



# The Makings of Modern Performance Management

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# Thank You to Our Sponsor

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RedThread would like to thank Glint for its sponsorship of this research, without which we would not have been able to complete this study.



At Glint, our mission is to help people be happier and more successful at work. In working with millions of employees and managers to increase engagement and build incredible cultures, we've learned a lot about what it takes to help people thrive at work. One key learning is that engagement and performance are inextricably tied together. That's why we're invested in bridging the gap between employee engagement and performance management. This starts by helping organizations adopt an agile, forward-looking approach that enables their people to develop and grow. We believe this research provides a thoughtful examination of both the pitfalls and potential of performance management practices for both individuals and organizations. These insights serve us all as we seek to truly motivate our people and drive our organizations forward.

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# About RedThread

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Sure, we're experts in performance, people analytics, learning, and D&I – and we're well-versed in the technologies that support them. But we're also truth-seekers and storytellers in an industry often short on substance, and too full of @#\$. Our mission (indeed, our very reason for existing) is to cut through the noise and amplify what's good. We look for the connections (or red threads) between people, data, and ideas – even among seemingly unrelated concepts. The result is high-quality, unbiased, transformative foresight that helps you build a stronger business.

# Key Findings

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We identified several key findings in the course of this research:

- 1.** There are no “silver bullet” practices for effectively enabling and managing performance, given the complexities of individual organizations.
- 2.** There are, however, three levers organizations can focus on to drive organizational performance, individual performance, and employee engagement:
  - Culture, which promotes the values and norms of the organization to drive organizational performance and engagement
  - Capability of managers, which plays a role in creating the right environment to drive individual performance
  - Clarity, which enables individuals to understand their contribution now, and in the future, to drive engagement
- 3.** Three aspects of culture are especially critical:
  - Fairness, not only in outcomes, but in practices
  - Feedback that is open and helps move individuals toward action
  - Future-focus on growth and development
- 4.** To improve managers' capabilities, organizations should especially focus on:
  - Coaching employees in an ongoing manner to learn from success and failure
  - Candor and effectively navigating difficult two-way conversations
  - Clearing barriers to enable individuals to do their best work



**5.** There are two aspects of clarity that are especially critical:

- Clarity of expectations for today
- Clarity of expectations for tomorrow

**6.** Organizations that do these things are more likely to experience higher levels of performance and engagement, specifically:

- Organizations that scored high on culture were 32% more likely to experience high employee engagement and 97% more likely to experience high organizational performance
- Organizations that scored high on capability of managers were 12% more likely to experience high individual performance
- Organizations that scored high on clarity were 28% more likely to experience high employee engagement



# Introduction

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If you took a time machine back to 2009 and peered into organizations' performance management practices, you would have seen people doing things the same as they ever had. There would have been an annual goal setting process, if you were lucky, a mid-year performance conversation, and an annual review. These would then be followed by compensation decisions. It was all very staid and steady, designed for fairly traditional, hierarchical organizations with well-defined and relatively unchanging roles and responsibilities.

The problem was that the world was not staid and steady in 2009. Technological connectedness was beginning to disrupt traditional business models. The rising competition and accelerating speed of business was forcing companies to restructure how they did work, moving from hierarchical approaches to more team-based and cross-functional models. In addition, companies like Facebook, LinkedIn, and Twitter were just coming into real prominence – and with them, a changing perception of what it meant to get feedback and to access information. Further, with it still being the depths of the Great Recession, many organizations were searching for a way to engage their dispirited and comparatively unrewarded employees (layoffs gutted organizations and compensation increases were non-existent for many).

The world had evolved, but performance management practices had not. These traditional approaches offered limited flexibility and were disengaging – often, as one of our interviewees put it, it was like “being managed with a pointy stick.” Further, the practices were backward-looking, failing to provide employees with the guidance they sought on how to grow and develop for the future. This caused no end of frustration to managers, employees, and the HR groups that served them.

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Traditional performance management was disengaging, backward-looking and failed to develop employees.

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## About the research

This research is based on a literature review of more than 50 articles on the topic of performance management, interviews with 20 HR leaders, a quantitative survey of 368 HR leaders and employees, and more than 20 years of our collective research experience on this topic. For more details, see the Appendix.

