

# How Performance Management Can Foster Engagement

There is increased recognition among companies that engagement matters – both, for driving a high-performance culture and building a sustainable workforce for the future. For companies to unleash their workforce potential, they need to create an environment which retains talent and entices others to join. The best and the brightest are drawn to workplaces where they can do their best work, make a difference, connect with like-minded people and be recognised for their accomplishments. Despite widespread acceptance on the importance of engagement, only 30% of the workforce is engaged.<sup>1</sup>

What role does Performance Management play in engagement? A number of companies are moving away from the annual performance appraisal. Some have abandoned them altogether. Many suggest they foster disengagement. Performance reviews are held in universal disdain – they can be confronting and awkward. All of us have experienced a visceral reaction at some point in our career in anticipation of a performance review.

But has the pendulum swung too far? In abolishing performance reviews some companies have also ceased the meaningful feedback and conversations that are key to engagement. A recent study found employee performance is 10% lower in organisations without performance reviews and that employees felt less engaged.<sup>2</sup> The key is to find the happy medium. Rather than abandoning performance reviews, companies should strive to reimagine performance management so that ongoing feedback, recognition and improvement become the driving themes.



Many HR professionals face an ongoing challenge to align workforce strategy and organisational strategy to deliver strategic business outcomes. Creating strategies and practices to connect with employees will ensure organisations have the workforce needed to achieve strategic organisational objectives. Companies with high engagement, strong leadership, reputations and a performance culture achieve 57% higher total shareholder returns.<sup>3</sup>

## There remains considerable disillusionment with performance management.

*Traditional performance management has failed to deliver on the promise of driving higher engagement and productivity*

Despite decades of implemented practice, performance management has failed to deliver on the promise of driving higher engagement and productivity. The fundamentals of performance management – aligning individual objectives to strategic business goals, evaluating and providing feedback, as well as recognising and rewarding high performers – should drive productivity and lead to engagement. In reality however, performance management processes have disengaged employees. Why the disconnect?

Rater biases, infrequent feedback and lack of transparency are all common concerns. Perhaps now is the time to pause and ask what are we trying to achieve with performance management?

The trend toward the decoupling of pay-for-performance and on-going learning and development continues to gain traction. If collaboration and development are the aim of an organisation's focus on performance, a de-emphasis on ratings will foster a more cooperative environment. Further, taking the angst out of performance reviews means managers and employees can focus on development. If however, pay-for-performance or identifying A-players is the goal, a method to score and differentiate performance is necessary.

New models have emerged, such the radical re-design of Deloitte's performance management approach. At Deloitte, managers no longer set goals for employees, rate performance or share performance ratings.<sup>4</sup> A growing cohort of companies have abolished ratings – by early 2015, 33 companies employing over 1.5 million people no longer defined performance by a single number.<sup>5</sup> Instead these companies emphasise ongoing, quality conversations between managers and their teams.

*The reinvention of performance management is well under way*



## The emphasis on performance management has shifted

In the new framework, the emphasis has shifted from assessing past performance to focusing on clear future goals and expectations. The reinvention of performance management is well under way; the aim is to provide feedback that drives performance, supports development and engages individuals.

Research indicates the focus on quality conversations has been well received by employees and managers alike.<sup>6</sup> That said, whilst the re-vamped process reduces the administrative burden on managers, there is only anecdotal evidence at this stage that either productivity or engagement are in fact boosted. Instead there is “an implicit recognition that performance and engagement are strongest when employees feel supported by a manager’s guidance and coaching and when they have more ownership of the process”.<sup>6</sup> Without ratings, how do we know? Some organisations have tried to eliminate structured ratings with lacklustre results and have reinstated ratings as they struggle to find an alternative basis on which to base the allocation of the company’s financial resources.<sup>7</sup>



## To rate or not to rate?

With or without ratings, companies still need to make decisions impacting pay, promotion and career progression. Rating-less systems claim to be less demotivating, but can be prone to criticism of a lack of transparency. Perceptions of unfairness have knock-on effects to engagement.

Perhaps ratings are simply a convenient scapegoat for the failings of the performance management process. Are top performers who are ranked as A-players disengaged by their performance rating? If the answer is ‘no’ perhaps the bad press that the performance management process receives is driven by the way average to poorer performers feel towards receiving such feedback. A recent study found a 28% drop in the productivity of high performers after abolishing ratings.<sup>2</sup> Not just feedback, but also recognition, is important in motivating high performers. But it goes beyond the argument around ratings. Employees perceived the quality of the conversations with managers fell by 14% after reviews were abandoned.<sup>2</sup>

*Culture and manager capability are what make performance succeed or fail*

Performance management and ratings are neither good nor bad, culture and manager capability are what make the performance process succeed or fail. It’s time we shift the emphasis. Creating an environment in which employees can participate in meaningful work, receive regular feedback from managers, be recognised for personal and team achievement are key to fostering engagement. Bringing these components into performance management in a personalised experience will drive engagement.

When companies already enjoy high levels of engagement, the most significant factor driving engagement higher is aligning rewards and performance. This only occurs when there is a strong foundation of leadership enablement and a supporting culture.<sup>8</sup>



## How to differentiate the best

With no magic bullet, understanding the objective of the performance process within the organisational context is the only way to craft an approach that will serve up the desired combination of productivity and engagement.

Ask the question: is our emphasis on learning and development or pay-for-performance? Accept that what works for one organisation may not work for another and there will be multiple 'right practices'.

Consider the following:

- Performance discussions embedded in business-as-usual will drive stronger outcomes. Consider pulse performance practices that promote regular feedback, ongoing discussions and agile alignment of objectives with strategic goals.
- Investment in manager and leader development – coaching in giving feedback and managing difficult conversations. Re-focus discussions from 'rating past performance' to 'what needs to be done next'.
- Collect and utilise data from multiple sources to create a richer view of employees' performance. Weigh potential and effort against ability and outcome.
- Simplify, simplify and simplify the process to increase adoption.
- Create a culture that values people, performance and strong leadership in which performance management can form the basis to drive results.



**Interested to learn how you can drive engagement at your organisation through improved performance processes, with PageUp's help?**

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### References

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### About the Author

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