Performance Management 2015: Coaching For Development Needed

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February 2015
Industry Perspective

Performance Management 2015: Coaching for Development Needed

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Executive Summary

Performance management (PM) has been a business practice for more than 50 years. The business imperative for performance management is undeniable, yet organizations everywhere seem disenchanted with the effectiveness of their approach to performance management. In Brandon Hall Group’s latest Performance Management Study, the majority of organizations reported that improving overall business performance is a critical outcome of their performance management; 88% have a performance management strategy, yet 71% say their current approach to performance management needs improvement, even reinvention.

Almost all organizations (88%) have a performance management strategy, yet 71% rate their performance management as ineffective.

2014 Brandon Hall Group Performance Management Study (n-223)

Even though there is a lot of talk about fresh performance management practices, our study revealed that startling few organizations have made any significant and enhancing changes to the traditional “rank and stack” approach.

THE TOP FINDINGS

1. Performance management strategies are prevalent, but largely ineffective.
2. There is too little focus on the employee, and too much focus on the performance management process.
3. There is a significant lack of executive engagement in performance management.
4. In-the-moment feedback — as opposed to formal reviews — improves performance.
5. Few managers are skilled development coaches.
6. Most organizations enable performance management with technology.
7. Performance management data is still not fully integrated with other talent data.
8. Executives and senior leaders get more performance planning attention than individual contributors and hourly workers.
9. Pay-for-performance remains the typical PM approach.
10. Pay and performance discussions should be separate.
Forced distribution -- the evaluation method whereby managers are required to distribute performance ratings in a pre-specified ranking -- is on the way out.

The future of performance management promises more strengths-based development and in-the-moment feedback.

Performance management budgets are expected to remain flat.

Organizations that believe they have stronger performance management tend to have collaborative cultures.

Strong performance management yields better business results.

The survey and additional interviews and conversations with high-performance organizations with sophisticated performance management programs -- conducted in late 2014 and early 2015 -- revealed 10 leading practices for managing performance.

10 LEADING PRACTICES OF EFFECTIVE PERFORMANCE MANAGEMENT

1. Create the PM strategy in alignment with the business strategy, ensuring cascaded goals.
2. Institutionalize PM as an ongoing process -- not an annual event with a beginning and an end.
3. Focus on developing employees’ strengths, not evaluating their weaknesses, and eliminate the forced distribution system.
4. Decouple performance conversations from compensation conversations.
5. Engage peers and subordinates in providing performance feedback.
6. Review and revise employees’ goals regularly to ensure alignment with changing business priorities.
7. Hold managers accountable for acting as coaches to develop employees’ strengths.
8. Catch employees performing well (or not so well) and provide immediate feedback, and do so regularly.
9. Define and execute on targeted individual development plans (IDPs) enabled with performance support tools.
10. Define a select few metrics to measure the business impact of performance management and monitor those metrics regularly for continuous improvement and to create a culture of high-performance.

2014 Brandon Hall Group Performance Management Study (n-223)
So you might be asking what real business difference do HPOs experience by adoption and execution of these practices. The answer is simple, and downright compelling: better business results.

**Figure 1: Business Impact of Leading Practice Performance Management**

<table>
<thead>
<tr>
<th>Metrics</th>
<th>High-Performacne Organizations (HPOs) (those implementing PM in line with today’s 10 leading practies)</th>
<th>Everyone Else</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Retention</td>
<td>Increase by 1 to 20% or more</td>
<td>Stayed the same in very few cases and in most cases decreased significantly</td>
</tr>
<tr>
<td>Revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Engagement</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2014 Brandon Hall Group Performance Management Study (n-223)

If you like what you see regarding business impact, commence the transformation today of your traditional performance management practices. Expect the transformation to be a journey, but like breaking any bad habit, getting started is the key to success. In talking with CEOs, other business leaders, and HR and talent leaders at high-performance organizations, these organizations fast-tracked the makeover by prioritizing five calls to action.

**Figure 2: 5 Performance Management Calls to Action**

1. Teach managers to be effective development coaches.
2. Eliminate forced distributions.
4. Hold leaders accountable for developing employees’ strengths.
5. Automate performance management and integrate it with other talent processes.

Source: Brandon Hall Group, 2015
# Performance Management Outcomes

In addition to organizations’ common identification of performance management as a business imperative, Brandon Hall Group’s statistical analysis identified three desired outcomes of performance management also shared among most organizations:

- Improving overall business performance
- Enhancing employee engagement
- Improving employee performance.

![Figure 3: Highest Priority Outcomes of Performance Management](image)

To achieve these outcomes, organizations, managers, employees, and HR each have responsibilities in the performance management process. To achieve desired business results, organizations:

- Hold leaders accountable for performance
- Leverage assessment tools to baseline and capture performance against clear enterprise-level standards
- Practice talent calibration in all functions, levels and regions
- Ensure alignment of employee goals with business goals
- Engage executives in performance management strategy and philosophy decisions

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Figure 4: Critical Organizational Actions for Improving Employee Performance (Agree/Strongly agree)

- Executives hold leaders accountable for employee performance: 66%
- Enable assessments of performance management: 63%
- The performance management process includes a talent calibration in all functions, levels and regions: 62%
- Employee goals are regularly updated to align with business objectives: 56%
- Executives are fully engaged with performance management: 45%

2014 Brandon Hall Group Performance Management Study (n-223)

Additionally, organizations with the most impactful performance management utilize technology -- in fact, 68% of organizations enable performance management with technology. Performance management functionality most frequently automated in high-performance organizations is:

- Goal-setting tools (79%)
- Performance rating records (75%)
- Online performance appraisal forms (71%)

More importantly than PM tool automation, however, high-performance organizations leverage technology to predict talent capability and proactively mitigate performance risk by integrating performance management data with other talent process data, particularly learning and development and leadership development.