This ultimately drove organizations to seriously reconsider their performance management process and to implement significant – and sometimes drastic – changes. Some of these changes included:

1. Redefining the primary purpose of performance management from a process designed for compliance and compensation purposes to one intended to improve individual performance and engagement
2. Removing ratings, changing performance evaluation criteria, using different scales/labels, and rethinking how goals were set and maintained
3. Introducing “check-ins” and ongoing conversations, thereby expecting managers to coach and mentor employees on a much more frequent basis

All these changes, in aggregate, resulted in new approaches that were much more continuous, agile, forward-looking and dynamic – and much more aligned to the way work really gets done. More importantly, though, these changes also reflected a shift in the focus of performance management. Previously, it was a process to provide leaders with the information they needed to make compensation and talent decisions at scale.

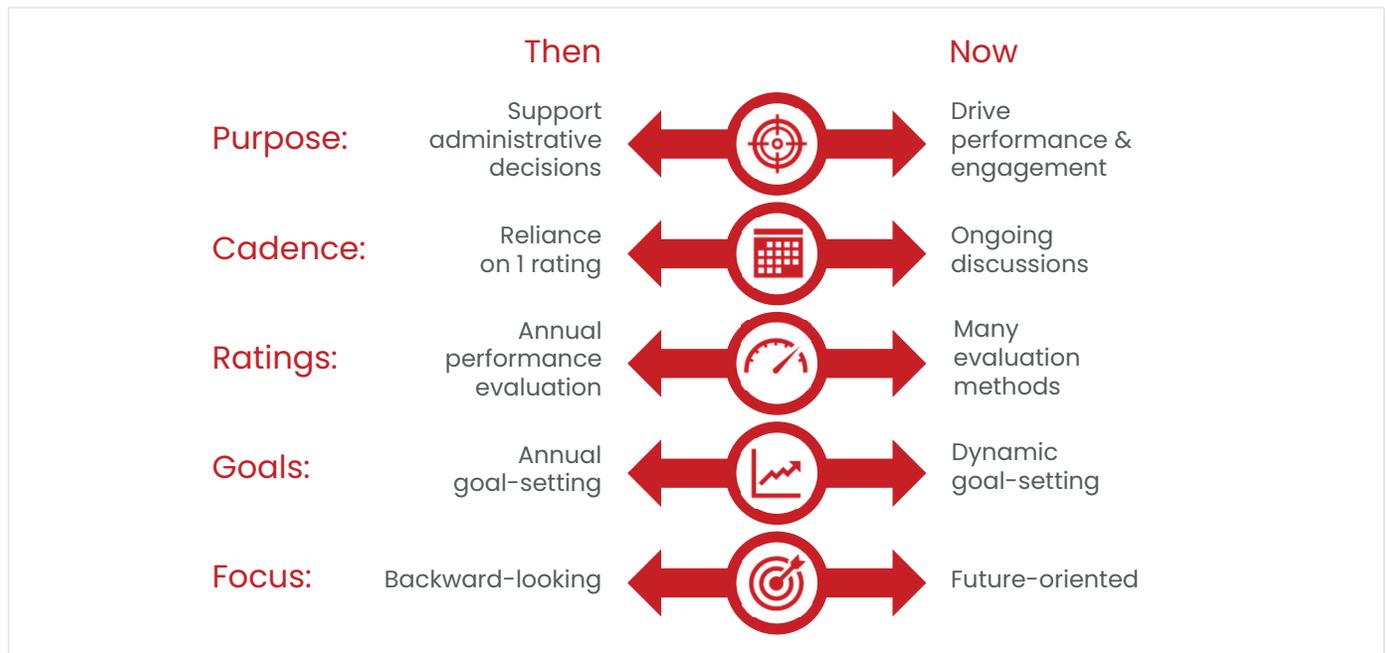
In this new world, performance management is now a set of practices designed to enable individuals to have more information, gain feedback more quickly, and to engage them more fully in their work, with a goal of enabling higher performance (see Figure 1).

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Modern performance management drives performance and engagement through development and feedback.

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**Figure 1: Summary of the shift in performance management across last decade**



Source: RedThread Research, 2019.

Now, flash forward to today. Many organizations have implemented some of these newer practices – some of them six or seven years ago – and should be reaping the benefits of all the changes they implemented. However, no one has looked to see if the theory has translated into reality.

In fact, anecdotally at least, we have heard from some organizations that these new practices have created some unrest. Specifically, in the rush to use performance management to engage employees, some organizations' employees feel they have lost adequate insight into how they are doing, how that connects to their compensation, and what they need to work on moving forward. Further, some in management report a lack of clarity on how and the extent to which the organization's goals are being aligned to and executed across the organization.

