a convenient way to differentiate between low- and high-performing employees, and it ultimately becomes a foundational component for the calculation and distribution of compensation, promotions, and development opportunities. This is critical in helping HR fulfill its obligations as a function. Nonetheless, we suggest leaders start from a different perspective.

The key question for leaders is, "What skills and behaviors are needed in the business to be successful?" both during the pandemic and in the world that will follow.[1] The performance management approach should be designed to enable these behaviors.

Building a PRIMO performance management approach

Given varying circumstances and the unique mix of capabilities each company requires, there is no one-size-fits-all approach. But in our experience overall, performance management processes best support agility and transformation—and mobilize people most effectively—when they tend toward the more flexible, human-focused end of the spectrum in the following five areas:



1 For more on identifying, finding, and developing winning capabilities, see Alice Breeden, Becky Hogan, and TA Mitchell, "Bringing your organization up to speed," Heidrick & Struggles, September 12, 2019, heidrick.com.

Process: Shifting from formal to fluid

Formal performance management processes typically emerge as organizations grow and decide they need more structure in order to ensure consistency, transparency, and fairness in their treatment of employees. The process may include prescriptive rules (and extensive documentation) for setting objectives, conducting performance evaluations, and rating employees against preset criteria, often at set times during the year. Formal processes often include a gated approach to progression, with promotions only happening on an annual or biannual cycle.

The question is whether this type of process will help or hinder overall performance in the current environment.

Time-consuming and often demotivating, performance reviews can put the focus on completing the process rather than on actually improving performance. Even more, they assume a level playing field for all employees, and that often isn't the case. For example, employees from underrepresented groups including racial and ethnic minorities, women, and people from disadvantaged socioeconomic backgrounds may be held to a different set of standards. And more recently, homeschooling responsibilities during the pandemic have added considerable productivity challenges for working parents of young children.

Companies should shift the emphasis away from the formal process and toward a more caring, coaching relationship between line manager and employee. At the most basic level, this requires more regular check-ins, and as a rule of thumb we like to see managers talking *to* their employees more often than they talk *about* them. Driven by the realization that great performance is a function of a great relationship between line managers and employees, many organizations—including Accenture, Lloyds Banking Group, and Microsoft—have significantly increased the frequency of these touchpoints. They have also changed the substance of the conversation towards contribution, engagement, and personal growth. For example, one of our banking clients has seen a direct correlation between employee engagement and the number of meaningful check-ins between employees and line managers.

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Especially in the wake of the pandemic, these frequent conversations should focus on short-term objectives, particularly on how employees can use their strengths in service of those objectives. Research[2] has shown that self-expression and self-affirmation of strengths can help to restore a person's self-regard when they feel vulnerable and also make them feel more committed to the organization, suggesting that a strength-based philosophy may be especially helpful.

In a strength-based performance review, the conversation focuses on identifying moments in which employees have made particularly valuable contributions. These moments are usually opportunities for employees to use their personal passions and strengths in service of the organization's goals.

Performance management discussions can become opportunities to help employees craft their own jobs in a way that enables them to be at their best more often. Even in roles with the most tightly controlled parameters, employees can be given some freedom within the operational framework. They may choose to deliver a routine task in their own unique way—for example, Southwest Airlines' cabin crew members can be creative in how they deliver safety announcements.[3] They may schedule their tasks so that they do at least one thing they love every day. Or they may add meaning to their roles by reframing their jobs as highly prosocial activities that deliver on the purpose of the company, and makes it feel more meaningful to them at personal level.

To meet this new approach, line managers will be taking on roles that may be totally different from what they are used to, especially when remote working scenarios are factored in. An intensive training and development effort is required to ensure that each line manager has the tools and capabilities to succeed in this essential role. The line manager can be an essential asset in engaging and motivating people at a time when the organization needs everyone to go above and beyond in their jobs.

2 Geoffrey L. Cohen and David K. Sherman, "The psychology of change: Self-affirmation and social psychological intervention," *Annual Review of Psychology*, Volume 65, January 2014, pp. 333–71.