Figure 5: Use of Technology to Integrate PM with Other Talent Processes

<table>
<thead>
<tr>
<th>Process</th>
<th>Fully Automated</th>
<th>Partially Automated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Career Management</td>
<td>71%</td>
<td>12%</td>
</tr>
<tr>
<td>Workforce Planning</td>
<td>58%</td>
<td>23%</td>
</tr>
<tr>
<td>Learning and Development</td>
<td>54%</td>
<td>42%</td>
</tr>
<tr>
<td>Leadership Development</td>
<td>54%</td>
<td>40%</td>
</tr>
<tr>
<td>Succession Management</td>
<td>53%</td>
<td>26%</td>
</tr>
<tr>
<td>Rewards and Recognition</td>
<td>51%</td>
<td>33%</td>
</tr>
<tr>
<td>Talent Acquisition</td>
<td>40%</td>
<td>33%</td>
</tr>
<tr>
<td>Competency Management</td>
<td>37%</td>
<td>46%</td>
</tr>
</tbody>
</table>

2014 Brandon Hall Group Performance Management Study (n-223)
Managers play a key role in effective performance management. The skills of managers to act as development coaches for improving employee performance is one of the top three desired outcomes of performance management. Topping the list of critical manager skills and actions are:

- How well managers link performance to pay decisions
- Their focus on developing employees’ strengths rather than evaluating their weaknesses
- Their ability to set realistic and measurable goals
- Their commitment to recognize and reward exemplary behavior.

**Figure 6: Current-State Performance Management (Agree/Strongly Agree with Statements)**

<table>
<thead>
<tr>
<th>Statement</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>A pay-for-performance approach is important to our PM philosophy</td>
<td>74%</td>
</tr>
<tr>
<td>A strengths-based development planning process is important to our PM philosophy</td>
<td>73%</td>
</tr>
<tr>
<td>Employee goals are measurable, achievable, realistic and time-bound</td>
<td>71%</td>
</tr>
<tr>
<td>Managers reward and recognize exemplary behavior and performance</td>
<td>69%</td>
</tr>
<tr>
<td>Executives hold leaders accountable for performance management</td>
<td>66%</td>
</tr>
<tr>
<td>PM process enables assessment of performance against a clear standard</td>
<td>63%</td>
</tr>
<tr>
<td>PM process includes a calibration of talent performance</td>
<td>62%</td>
</tr>
<tr>
<td>Managers accurately document performance improvement plans</td>
<td>60%</td>
</tr>
<tr>
<td>Managers clearly communicate performance expectations are ratings</td>
<td>58%</td>
</tr>
<tr>
<td>Employee goals are regularly updated in alignment with business goals</td>
<td>56%</td>
</tr>
<tr>
<td>PM process and business strategy are completely aligned</td>
<td>46%</td>
</tr>
<tr>
<td>Executives are fully engaged with the PM process, act as sponsors and model behaviors</td>
<td>46%</td>
</tr>
<tr>
<td>Managers are skilled at defining actionable development plans</td>
<td>45%</td>
</tr>
<tr>
<td>Managers are skilled in performance coaching, and give timely, actionable feedback</td>
<td>44%</td>
</tr>
</tbody>
</table>

2014 Brandon Hall Group Performance Management Study (n=223)
Employees, too, have responsibilities in the performance management process. They own their personal development by:

- Clearly communicating to their manager about how they would like to grow
- Understanding the skills/knowledge/experience they need to excel in their current position and aspired position
- Accepting feedback and taking the initiative to optimize their performance
- Seeking learning opportunities and experiences in aligning business needs and personal growth plans.

The HR function is a key stakeholder in building effective performance management. As a business partner, HR is responsible for providing managers training on how to be effective development coaches, how to give on-the-fly and informal regular feedback, for communicating the strategic results of the performance management process, and, working collaboratively with the CEO and other business leaders to design and implement a performance management strategy and leading practice performance management.

**Leading Practice Performance Management**

The most effective performance management accelerates business impact of key performance indicators — revenue, turnover, and productivity. We call it high-performance performance management. A framework of the 10 leading practices translates employee skills, knowledge, and experience into sustainable business performance and guides the design and implementation of high-performance performance management. Further, a performance management framework helps executives and other business leaders understand how employee performance is driving achievement of business goals; how performance is being optimized; and what activities and technology are in place to support the sustainable realization.

Our survey results exposed high-performance PM as a continuous cycle of phases that we illustrate in the Brandon Hall Group Performance Management Framework:
PERFORMANCE MANAGEMENT 2015: COACHING FOR DEVELOPMENT NEEDED

Figure 7: Brandon Hall Group High-Performance Management Framework

High-Performance Management Framework

CULTURE

LIFECYCLE MANAGEMENT

1. DEFINE STRATEGY
   - Align with Business Strategy
   - Define Goals & Performance Measures

2. SET GOALS
   - Cascade Goals
   - Review Goals
   - Set SMART Goals

3. COACH SKILLS
   - Develop & Manage Employee Responsibilities
   - Train Managers & Employees
   - Provide Performance Support
   - Discuss Career Opportunities

4. DEVELOP STRENGTHS
   - Provide In-The-Moment Feedback
   - Define Individual Development Plans
   - Discuss Performance Data

5. OPTIMIZE PERFORMANCE
   - Improve Performance Culture
   - Improve Performance Data

TECHNOLOGY

MEASUREMENT

TALENT RESULTS & BUSINESS RESULTS

- External Influencers
- Strategic Alignment
- Stakeholder Experience
- Executive/Business Engagement
- Assessments
- Change Management
- Scalable
- Agile
- Global
- Social
- Mobile

Success Levers

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Phase 1: Define the Strategy
In this phase, the PM strategy is defined. The strategy is guided by the organization’s philosophy of performance management. Answers to the following questions reflect an organization’s commitment to a PM strategy and their philosophical points of view:

- Do we have a formal performance management strategy in place?
- What are the (desired and actual) outcomes of our performance management?
- Are executives and other business leaders engaged in the process?
- Do we clearly communicate our performance management philosophy and expectations to all employees?
- Do we have written performance goal plans for all employees?
- Do we hold leaders accountable for performance?
- Are we focused on development of employees’ strengths (versus evaluation of their weaknesses)?
- Will we eliminate the “rate and rank” approach (versus force fitting all employees into the standard bell curve with the intent to dismiss those who fall into the bottom 10%)?
- Will our managers have continuous and ongoing discussions with employees about their performance (versus one-time annual performance appraisal discussions)?
- Will we separate performance and compensation discussions (versus having both at the same time)?
- Will we require feedback from an employee’s manager and peers and subordinates (versus only top-down feedback)?
- Do we expect our managers to identify and reward exemplary performance?