In addition, the constant debates about whether to remove ratings, which technologies to buy, how to train and hold managers accountable for developing their people, and the appropriate cadence for check-ins have created a lot of noise. This has led to confusion about which practices are the "right" ones for organizations to implement.

While a lot of time has been spent on these topics, we think they are fundamentally the wrong questions. They reflect an over-focus on following some generic “best practice” process and an under-focus on critical business outcomes. Based on our interviews with HR and other leaders, we think the question business leaders (including HR) should care about is:

***What should my organization do to improve the performance and engagement of our employees and the ability of us all to meet our business goals?***

With that in mind, we designed this research to measure those critical outcomes (individual performance<sup>1</sup>, organizational performance<sup>2</sup>, and employee engagement<sup>3</sup>) and their relationship to different performance enablement practices. We focused on measuring many of the newer practices of performance management to understand what is working after all the recent changes. Finally, we asked both HR leaders and employees from all functions for their perspective, knowing that HR is just one stakeholder in managing performance.

This report details our findings. While we have identified certain levers that are more effective for driving performance and engagement, we want to be clear that how those levers show up in different organizations will vary. There is no one “right” set of practices for modern performance management – but there are right principles. Our hope is that this report will help your organization identify the practices that will work best for your context.

There is no one “right” set of practices for performance management – but there are right principles.

- 1 Individual performance is self-reported, based on the last performance review and is answered on a 5-point scale (1 = very low, 5 = very high).
- 2 Organizational performance is self-reported, based on the extent to which a company has met or exceeded their business goals over the last three years and is answered on a 5-point scale (1 = Not at all, 5 = To a very great extent).
- 3 We define employee engagement as “A measure of energy, involvement, and concentration that is exhibited in work attitudes and behaviors.” Employee engagement is important because it has been shown to connect to employees’ performance and, quite frankly, because it is a critical metric for a large percentage of heads of HR.

# The Three Levers of Performance and Engagement

As we stated earlier, we believe the effectiveness of performance management practices should be judged on whether those practices drive three outcomes:

- Individual performance
- Organizational performance
- Employee engagement

When we analyzed our data, three groups of practices, which we call levers, emerged (see Figure 2 for more details):

- Culture
- Capability of managers
- Clarity

**Figure 2: Three levers of performance and engagement**



Source: RedThread Research, 2019.

To clarify Figure 2, if an organization is trying to increase organizational performance, its leaders should pay particular attention to creating a culture of fairness, feedback, and future-focus. Likewise, if leaders are interested in improving individual performance, they should work to improve the capability of their managers and, specifically, their abilities at coaching, candor, and clearing away barriers. Finally, if leaders want to improve employee engagement, not only should they focus on creating the right culture (fairness, feedback and future-focus), but they should also focus on clarity of expectations for both work today and in the future (tomorrow).

While we know that many leaders will want to improve across all three metrics, we also know that some organizations will put a stronger emphasis on one metric over the others, given their organizational priorities. In fact, in most of the forward-thinking organizations we interviewed, they tended to have a very clear idea of what outcomes they were trying to influence by investing in specific organizational practices.

Understanding the metric you are trying to drive from the beginning of a performance management redesign is absolutely critical to measuring the effectiveness of the new process. We hope that highlighting these three metrics will help you think through the ones that matter most to your organization.

In the next three sections, we are going to dive more deeply into the three levers, explaining how they work and providing examples of practices and organizations doing them well.

## Lever #1: Culture

One of the big shifts of the last decade has been a sense that culture and performance management practices are connected. However, culture is a big and nebulous topic (see sidebar: "What is culture, anyway?"), making it hard to pinpoint what specifically about culture matters to driving performance. Our research addresses this issue and identifies three components of culture critical to performance (see Figure 3):

