Driving the FUTURE of PERFORMANCE MANAGEMENT
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Whether we’re ready to embrace the idea or not, the work world has changed and continues to change at an incredible rate. Organizations everywhere are finding that they must navigate through a fast-paced and unpredictable workplace environment, where technology is transforming the workforce, knowledge is doubling every year and new skills are outdated in 2.5 to 5 years. In fact, there are multiple factors affecting how organizations manage their most important asset: their people.

Workplace transformation is dramatically changing how we manage talent

There are multiple factors affecting how organizations manage their most important asset: their people.

- **Technology.** Trends and advances in technology, including ultra-fast Internet, smart mobile devices, email, instant messaging, collaboration tools, and more, are dramatically changing the traditional office environment.

- **Multiple generations, cultures and locations.** Demographic shifts, a multi-cultural workforce and geographic dispersion, are placing added pressure on how organizations will engage their diverse employee base.

- **Contingent workers.** As the percentage of hourly, contingent and contract workers increases, organizations need to consider talent management strategies to effectively recruit, engage and retain these individuals.

- **Skills scarcity.** The expanding global economy has led to a higher demand for individuals with scarce and more specialized skills, resulting in a war for talent.

- **Matrix organizations.** The emergence of flatter, more project-based, matrix-style work environments where employees report to multiple managers is pushing employers to approach performance management in a new way.
People are what matter most

Regardless of workforce shifts and changes taking place, one thing is for certain – people remain organizations’ largest expense and greatest competitive advantage. In other words, in a knowledge- and skills-based economy, it’s not just an organization’s products and services that make them successful, but the people who develop and deliver them.

Considered in this context, it’s clear why there’s a lot of research demonstrating the link between engaging employees and improving business outcomes. Even so, workplace changes are leaving employees feeling overwhelmed, disengaged and not focused on reaching their performance potential.

In turn, conventional approaches to talent practices, including performance management, are coming under intense scrutiny.

A growing number of organizations are questioning the value of longstanding HR processes – including the annual performance review – which they view as antiquated and disconnected from business strategy. This is driving the need for a shift in how organizations manage employee performance and a transition to the next generation of performance management.

In this eBook, you’ll learn why there’s a need for this new approach to performance management, what it encompasses and why it’s critical for organizations to start embarking on a journey to get there.

Employees feeling overwhelmed and disengaged are not focused on reaching their performance potential

Conventional performance management practices are coming under intense scrutiny

The traditional annual performance review is viewed as antiquated and disconnected from business strategy

The rapidly changing workplace is driving the need for a shift in how organizations manage employee performance
The next step in performance management

In the work world, there is a tight link between employee contribution and satisfaction. Both need to feed from each other (not be treated separately) if organizations want to realize desired business outcomes. Addressing contribution or satisfaction alone is not enough to drive excellent results.

Traditional performance management has focused largely only on contribution—taking a company-centric perspective that focuses on what the organization can get from its workers, rather than what its employees need to be successful (e.g. culture, fit, learning and development).

The next-generation of performance management takes a much different approach by focusing on tying employee satisfaction and contribution and making ongoing performance management “a part of” how organizations run their business.

Specifically, it’s...

Outcomes-driven
Rapidly set, align, assess and revise goals

Forward-focused
Learning and personal growth centric

Engaging
Fosters ongoing, meaningful performance conversations

Adaptive
Easily configures to your unique rhythm(s) of work

Foundational
Drives and supports all other talent management programs

True employee engagement: “represents an alignment of maximum satisfaction for the individual with maximum contribution for the organization”.

The Engagement Equation: Leadership Strategies for an Inspired Workforce
by Christopher Rice, Fraser Marlow, Mary Ann Masarach
Before moving on, it’s essential to consider an important frame of reference – the true intention of performance management, which is to:

- Improve performance by setting clear expectations about what employee success looks like
- Align personal objectives with the goals of the organization
- Provide clarity around the behaviors and competencies used to achieve goals
- Offer the coaching, feedback and development required to support employee goal achievement, growth and high performance

“Performance management is often a source of great frustration for employees who do not clearly understand their goals or what is expected of them at work. For these employees, annual reviews and developmental conversations feel forced and superficial, and it’s impossible for them to think about next year’s goals when they are not even sure what tomorrow will throw at them.”