Phase 2: Set Employee Goals
In this phase, managers and employees work together to set clear employee goals that accelerate achievement of the organization’s business goals. Answers to the following questions reflect an organization’s efficiency and effectiveness in goal-setting:

- Are employee goals cascaded?
- Are employee goals regularly reviewed and revised (to stay in alignment with changing business goals)?
- Are goals SMART – Specific, Measurable, Achievable, Realistic, Timely?
- How many of our employees have written performance goals?

Phase 3: Coach Employees for Skill Growth
In this phase, the organization, its managers and employees collaborate to develop employees’ strengths. Answers to the following questions reflect an organization’s commitment to ensuring their managers have the skills, tools and resources to act as development coaches:

- Do we provide “manager as coach” training?
- Are our managers skilled in development coaching?
- Do our managers clearly communicate performance expectations?
PERFORMANCE MANAGEMENT 2015:
COACHING FOR DEVELOPMENT NEEDED

- Do we make it a practice to solicit peer and subordinate feedback (not just managerial feedback)?
- How frequently do our managers provide performance feedback?
- Do our managers provide timely and actionable feedback?

Phase 4: Develop Employees’ Strengths
In this phase, managers and employees work closely together to plan for and execute on strengths-based development plans for each employee. Answers to the following questions reflect an organization’s capability to offer strengths-based development:
- Are managers skilled at defining actionable and targeted development plans for each employee?
- Are managers effective in having regular career management conversations with employees?
- Are managers effective in formal strengths-based development coaching?
- Do we provide our employees with performance support via technology and online tools?

Phase 5: Optimize Performance Continuously
In this phase, organizations leverage performance data to monitor current and predict future performance for purposes of embedding an accountable, and high-performance culture. Answers to the following questions indicate an organization’s ongoing ability to proactively mitigate performance risk in critical talent segments and key job roles:
- Does our approach to PM support achievement of our business goals?
- Does our approach enable our employees’ work to be efficient, effective, and aligned with our business goals?
- Can we count on our PM to be a business differentiator?
- Does the majority of our employees meet or exceed their performance goals on a regular basis?
- Do we achieve our annual business goals?
- Has our voluntary turnover rate decreased in the last 12 months?
- Has our revenue increased in the last 12 months?
- Have our customer satisfaction ratings increased in the last 12 months?
- Has our customer retention rate increased in the last 12 months?
- Has our engagement score increased in the last 12 months?

The five phases of continuous performance management are characterized by the 10 leading practices of performance management.
Figure 8: PM Leading Practices Linked to PM Framework

<table>
<thead>
<tr>
<th>PERFORMANCE MANAGEMENT PHASE</th>
<th>PERFORMANCE MANAGEMENT LEADING PRACTICES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phase 1: Define the strategy</td>
<td>• Create the PM strategy</td>
</tr>
<tr>
<td></td>
<td>• Institutionalize PM as an ongoing process</td>
</tr>
<tr>
<td></td>
<td>• Hold managers accountable</td>
</tr>
<tr>
<td>Phase 2: Set employee goals</td>
<td>• Review and revise employees goals regularly</td>
</tr>
<tr>
<td>Phase 3: Coach employees for skill growth</td>
<td>• Decouple performance discussions and compensation discussions</td>
</tr>
<tr>
<td></td>
<td>• Provide immediate, on-the-fly, informal feedback</td>
</tr>
<tr>
<td></td>
<td>• Engage peers and subordinates in providing feedback</td>
</tr>
<tr>
<td>Phase 4: Develop employees’ strengths</td>
<td>• Focus on developing employees’ strengths</td>
</tr>
<tr>
<td></td>
<td>• Define individual development plans</td>
</tr>
<tr>
<td>Phase 5: Optimize performance continuously</td>
<td>• Performance management</td>
</tr>
</tbody>
</table>

Source: Brandon Hall Group 2015

Most Significant Results of Survey

One key to attracting and retaining top-performing employees is to provide effective support for optimizing their best performance: define clear goals linked to business goals, provide informal and actionable feedback often, develop employees’ strengths to meet and exceed business goals and personal career goals, and utilize technology to enable performance support. Traditional approaches to performance management have been under scrutiny, with many claiming they are ineffective in developing employees with capabilities to improve organizational performance. What are key outcomes and desired outcomes of performance management? What are the leading practices of performance management? How effective is your performance management in regard to the business value it offers? How many employees meet or exceed their performance goals? Have your key performance indicators (e.g. engagement, revenue, turnover, etc.) improved in the last 12 months? Is your performance management data integrated with other talent process data? How are online tools and technology enabling performance management? How much are organizations investing on performance management? In which areas of performance management will business and talent leaders focus their attention in the near future?
To answer these questions, Brandon Hall Group conducted its annual 2014 State of Performance Management Study. In this section, we analyze the survey results.

**Finding #1: Performance Management Strategies Widely in Place, but is Largely Ineffective**

About 88% of organizations have a performance management strategy in place, but 71% said their current approach to performance management needs to be improved, even re-invented. The dissatisfaction is likely due to a combination of factors:

- Poor linkage between business goals and employee goals
- Managers poorly trained as development coaches
- Continued use of ineffective traditional approaches (e.g. annual performance appraisal discussions, evaluation of employee weaknesses, rating and ranking in the bell-curve, top-down feedback only, etc.) in most organizations.