3 Southwest Airlines, "Flight attendants & inflight operations," careers.southwestair.com.

Ratings:
Determining the need

Companies need a mechanism to rate the relative performance of employees so that they can calculate and distribute pay, bonuses, and promotions. There is also an assumption—so universally accepted that it is often not even expressed—that measuring relative performance will in itself drive higher performance. But is that true? Especially now, in the time of the pandemic?

There has been much research[4] on the topic of relative performance measurement and ratings, and it is true that the social and economic pressure provided by ratings can motivate employees to work harder and achieve better performance in the short term, especially if they know exactly what they need to do and just need to do more of it. But that same pressure is destructive when people are unsure what is needed to succeed. In these cases, the anxiety caused by ratings can lead to significantly less agility, adaptability, and innovation. When these are the behaviors needed for business success—and we believe they almost always are—ratings can actually hurt performance, cause significant disengagement, and encourage the wrong type of behaviors during a time of crisis.

While discontinuing ratings altogether may not be the answer for all organizations or role types, many firms have started to make the switch. Some have instructed line managers not to discuss any form of rating during the midyear or quarterly check-ins stipulated by their process. Others have completely stopped sharing ratings with employees. Microsoft has identified stack rankings as an obstacle to developing a culture of innovation and collaboration, and eliminating ratings was one of the key steps the company took to reshape its culture in a return to competitiveness in 2010. More recently the company introduced Perspectives, a system that allows colleagues to praise and critique each other's work in a structured way, using less potentially intimidating language and framing the conversations as coaching rather than formal reviews.[5]

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Integration:
Decoupling ratings and compensation

Historically, compensation has been a significant driver for the annual performance appraisal cycle. But even before the COVID-19 crisis, many organizations were severing the link between employee ratings and compensation. Accenture, GE, and Lloyds Banking Group are just a few organizations that have recognized that a focus on compensation and other outcomes often detracts from a meaningful conversation about improving performance.

At companies that have decoupled their processes, performance reviews focus on the quality of the discussion and how line managers can use feedback and coaching to inspire individuals' growth and performance. Pay raises, promotions, and bonuses are tied to the performance of the business or unit and allocated at the discretion of the line manager. Such approaches are open to allegations of insufficient transparency, consistency, and objectivity. Leaders need to focus on ensuring equity in compensation as well as countering any perceptions of unfairness. They can, for example, establish systems that allow people to provide feedback or challenge decisions.

It's still far more common today for companies to rate employees on a scale with clear descriptors identifying what each rating entails from both a performance and compensation perspective. Many companies use forced rankings, in which a certain percentage of the workforce has to fit within each band. While this certainly makes distributing rewards easier, it can also be highly divisive and stressful for both line manager and employees, resulting in reduced overall engagement for all but those deemed the highest performers. Indeed, in one organization, the introduction of a clear process increased the transparency around bonus allocation by 17% but reduced overall trust in the organization by 7% and the perception of fairness of reward relative to job effort by 8%.[6]

Going forward, organizations should focus on showing empathy and fairness to help people perform at their best. In part because the pandemic has had a negative impact on pay and bonuses, many leaders are finding opportunities to experiment with approaches that decouple performance discussions from other parts of the talent management process.

4 Peter Cappelli and Anna Travis, "The performance management revolution," *Harvard Business Review*, October 2016, hbr.org.

5 Oliver Staley, "A kinder, gentler Microsoft is replacing feedback with 'perspectives,'" Quartz, September 10, 2018, qz.com.

6 Julian Birkinshaw and Dan Cable, "The dark side of transparency," McKinsey & Company, February 1, 2017, mckinsey.com.

Motivation: Getting the right balance of intrinsic and extrinsic motivation

Leaders are constantly trying to achieve the right balance between extrinsic and intrinsic motivation for job performance. Extrinsic motivation relies on social and monetary pressure; intrinsic motivation seeks to encourage employees through the promise of personal growth, autonomy, identity, common purpose, and social connection.