State of the American Manager: Analytics and Advice for Leaders, A report by Gallup 2015
Signs of ineffective performance management

“Apart from” vs. “a part of”

Performance management is often “apart” from an organization’s business rhythms – a one-and-done experience such as the annual performance review. These experiences use separate processes and tools, and they require heavy administrative overhead by HR, managers and employees to complete. The result? Neutral to negative impact.

A burdensome, fixed process

Performance management processes have a reputation for being a heavy drain on time, inhibiting productivity and yielding underwhelming results. The once-a-year approach to performance management is too infrequent and inflexible to meet the needs of today’s ever-changing business environment.

A limited, single rear-view perspective

Typically, performance reviews are one-dimensional with a process centered on a direct one-to-one relationship between a manager and employee. But as organizations become flatter, employees tend to work with multiple leaders and peers throughout a given timeframe. In these cases, a performance appraisal that relies on a single perspective is not seen as accurate or balanced and can lead to mistrust.

Complicated, misaligned and time-consuming goal setting

The traditional approach to goal setting, where an employee’s annual goals are set merely in support of their immediate supervisor’s goals rather than the organization’s objectives, is time consuming, with employees depending on leaders, departments and divisions to set their own goals sequentially before they’re able to commit. Unless there’s a clear line of sight to how an individual’s goals align to their team, department and organizational goals, little is done to support goal clarity and employee engagement. If goals aren’t reviewed and revised regularly to ensure continued alignment and progress, organizations risk not meeting their objectives and employees end up working on activities that don’t support business success.
Underdeveloped employees
In a once-a-year performance management process, employee development is left as an afterthought taking up a small question on the review form or assigned in response to a perceived weakness. This has led to an employee view that “development” is a negative, punitive tactic, rather than an engaging, ongoing and forward-focused part of the performance management process.

Ratings-only-focused compensation
The classic approach to pay-for-performance, where annual merit increases are driven by a rating score derived solely from a single, isolated performance management activity, can lead to a blame-oriented culture. Managers need training, support and a clear understanding about how compensation and total rewards are structured in their organizations. Ratings that are derived from ongoing performance practices can actually help managers make more objective and fair compensation adjustments.

Disconnected from other talent management programs
When individual talent management programs and processes are run separately from each other without a deep connection to the essential ongoing performance management elements that drive employee satisfaction and contribution, organizations can fail to address the very real issues affecting engagement, retention and productivity. A siloed approach to HR can only lead to inefficiencies and resources overlap for the organization, while resulting in a potentially frustrating employee experience.

For example, a niche learning solution will deliver little value to an organization if it’s not helping to close a performance gap. Or, a company performance process that identifies high performers but is then unable to use this information to connect individuals to a talent pool is a wasted opportunity for internal talent mobility and succession planning.

Today’s changing landscape demands a holistic view of talent management, where all programs are integrated and drive business outcomes. The benefits of this holistic approach are numerous and, perhaps most crucially, allow for better decision-making capabilities.

Wanted: A new approach for managing performance
As organizations scramble to redesign their performance management processes, many continue to focus on the wrong priorities. Dropping annual reviews, nixing competencies and focusing only on informal performance check-ins might seem to be the right starting point for some organizations, but first and foremost is the need to recognize what is essential to the success of your people.
As performance management evolves from an isolated HR-driven process to an intrinsic part of everyday business rhythms, organizations should consider five essentials for emphasizing increased engagement through employee satisfaction and contribution.