More effective approaches -- including executive involvement, regular and informal feedback, strengths-based development, elimination of forced rankings, crowd-sourced feedback, coaching for development, and separation of performance and compensation discussions -- have only recently started to take hold.

**Figure 9: Effectiveness of Performance Management Strategies Today**

**KEY:**

*Poor:* PM needs re-invention

*Below Average:* PM needs substantial improvement to align with our business needs

*Average:* PM works but could be improved in several areas to better align with our business needs

*Above Average:* PM supports achievement of our business goals but is not setting us apart from our competition

*Exceptional:* PM is a real business differentiator for us and is fully aligned with our business strategy

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Finding #2: Too Little Focus on the Employee, Too Much on the Process

High-performance performance management is oriented around the employee and improving the employee’s performance, not on the process itself. After asking survey respondents to indicate how effective and how frequently they practiced actions oriented around developing employees – providing continuous feedback, developing strengths, coaching for strengths development, having career discussions, soliciting performance feedback from multiple sources, and eliminating a rate and rank approach – a sharp contrast between the two prevails.

Figure 10: Practices That Drive Focus on the Employee Occur Too Infrequently

Finding #3: Performance Management Lacks Executive Engagement

Like other talent processes, managing performance is a business imperative. Getting the formula right for helping employees perform at their best requires the involvement of executives because they:

- Drive the organization’s performance philosophy
- Hold managers accountable for prioritizing development of their employees
- Communicate business goals, which is an essential ingredient for ensuring alignment between employee goals and the organization’s goals.
More than half (55%) of organizations said their executives are not fully engaged with performance management.

When executive engagement does not exist, or wanes, so does alignment of employee goals with business goals. And to make matters worse, without executive engagement, managers are not held accountable to course correct the misalignment or act committed to developing their employees.

Our study showed that:
- Less than half of organizations (46%) believe PM and business strategy are completely aligned
- Slightly more than half (56%) of organizations say employee goals are regularly updated in alignment with business goals.
- 66% of organizations believe executives hold leaders accountable for performance management.

Finding #4: In-The-Moment Feedback Improves Performance

Optimizing performance rests on input and feedback at the moment of occurrence. Offering coaching to employees about actions they took or did not take 6 or 12 months after the fact is essentially useless in perfecting performance. Memory of the context in which the action occurred and exactly how the behavior played out is mostly conjecture when the amount of time elapsed between behavior and feedback is more than a few minutes.

By offering regular and in-the-moment feedback, managers are an essential conduit in helping employees execute on well-aligned goals. Yet, in most organizations, performance feedback still occurs only during the annual formal performance appraisal discussion.

Not only are annual performance discussions too infrequent to spawn improved behavior, but they are ineffective, particularly when compared to regular, in-the-moment feedback. Our study showed that only 19% of respondents believe annual performance discussions are highlight effective, while 41% believe in-the-moment informal feedback is highly effective.

The business impact data here should be enough to convince any organization to replace annual discussions with daily feedback. If not, however, additionally consider that both parties (manager and employee) typically abhor annual discussions. Managers complain about preparing for them, and rarely report any pleasure in delivering constructive feedback; employees dread listening to what they perceive as the “do better or you’re out” spiel and beg for input sooner so that they have a real opportunity for course correction along the way.

Finding #5: Most Managers are not Skilled Development Coaches

73% of organizations indicated that development of employees’ strengths, rather than evaluating their weaknesses, is critical to effective performance management, and 82% said their managers were only somewhat effective, or not at all effective, in strengths-based development planning and feedback. Some specifics:
PERFORMANCE MANAGEMENT 2015: COACHING FOR DEVELOPMENT NEEDED

- 8% of respondents strongly agreed that managers are skilled at giving timely, actionable feedback.
- 9% of respondents strongly agreed that managers are skilled at defining actionable development.
- 11% of respondents strongly agreed that managers clearly communicate performance expectations.

Employee development is a strong retention strategy. Employees continue working in organizations where they feel they are challenged, learn new skills and capabilities, are supported by their manager, and are developing their skills in alignment with business needs and personal career aspirations. Regardless of size, industry, or region, organizations have an opportunity to improve performance management effectiveness simply by skilling up their managers to be effective development coaches. In fact, nearly two-thirds (64%) of organizations indicated that training managers to be effective coaches was their greatest performance management opportunity and challenge.

Figure 11: Greatest Challenges to Improving PM Effectiveness

- Developing managers to be effective performance coaches: 64%
- Migrating our performance approach from evaluative to developmental: 26%
- Aligning employee goals with business goals: 37%
- Moving from a formal annual process to an informal, ongoing performance management process: 26%
- Engaging executives: 25%
- Integrating performance management with other talent processes: 25%

2014 Brandon Hall Group Performance Management Study (n=223)

Finding #6: Most Organizations Enable Performance Management with Technology

When asked if performance management was enabled with technology, 60% said yes. They identified performance rating and rating scales, performance appraisal forms, and goal setting templates as the most frequently used online functions.
While most organizations do utilize technology to enable performance management, 30% said their primary tool for managing the performance management process were paper-based forms, spreadsheets, and templates. In today’s geographically disbursed and matrix business climate, managing employee performance without technology to expose talent data across the enterprise, to ensure cascaded goals, and to assist in exposing top performers from others severely limits the effectiveness of the performance management process.

**Finding #7: PM Data Still Not Fully Integrated With Other Talent Data**

Despite the fact that performance management has been a long-standing business practice, 40% of organizations said their performance management data was not integrated with the data from that of other talent processes.