As noted, the extrinsic motivation of ratings and pay for performance can encourage employees to work harder. If working harder is the desired behavior, then extrinsic motivators have a place in performance management approaches. But if companies want employees to work smarter, demonstrating innovative and adaptive behaviors in service of the organization's purpose, then intrinsic motivation becomes more critical.

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Extrinsic motivation attributes	**Intrinsic motivation attributes**
Harder working	Smarter working
Individualistic	Collective
Assertive leadership	Humble (servant) leadership
Goal focused	Purpose focused
Measurement focused	Development focused

As many organizations have adjusted pay and reduced bonus pools in response to the pandemic, those that prioritize extrinsic motivators will have less room to maneuver. Many of these organizations can become more polarized—issuing healthy bonuses to top performers and none to low performers—which can foster risky individualistic behaviors and start to damage the organizational culture.

Though the balance of intrinsic and extrinsic motivators will be influenced by the types of objectives, measures, and targets used in the performance management process, we believe that for most organizations the pandemic has highlighted a need for more innovative and adaptive behaviors. Extrinsic motivation alone will not enable these behaviors. In our experience, a performance management system that prioritizes development over measurement is typically more motivating for employees.

Objectives:
Choosing the right mix

As a general principle, objectives should strike the right balance between challenge and competence in order to maximize performance. If skills exceed the challenge presented by the objective, the individual or team will become bored and will not achieve the required level of performance. Similarly, if the challenge level exceeds the skills of the individual or team, anxiety can cripple performance. The optimum zone—which we refer to as the performance channel—keeps these two forces in balance, stretching and motivating employees without inducing either anxiety or boredom.

Most performance management processes encourage some type of balanced scorecard of objectives, covering both financial and nonfinancial aspects. While objectives can be categorized in many different ways, the following table outlines those that we consider to have the most impact on the performance channel.

Type of objective	Description	Pros	Cons
Output	Focused on desired business outcomes	· Encourages creativity · Achievement directly corresponds to business success · Typically long term in nature	· Focuses on the metric, not the wider purpose · Can encourage excessive internal competition · Can raise anxiety if the goal is felt to be unachievable · Can quickly become irrelevant in a rapidly changing environment
Input	Focused on steps required to achieve an outcome	· Tangible and achievable · Can reduce anxiety and raise confidence · Typically short term in nature	· Risk of micromanagement · Can distract attention from important outputs
Learning	Focused on how to get better at achieving a desired business outcome	· Creates an open-minded learning mindset, which is essential for an inclusive culture · Improves performance in the long run	· Prioritizes learning over results, leading to potential short-term negative impact on performance
Team	Focused on team rather than individual performance	· Encourages collaboration · Balances strengths and weaknesses of individuals · Can lead to greater overall performance · Provides line of sight to individual objectives	· Risk of uneven performance among team members · Can be difficult to measure relative performance of individuals · Lack of individual accountability

The crisis has already prompted many organizations to review their objectives. In order to reduce anxiety and provide focus in the short term, for example, many are revisiting long-term output objectives and increasing the frequency with which these objectives are reviewed and updated. Coaching conversations with employees are fostering a balanced tension between longer-term goals and the steps needed to achieve those goals. The results of these conversations should be a tailored mix of objectives that takes into consideration the needs of the business as well as the experience and personality of each employee to ensure that everyone has the right level of guidance and autonomy.

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Leaders will also find that an increased focus on learning goals will foster a more adaptable, agile workforce (researchers have found that learning objectives focus people on becoming competent, whereas output objectives focus people on the appearance of competence).[7] Finally, including team goals as part of an individual's objectives encourages greater collaboration and focus on organizational purpose.

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Organizations are seeking more adaptability, agility, and creativity to fuel the post-COVID-19 recovery for a future of work that will require new blueprints for success. Leaders who reconfigure their performance assessment systems to focus on developing all of their people equitably will find they have put in place the right processes to reward, recognize, and motivate employees who go the extra mile.

7 Laird J. Rawsthorne and Andrew J. Elliot, "Achievement goals and intrinsic motivation: A meta-analytic review," *Personality and Social Psychology Review*, Volume 3, Issue 4, 1999, pp. 326–44.

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