**5 essentials for emphasizing increased engagement through employee satisfaction and contribution:**

- **Goals**: Set goals that drive outcomes
- **Performance Discussions**: Conduct ongoing performance discussions
- **Feedback and recognition**: Foster a feedback- and recognition-rich culture
- **Managers**: Develop great managers
- **Development**: Build a culture of continuous growth and development
Essential 1: Develop great managers

Great managers inspire their people to achieve exceptional outcomes by taking the time to understand what motivates them. They also drive growth by providing a challenging workplace where people feel comfortable enough to experiment, communicate and support one another.³

Some sources say that up to 70% of employee engagement is impacted by employee-manager relationship.⁴

In the next-generation of performance management model, the role of the manager continues to change from command and control to more coach and mentor. Although managers require an entirely new skill set to excel, most organizations do not focus on building leadership skills for their frontline managers.

Great leaders have a rare combination of five talents: “They motivate their employees, assert themselves to overcome obstacles, create a culture of accountability, build trusting relationships and make informed, unbiased decisions for the good of their team and company.”⁵

For managers to go from good to great, they must develop and practice these skills. Even individual contributors have an important responsibility to develop their leadership abilities, particularly in organizations that require collaboration to achieve objectives.

Everybody is a potential leader
Essential 2: Set goals that drive outcomes

The connection between an employee’s work, their value to the organization and their impact on an organizational outcome is a key driver of employee satisfaction and engagement. When employees know what is expected of them and clearly see the impact they have on the organization’s success, they are motivated to deliver results.

To make the future of performance management a reality, organizations must move toward more collaborative and simplified goal setting, including designing goals that motivate and play to an employee’s strengths. Employees should be able to link individual and shared goals directly to organizational goals to identify alignment, and be reviewed and revised frequently to ensure continued alignment.

When managers conduct frequent check-ins on quarterly goals, companies can realize 30-40% greater returns.

Goal accountability focuses on 4 key activities:

1. Setting motivating goals that are linked to business outcomes
2. Reviewing and revising goals to ensure they are still aligned
3. Coaching for accountability
4. Providing feedback and recognition for what and how outcomes are achieved

When managers conduct frequent check-ins on quarterly goals, companies can realize 30-40% greater returns.  

Bersin by Deloitte, 30-40%
Essential 3: Build a feedback- and recognition-rich culture

Working with great people is continually one of the top 10 reasons employees stay at a company. True success is creating an environment where all employees are comfortable giving and receiving feedback about performance. By receiving continuous feedback, employees will better understand what behaviors they should continue and which do not support their development.

Organizations that nurture a feedback-rich culture and encourage all employees to share feedback have more highly engaged workforces. Building an engaged workforce through ongoing feedback and recognition is the entire organization’s responsibility and should no longer be viewed as an HR priority but rather an overall business priority.

Research indicates that managers are consistently rated as “poor” on providing feedback and recognizing employees. One reason for this is managers fail to understand the importance. There is a broad assumption that employees understand that lack of feedback means that the employee is doing well. Gallup suggests that “frequent personalized feedback and recognition is one of the surest ways to drive that shift in workplaces worldwide.”

Recognition builds better employee/manager relationships

The stronger the recognition practices, the stronger they feel their relationship is with their direct manager. Among the 512 US employees who say their company has strong recognition practices, 87% feel a strong relationship with their direct manager. That number dips to 51% among those who reported a lack of such practices at their companies.7

Building a feedback- and recognition-rich culture

Working with great people is continually one of the top 10 reasons employees stay at a company.

True success is creating an environment where all employees are comfortable giving and receiving feedback about performance.

What is recognition?

- Thank you
- Personalized Feedback
- Spot award to celebrate accomplishments

Employees that feel a strong relationship with their manager

<table>
<thead>
<tr>
<th>Strong recognition practices</th>
<th>Lack of strong recognition practices</th>
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<td>87%</td>
<td>51%</td>
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7 HBR 2016
Essential 4: Establish a culture of forward-focused growth and development

Learning opportunities and employee development are top drivers of employee satisfaction, which means learning and development should no longer be just a once-in-a-while activity. It has become a business-critical priority for increasing skills, staying competitive and improving employee engagement.