**Figure 13: Rate of Integration of PM Data with Other Talent Process Data**

- **78%** Learning & Development
- **50%** Career Management
- **73%** Leadership Development
- **50%** Succession Management
- **73%** Rewards & Recognition
- **49%** Workforce Planning
- **64%** Competency Management
- **46%** Talent Acquisition

2014 Brandon Hall Group Performance Management Study (n=223)
Of all talent processes, performance data is most integrated with Learning & Development data. This finding was corroborated in our 2014 Learning & Development Benchmarking Study in which more than 80% of the participating companies said some integration existed between PM data and L&D data. However, expanding the integration of talent performance data with talent data beyond L&D data will better position organizations to predict future talent capability needs, career aspirations, and proactively mitigate performance risk in critical talent segments and job roles.

**Finding #8: Executives and Senior Leaders Get More Performance Planning Attention**

More than half (56%) of organizations reported that 91%-100% of their executives and other senior leaders have written performance goals. But the percentage of organizations that have written performance goals for 91%-100% of individual contributors and hourly workers is significantly less (40% and 25%, respectively). And it’s even worse for contract and contingent workers.

While exempt employees often have more influence over operational excellence and sustained performance, ignoring the non-exempt ranks is risky to business performance. Choosing to forego performance plans for the hourly and other non-exempt employees sends a clear message about lack of value to business results. This message translates quickly to disengagement and can be followed by deterioration of business unit and enterprise goal achievement.

**Figure 14: Percentage of Employees with Written Performance Goals Plans**

![Bar chart showing percentage of employees with written performance goals plans across different roles](chart.png)
Finding #9: Pay-For-Performance Typifies Performance Management for Most

Almost three quarters (74%) of organizations agree or strongly agree that a pay-for-performance approach is very important to their approach to performance management. A majority of those organizations (69%) are careful to link performance-based salary increases to performance.

As evidenced by in-depth interviews with executives and business leaders of select respondent companies, there are arguably some risks (ambiguous minimum/target/maximum levels, poorly set goals, unclear communication about payout standards) in a pay-for-performance approach. But those leaders felt that more risk existed in not using it. While pay certainly is not the only motivator in employees performing their best, “it would be difficult to envision how employees, companies, and economies would fare better by diminishing or eliminating the role of pay-for-performance,” said the chief human resources officer of a global telecommunications firm.

Finding #10: Separate Performance Discussions from Pay Discussions

As shared in qualitative interviews with executives, high-performance organizations are intentional about separating the timing of performance discussions from the timing of salary increase discussions. These organizations explained that separation allows managers and employees to focus on discussing the employees’ contributions to business goals, their achievement of individual goals, and the creation of go-forward plans (without the distraction of “How much will my raise be?” thinking).

After the performance discussions are completed and plans are documented for developing strengths, some two weeks to a month later, the employee and manager engage in a separate pay discussion only for the purpose of reviewing what the salary increase will be based on the employee’s performance against individual goal plans, the employee’s performance in comparison to the peer group, and the organization’s ability to pay (in relation to its overall enterprise-level performance). In this fashion, the pay discussion is now focused on the pay itself and how the increase was determined.

Figure 15: 3 Factors Contributing to Pay Increase Decisions

![Figure 15: 3 Factors Contributing to Pay Increase Decisions](source: Brandon Hall Group, 2015)
Finding #11: Forced Distribution Is on the Way Out

Forced distribution is an evaluation method whereby managers are required to distribute employee performance ratings into a pre-specified ranking (e.g. the bell curve). It assumes that all employees in a company can be divided into one of three groups:

- The top 20% -- high potentials and other top performers
- The middle 70% -- average performers
- The bottom 10% -- non-performers

In this approach, the number of top-performing employees placed in the top portion of the curve is limited. That theory actually runs counter to strengths-based development in which the organization is focused on building employee strengths and thus creating more employees in the top portion of the curve. Further, forced distribution assumes that a certain number of employees will fall in the bottom portion of the curve regardless of how strong their performance. Because of the forced ranking, even high performers could theoretically be placed then in the low portion of the curve because their top performance is still lower than that of other top performers.

Arguably, there likely are advantages and disadvantages to using forced distribution in performance management.

Figure 16: Typical Advantages and Disadvantages of PM Forced Distribution

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enables sorting of performance according to a clear set of rules</td>
<td>Inflexible</td>
</tr>
<tr>
<td>Easy to understand</td>
<td>Limits number of top performers, thus causing good performers to leave</td>
</tr>
<tr>
<td>Helps managers avoid “grade inflation” of employees’ performance</td>
<td>Does not accurately reflect how employees perform</td>
</tr>
<tr>
<td>We can add an advantage that reads: Supports a culture that manages performance through a traditional, evaluation of weaknesses and a “improve performance or exit company” mentality</td>
<td>Limits collaborative culture because employees are competing with their own teammates for higher performance appraisal scores</td>
</tr>
</tbody>
</table>

Source: Brandon Hall Group, 2015
33% of organizations say they currently or plan to use forced distribution, but another 49% said they do not currently use, and have no plans to use, forced distribution. In fact, 55% of organizations said that forced distribution does not improve performance and another 22% said it actually causes a decline in performance.

**Finding #13: The Future Holds More Strengths-Based Development and In-The-Moment Feedback**

Two of the top three priorities for performance management in the coming 12 months are focusing on coaching for development and giving in-the-moment feedback (each with 64%). That ranks behind only increasing alignment of performance goals with business goals (74%).

**Figure 17: Most Critical for Future Performance Management in the Next Year**

<table>
<thead>
<tr>
<th>Priority</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing alignment of performance goals with business goals</td>
<td>74%</td>
</tr>
<tr>
<td>Focusing on coaching for development</td>
<td>64%</td>
</tr>
<tr>
<td>Improving managers’ ability to give in-the-moment feedback</td>
<td>64%</td>
</tr>
<tr>
<td>Integrating performance feedback from multiple sources</td>
<td>29%</td>
</tr>
<tr>
<td>Developing strengths-based PM approach</td>
<td>23%</td>
</tr>
<tr>
<td>Integrating social platforms for networked and collaborative feedback</td>
<td>11%</td>
</tr>
<tr>
<td>Utilizing mobile devices to support managers in giving performance feedback</td>
<td>8%</td>
</tr>
<tr>
<td>Utilizing mobile devices to support performance and development opportunities</td>
<td>6%</td>
</tr>
</tbody>
</table>

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Alongside these performance management priorities, organizations told us that their greatest challenge to improving the effectiveness of performance management is developing their managers to be effective coaches (64%). That stood out as the single greatest opportunity for organizations. The next closest challenge – improved alignment between employee and business goals – was cited by 37% of organizations.
Developing managers to be effective development coaches starts with getting them on board with the transformation of performance management from “evaluation of employees’ weaknesses” to “development of employees’ strengths.” Managers need to understand the importance of the philosophical change and benefits of implementing the change. Next, share with managers what is expected from them to enable the transformation. Then, share with them specific expectations about activities to which they will be held accountable:

- Daily, in-the-moment informal feedback
- Regular career conversations (instead of once or twice a year formal appraisal discussions)
- Strengths-based coaching
- Execution of performance management as an ongoing process.

To build managers’ competencies in these activities, organizations should provide formal coach training and enable the managers’ mastery via support tools (e.g. communication packets, tips and tricks cheat sheets), and executive engagement.
Finding #13: Performance Management Budgets Expected to Remain Flat

More than half (57%) of organizations have talent management budgets that are less than $1 million, and on average, just over 12% of that budget is allocated to performance management, with the majority of that allocation devoted to learning & development. Three-quarters of organizations plan to hold the 2015 performance management budget flat. For those few organizations are planning to increase their performance management investment, they are doing so in two areas – both related to developing managers to be better development coaches: developing and delivering coach training for their managers, and creating performance support tools to sustain their managers’ coaching skills.

Finding #14: Organizations with High-Performance Performance Management Have Collaborative Cultures

Today’s business climate is diverse, global, and rapidly changing. The level of employee expectations and performance changes accordingly. In high-performing organizations, culture adapts over time to cope with such dynamic change, to meet the fluid demands of employees, and to enable them to perform at their best. A collaborative culture promotes the highest levels of employee productivity and, therefore, organizational excellence.

Organizational culture is shared beliefs and values that shape behavior patterns of employees. Performance, on the other hand, refers to the ability (physical, mental, and psychological) to execute specific tasks in a manner that can be measured as high-performance, average performance, or low-performance. We call high-performance companies Level 4 companies. We call average performance companies Level 3 and Level 2 companies. And, we call low-performance companies Level 1 companies.

Business indicators like retention, revenue, and engagement measure performance and indicate the level of an organization. A relationship exists between organizational culture and employee performance. Organizations with collaborative cultures are Level 4 companies. Organizations with competing or controlling cultures are Level 1 companies. Level 4 companies utilize their collaborative culture to develop employees’ performance by motivating employees toward shared goals and objectives, and to shape and to channel employees’ behavior toward a clear, cascaded, and shared sense of purpose.

A collaborative culture is characteristic of high-performance companies and is a primary determinant in promoting better employee performance and sustained competitive advantage.

Finding 15: High-Performance Performance Management Yields Better Business Results

Performance management has been a business practice for more than 50 years, yet very few organizations have cracked the code on designing and implementing effective, high-performance performance management. Just more than a quarter (26%) of organizations are high-performing (Level 4) when it comes to performance management.
A CHRO or Chief Talent Officer or CEO might ask: So what makes an organization high-performance in performance management? And, what difference does it really make to be high-performance? Ten leading practices characterize contemporary high-performance performance management and they look decidedly different than those of the past.
### Figure 20: Today’s Leading Practice PM vs. Traditional Practices

<table>
<thead>
<tr>
<th>Today’s Leading Practice PM</th>
<th>Traditional PM Practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Create a <strong>PM strategy</strong> in alignment with your business strategy ensuring cascaded goals</td>
<td>PM strategies are rare and those that exist are not necessarily intentionally aligned with business strategy via cascaded goals</td>
</tr>
<tr>
<td>2. Institutionalize PM as an <strong>ongoing process</strong> --- not an annual activity with a beginning and an end</td>
<td>PM is an annual check-the-box activity with a clearly defined start and end date</td>
</tr>
<tr>
<td>3. Adopt an approach to PM that focuses on <strong>developing employees’ strengths</strong></td>
<td>Focus on evaluating employees’ weaknesses—tell them to fix them or move out of the organization</td>
</tr>
<tr>
<td>4. <strong>De-couple performance discussions</strong> with compensation discussions</td>
<td>At the same time performance appraisal discussion are held so are compensation increases revealed; in fact, this is the only reason employees tolerate showing up to the performance appraisal discussion – to learn what their pay increases will be</td>
</tr>
<tr>
<td>5. <strong>Engage peers and subordinates</strong> in providing performance feedback.</td>
<td>PM is a top-down process; only the employee’s manager provides input on what the employee’s performance has looked like over the last year.</td>
</tr>
<tr>
<td>6. <strong>Review and revise goals regularly</strong> to keep aligned with changing business priorities.</td>
<td>Employee performance goals are typically defined early in the year and changing them takes an act of magic, depending how religious you may be.</td>
</tr>
<tr>
<td>7. <strong>Hold managers accountable</strong> for acting as coaches to develop employees’ strengths.</td>
<td>Accountability – what’s that? Managers are not held accountable to develop their employees and are certainly not incented or rewarded for doing so.</td>
</tr>
<tr>
<td>8. Catch employees performing well (or not so well) and provide immediate, <strong>on-the-fly feedback</strong> (and do this regularly!).</td>
<td>Managers provide feedback to employees on their performance one time per year if they lucky – during the annual performance appraisal discussion.</td>
</tr>
<tr>
<td>9. Define and execute on <strong>targeted individual development plans (IDP’s)</strong> enabled with performance support tools</td>
<td>IDP’s are defined in an ad hoc fashion and even when defined are not intentionally executed upon.</td>
</tr>
<tr>
<td>10. <strong>Define a select few metrics</strong> to measure the impact of performance management and monitor those metrics regularly to create the conduit for making continuous improvement changes and creating a culture of perpetual high-performance.</td>
<td>Measurement of business impact of talent processes is not well understood and even if it is, too many metrics are defined are not a single one is tracked over time for the purpose of making continuous improvement.</td>
</tr>
</tbody>
</table>

2014 Brandon Hall Group Performance Management Study (n=223)
The reason for organizations to adopt today’s leading performance management practices is simple and downright compelling: better business results.