Employees expect their organizations to invest in their development and provide them with the skills they need to succeed. Without a commitment to developing employees, companies risk losing key talent and not having the skills they need to compete.

When it comes to staff development, direct managers have the largest role to play in providing employees with an opportunity to apply and grow their skills and abilities. Managers must proactively facilitate employee development by enabling employees to learn through stretch assignments, team collaboration, and regular coaching and feedback.

64% of L&D leaders identified “managers don’t encourage, enable or follow up” as an obstacle for learning.8

In addition to identifying areas for improvement and development, great managers can build engagement through strengths-based development. While focusing on strengths does not mean ignoring weaknesses, being aware of limitations provides a great opportunity for collaboration to further develop and learn.

The next generation of performance management is tightly aligned with building a culture of continuous development rather than leaving it as an afterthought or merely a method to address poor performance.
Essential 5: Conduct ongoing performance discussions

Building strong manager-employee relationships drives employee engagement. One of the ways to improve the manager-employee relationship and establish the trust needed for engagement is through consistent communication and meaningful ongoing performance conversations.

These conversations connect and drive your entire talent management strategy – from onboarding new hires, to supporting a culture of learning and development, to recognizing and rewarding success, to supporting career mobility and succession.

Employees whose managers hold regular meetings with them are almost 3X as likely to be engaged. 9

Employees want their managers to be open and approachable. Consistent two-way communication helps employees feel safe and supported, and it builds a productive workplace in which people feel comfortable enough to experiment, to challenge, to share information and to support one another.

To make ongoing performance discussions meaningful to the employee and improve performance, these conversations should:

- Focus on employee contributions
- Clarify expectations and accountability around goals and development
- Discuss what motivates employees and what can drive greater job satisfaction
- Provide opportunities for feedback, recognition and coaching

These activities make conversation personal for the employee, which drives improved satisfaction. At the same time, discussions reinforce organizational culture and values, and ensure desired outcomes are achieved.

One-on-one meetings between managers and employees are an ideal opportunity to discuss organizational priorities, employee challenges and manager expectations. Meetings should be scheduled and committed to, occurring as frequently as once a week to cover feedback, goal review and revision, and development and recognition.

9 State of the American Manager, Gallup (2015)
How ongoing performance management connects all talent management areas

The best performance management programs incorporate the five essential elements, while also forming a foundation for all of an organization’s talent programs. This means that as companies adopt new performance management practices, they must consider whether changes will support other talent management functions.
Recruiting and onboarding

A major reason people leave an organization within their first 90 days is that there is disconnect between what they thought the role was going to be and what they experience when they start the job.

Attracting the people with the right “fit” means understanding your performance culture and the mission, vision and values that define success.

Failure to engage employees early increases the risk of turnover. Ongoing performance management supports all aspects of an effective onboarding program, helping companies to quickly engage new employees and embed them into their culture through:

- The setting and communicating of clear goals and expectations
- Ongoing dialogue between manager and new hire about how they are progressing
- Development discussions about activities to enhance employee effectiveness and drive career progression

Having “face time” with their manager, receiving clarity on role and expectations, and understanding how their work fits into the bigger picture helps employees become more engaged, higher performing and less of a retention risk.
Performance-based learning

Skilled and motivated employees are critical to the performance outcomes for any business. However, when learning and development is not part of an ongoing performance model that is clearly connected to an employee’s role and demonstrates a path for personal growth, it will have a negligible impact on employee engagement or outcomes.

Managers play a key role in empowering employees to “own” their own development but must also provide ongoing support, feedback and coaching. Managers who are engaged in these ongoing development discussions have a huge influence in adoption, employee engagement and productivity and in reinforcing the learning culture – not something that can be achieved with a standalone learning management system.

The vast majority of how adults learn is “on the job,” so it’s important to create a learning experience that combines all aspects of learning interactions into the culture, including coaching, mentoring, stretch work assignments, competency and skill-building activities, and formal training. But as most managers aren’t learning and development specialists, it’s imperative for employees and managers to have access to learning and development pathways and activities that are clearly connected to job roles, skills and competencies essential for them to be successful and achieve desired business outcomes.