**Figure 21: The Business Impact of Leading Practice Performance Management**

<table>
<thead>
<tr>
<th>Business Metric</th>
<th>Level 4 High-Performance Companies</th>
<th>Level 3</th>
<th>Level 2</th>
<th>Level 1 Low-Performance Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer retention increased 1-20%+</td>
<td>38%</td>
<td>26%</td>
<td>13%</td>
<td>0%</td>
</tr>
<tr>
<td>Revenue increased 1-20%+</td>
<td>58%</td>
<td>52%</td>
<td>48%</td>
<td>16%</td>
</tr>
<tr>
<td>Customer satisfaction increased 1-20%+</td>
<td>55%</td>
<td>27%</td>
<td>30%</td>
<td>5%</td>
</tr>
<tr>
<td>Voluntary turnover has stayed the same or decreased 1-20%+</td>
<td>61%</td>
<td>42%</td>
<td>46%</td>
<td>16%</td>
</tr>
<tr>
<td>85% or more of our business goals set in the last 12 months have been achieved</td>
<td>56%</td>
<td>47%</td>
<td>29%</td>
<td>12%</td>
</tr>
<tr>
<td>Organizational engagement has increased 1-20%+</td>
<td>44%</td>
<td>26%</td>
<td>9%</td>
<td>16%</td>
</tr>
</tbody>
</table>

2014 Brandon Hall Group Performance Management Study (n=223)

The transformation of performance management from low-performance Level 1 traditional practices to high-performance Level 4 modern-day practices is a journey. But in talking with CEOs and other business leaders, and revisiting the business impact metrics shared here, beginning the transformation is requisite to business success. It is simply unfathomable that an organization could do a good job of managing its talent without gathering information about how well their employees are performing their jobs. And it is unconscionable to think an organization could hold onto a traditional approach to performance management and expect to achieve, much less accelerate and sustain, their business goals and results.
Benchmark Companies to Watch

**Gap, Inc.**
Gap, Inc. is a clothing retailer founded in 1969. Nearly an immediate success, sales topped $1 billion in the late 1990s and the retailer expanded internationally, opening stores in Malaysia, Singapore and other non-US locations into the early 2000s and expanded online services into Canada and the United Kingdom. By 2010, revenues were exceeding $14 billion. However, the competition was growing with brands such as J. Crew, American Eagle, Abercrombie, Target, Kohls growing in popularity and taking part of Gap’s market share and regaining and sustaining market share has been a real challenge for Gap since. Recently, Gap’s challenges have not been contained to only their business strategy. Recent higher than average turnover in key talent segments and critical job roles alerted Gap leadership to ensuring talent challenges. To correct the wane in employee performance and productivity, a Gap HR leader talked very pointedly about Gap’s decision to completely abandon traditional performance management. Out with annual performance appraisals; out with forced distributions; out with top-down only feedback. Replacing those dated practices was a single heads-down effort to return employee performance to what it once was: train all managers to be effective strengths development coaches. This analytics-based strategy, Gap is counting on optimized employee performance and therefore improved business performance. While the effort is underway, and metrics have not yet been tabulated, Gap’s fresh and science-based approach to performance management may be the benchmark to which many others will soon be aspiring. ¹

**Adobe**
In March 2012, after noticing an uptick in employees exiting right after the annual performance appraisal discussion, Adobe dropped performance ratings altogether. Adobe’s SVP of People and Places said the company “abolished stack ranking and now uses a ‘check in’ system that fits with Adobe’s culture of collaboration.” Since dumping its stacked ranking process, Adobe’s stock rose 68% and revenues are up 4.4%.²

**Expedia**
In July 2012, Expedia also eliminated its long-standing forced ranking system. The company then described the motion as “rehumanizing the relationship between employees and their bosses.” The company went on to say, “We wanted performance management to be less event-oriented and to be something that managers and employees engage in as a regular part of how they do business together – not a look back at last year and assigning a grade to it.” One year after abandoning the traditional performance management practice and replacing it with informal, on-the-fly informal feedback from managers, peers, and subordinates. Karen Crandall, Sr. Director of Global Compensation, said “the emphasis has been on frequent feedback and coaching; the hope is to create a performance culture that will help improve both individual and team performance and ultimately drive business results.” ³

Microsoft

Microsoft had long been known for pitting employees against one another in an attempt to reward the ultra-top performer and eliminate the weaker (though not necessarily weak) performer. This traditional “rank, stack, and yank” approach to performance management had employees feeling more than discouraged and frankly encouraged them to betray their co-workers just to get the performance rating needed to stay on top of the pile. In November 2013, Microsoft took a high-profile stand recently by eliminating the practice of jamming employees into the bell curve. Microsoft’s new approach to performance management promises not only to optimize individual performance but build teamwork as well. As with Gap, Inc., the business impact of the performance management transformation at Microsoft has not yet been shared, but industry analysts are predicting promising results.4

Conclusion

The Brandon Hall Group State of Performance Management Study showed that high-performance performance management is in transition from a system dominated by start-and-stop annual activities, forced rankings, infrequent top-down feedback, and evaluation of employees’ weaknesses with employee performance data, to an ongoing process focused on building employees’ strengths via manager coaching and regular, in-the-moment feedback provided by managers, peers, and subordinates and performance data well-integrated with data from all other talent processes. The transition is a journey and far from complete, with nearly three-quarters of organizations still utilizing traditional performance management practices and/or just beginning to develop more effective practices.

Organizations in transition have three priorities, including increasing alignment of employee goals with business goals, improving managers’ ability to give in-the-moment feedback, and focusing on coaching for employee development. To achieve these priorities, developing managers to be effective coaches is far and away the greatest challenge for organizations trying to improve performance management. Gaining executive engagement is another top challenge. Currently many executives and other business leaders are not involved in setting a strengths-based philosophy, they don’t necessarily share business goals to ensure cascaded goals, they don’t endorse the proper training for managers to be effective development coaches, and they don’t hold leaders accountable for developing their employees’ performance.

According to survey results, high-performance performance management is enabled with technology to 1) provide tools for supporting the performance management process and 2) ensuring the integration of performance data with other talent data. Automation will accelerate the pace at which organizations can mitigate performance risk and predict future performance requirements for business continuity.

While performance management budgets are likely to remain flat over the coming months, those investing will likely do so in two separate areas: formal training for managers to be effective development coaches, and improving automation and integration of the performance management process.

Several other performance management leading practices require targeted attention including intentional de-
coupling of the performance discussions from pay discussions, reviewing and revising goals regularly to keep
them aligned with business goals, executing on strengths-based individual development plans, and continuously
monitoring the effectiveness of the process to ensure its ongoing impact on the business.

Committing to the 10 leading practices of performance management will optimize individual, team, and orga-
nizational performance, utilizing the full potential of the workforce to mitigate performance risk, align career
aspirations with organizational goals, and predict performance capability needed for future success.

Research Methodology

Our research methodology is grounded in four client-centric goals:
• Improving business performance
• Improving client loyalty
• Improving market leadership
• Improving employer brand

The ideas and practices described in this industry perspective were developed after collecting quantitative and
qualitative data, reviewing academia-based published research, testing our hypotheses in the market, debating
internally, speaking with clients and prospects, and analyzing the talent management practices and activities of
high-performing organizations and their lower-performing peers.

This provocative research is in alignment with our analytics-based, iterative, 5-phase research process:

Phase 1
• Evaluation of Business and Talent Landscape: We study current trends to hypothesize about how they
  might influence future events and what affect those events is likely to have on your business.

Phase 2
• Quantitative Surveys: To test our hypotheses, we gathered empirical insights through a formal
  survey that was in the field September through October 2014 and completed by 223 Executives, Chief
  Human Resources Officers, VPs of Talent and other business leaders as well as HR, Learning and Talent
  Leaders and employees representing 15 countries from all significant global regions across more than
  12 industries.

• Qualitative Interviews: To check assumptions generated from surveys and to add context to the
  empirical survey data, we conducted interviews or focus groups with 12 Executives, Chief Human
  Resources Officers, VPs of Talent and/or other business leaders as well as HR, Learning and Talent
  Leaders and employees.

Phase 3
• Expert Resident Knowledge: Our quantitative and qualitative findings were shared within our internal
  research community and rapidly debated in peer review sessions to test validity and practicality.
• **Scholarly Reviews:** We studied and analyzed renowned academic research comparing and contrasting their findings to our own and again engaged in rapid debate to ensure our findings and analysis stand the tests of business usability. New perspectives were shaped and added as appropriate.

**Phase 4**
• **Emergent Trends:** After studying and analyzing all collected data, we documented patterns emerging within high performing companies. We created initial drafts of our findings, leading practices and high impact processes.
• **Market Testing:** We fortified and validated our initial findings, leading practices and high impact processes within the analyst environment, our own talent management Advisory Board and select other clients and prospects that offered a fair assessment of the practicality and usability of our findings, practices, and processes. Again we added new perspectives as appropriate before readying the research for publication.

**Phase 5**
• **Analytics-Based Reports and Tools:** After verifying our position internally, in alignment with scholarly research, and the market and completing rigorous peer reviews, we documented our findings and position in this published research, made available to our members only, in this form and searchable in our online research library.

**Figure 22: Brandon Hall Group’s Trademarked Research Methodology**
About Brandon Hall Group

Brandon Hall Group is a HCM research and advisory services firm that provides insights around key performance areas, including Learning and Development, Talent Management, Leadership Development, Talent Acquisition, and HR/Workforce Management.

With more than 10,000 clients globally and 20 years of delivering world-class research and advisory services, Brandon Hall Group is focused on developing research that drives performance in emerging and large organizations, and provides strategic insights for executives and practitioners responsible for growth and business results.

At the core of our offerings is a Membership Program that combines research, benchmarking and unlimited access to data and analysts. The Membership Program offers insights and best practices to enable executives and practitioners to make the right decisions about people, processes, and systems, coalesced with analyst advisory services which aim to put the research into action in a way that is practical and efficient.

The Value of Membership

The Brandon Hall Group Membership Program encompasses comprehensive research resources and an array of advisory services. Our Membership Program provides:

- **Cutting-Edge Information** – Our rigorous approach for conducting research is constantly evolving and up-to-date, providing your organization with current and future trends, as well as practical insights.

- **Actionable Research** – Your membership includes advisory services and tools that are research-driven and provide you a breakthrough approach to addressing immediate challenges and opportunities inside your organization.

- **Customizable Support** – Whether you are an executive or entry-level practitioner, our research and analyst insights can be leveraged at an individual level and across the entire organization. We realize that every organization has unique needs, so we provide multiple analyst and research access points.

- **Community of Peers** – We realize the value of connecting with your peers and being part of a community that is focused on continuous improvement. Your membership provides you with personal connections to fellow professionals.

- **Unlimited Access** – Every member of your team has the ability to utilize research, best practices, and advisory services when they need it most.

To learn more about Brandon Hall Group, please call us at (561) 865-5017 or email us at success@brandon-hall.com.