Performance-based learning

Just like goals, development plans should be aligned to outcomes, discussed, revised and celebrated regularly; otherwise, they will fail to motivate or impact performance.

On-the-job learning should combine:
- Coaching
- Mentoring
- Competency and skill-building activities
- Formal training
- Stretch work assignments
Compensation

There is not a performance management forum, webinar or paper that does not ask the question – what about pay-for-performance? At its foundation, pay-for-performance was intended to motivate employees to achieve success. Over time, pay-for-performance has become synonymous with performance scores. There are a number of reasons that may no longer make sense as we move to a new model of performance management.

Organizations can increase employee pay perceptions by 50% through more effective pay communication, positively impacting intent to stay by 34% and boosting employee effort by 15%.

Effective managers let employees know that compensation is based on a wide range of factors and behaviors and not limited to a specific year-end performance score. Market adjustments, target bonuses, stock options and other incentives can be part of a total rewards package. Managers need to be accountable for and confident with honest and open conversations around how compensation and other types of rewards are determined. Pay-for-performance can take many forms and, like feedback, employees should not have to wait until the end of the year to be recognized. Spot bonuses, gift cards and other rewards and recognition can be awarded at any time to complete an employee’s total rewards.
Succession planning

Traditional succession planning has been used to ensure continuity at the top levels of business, but that isn’t enough anymore. There is a generational shift in the workplace, including a mass exodus of older, experienced workers and an ongoing influx of younger employees who expect a work experience that includes accelerated responsibility and a clear career progression path.

When asked why their high-potential employees quit, 38.9% of survey takers said it’s because of “limited opportunity for upward mobility or new responsibilities.”

It might be HR that is tasked with implementing and managing a succession planning program, but it’s the managers and stakeholders who need to champion it to make it work. It’s not good enough to simply identify high-potential candidates; an organization must also invest in coaching, developing and guiding employees toward future roles that align with business strategy.

Finding high-potentials:

To identify high-potentials, prepare them for future roles and build a pipeline of talent and leadership bench strength, organizations first need to identify:

- What leadership looks like
- Which competencies to develop
- Potential new leaders – right down to the individual contributor

Generational shift in the workplace

Mass exodus of older, experienced workers

An ongoing influx of younger employees who expect a work experience that includes accelerated responsibility and a clear career progression path.
Navigating the way forward

A strategic shift in performance management takes planning, thoughtfulness and skillful change management. Before your organization embarks on the journey to the next generation of performance management, you should first and foremost understand the purpose of the transformation and then consider the following:

Ensure your core competencies are aligned to your organization’s culture, vision, values and strategic direction. Core competencies should not be about skills needed to do work, they should be aspirational, driving change and leading the organization into the future.

Understand that rewards and recognition are part of an ongoing performance cycle and employees’ contributions should be acknowledged and celebrated outside of a once-a-year compensation process.

Every company’s business rhythms are unique and one size does not fit all. Consider your culture, people and business objectives, so that your performance management approach will fit with your business flow and focus on outcomes.

Identify where you are now and where you need to be. What outcomes do you need to achieve and how can you help your people achieve them? For example, strategic planning, talent consultation, soft skills training, competency modeling, job description building.

Understand your culture and ability to adapt to change. What support do you need to make it successful?

Identify an experienced talent management solutions partner that understands your vision, values and can guide and support your organization every step along the way.
Saba Software: Your partner for strategic talent management

Whether you want to begin your journey forward by replacing a paper-based annual performance process with an automated system, fast-forwarding your organization by reinventing your entire talent management strategy, or choosing any other starting point along the way, Saba can help get you there.

Regardless of where you are in your talent management journey, we’ll partner with you for success. We’ll implement practices that transform your performance management and talent programs from cumbersome and unengaging cycles separate from your strategy and business rhythm, to meaningful and ongoing processes that align, engage and inspire your people.

Find out how we can help you along your talent management journey

Explore our solutions