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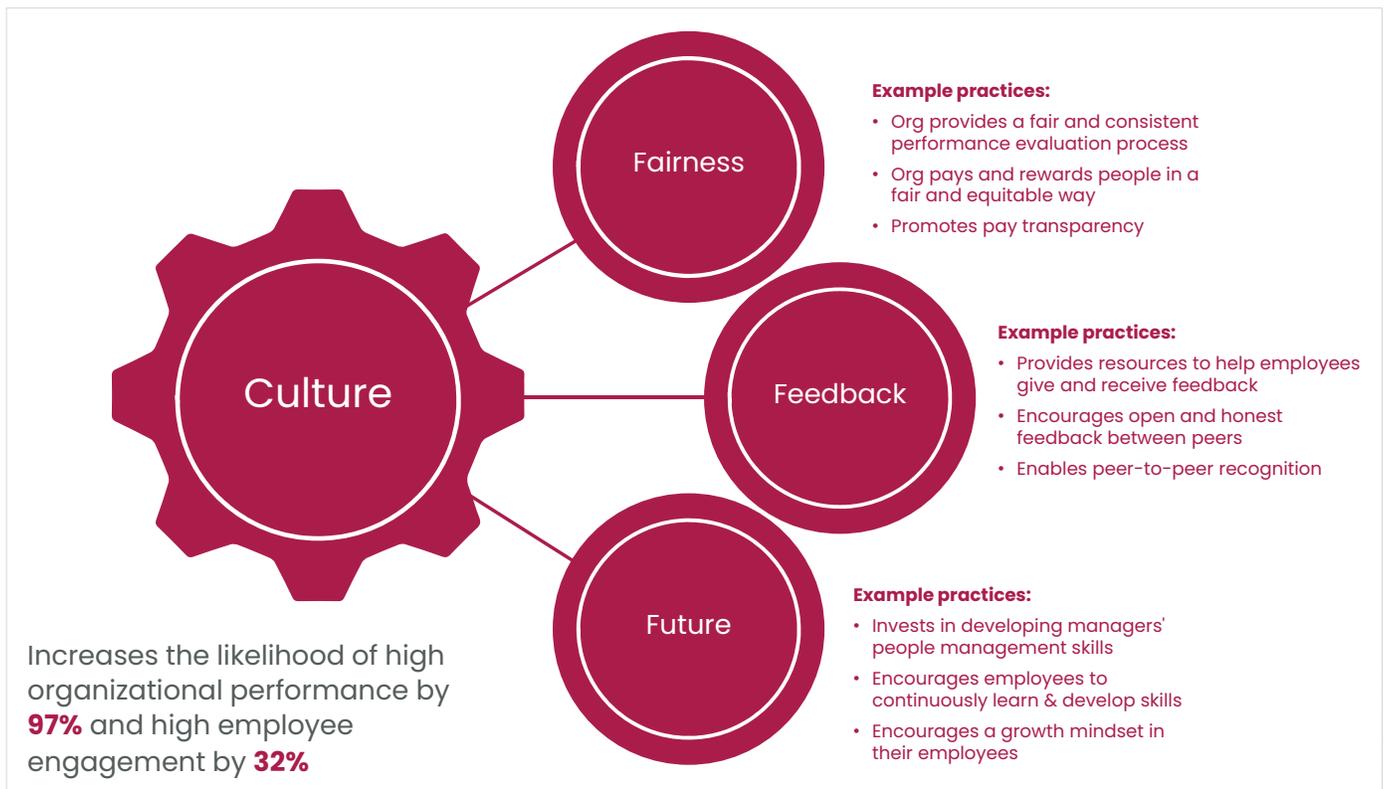
Forward-thinking organizations have clear perspectives on the outcomes they are trying to influence.

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- Fairness
- Feedback
- Future-focus

We found that when organizations do these things well, they are 97% more likely to experience high organizational performance – a truly substantial impact on critical business outcomes – and 32% more likely to experience high employee engagement.

**Figure 3: Overview of Culture Lever**



Source: RedThread Research, 2019.<sup>4</sup>

<sup>4</sup> High-performance culture includes an environment in which both organizational performance and employee engagement are high

## What is culture, anyway?

Culture is “the shared assumptions, values, and behaviors that determine how we do things around here”<sup>5</sup> that helps people and organizations thrive.<sup>6,7</sup> It is critical to think about those assumptions, values, and behaviors when redesigning performance management practices to understand where culture will help and where there may be some friction in adopting new approaches.

## FAIRNESS

Let’s start by discussing fairness, as it is one of the most foundational aspects of performance management. We found that the organizations most effective at fairness perform better on organizational performance and employee engagement metrics, as shown in Figure 4. In fact, organizations that implement a culture of fairness increase the likelihood of having high engagement by 29% and high organizational performance by 90%.

Fairness is a foundational aspect of performance management.

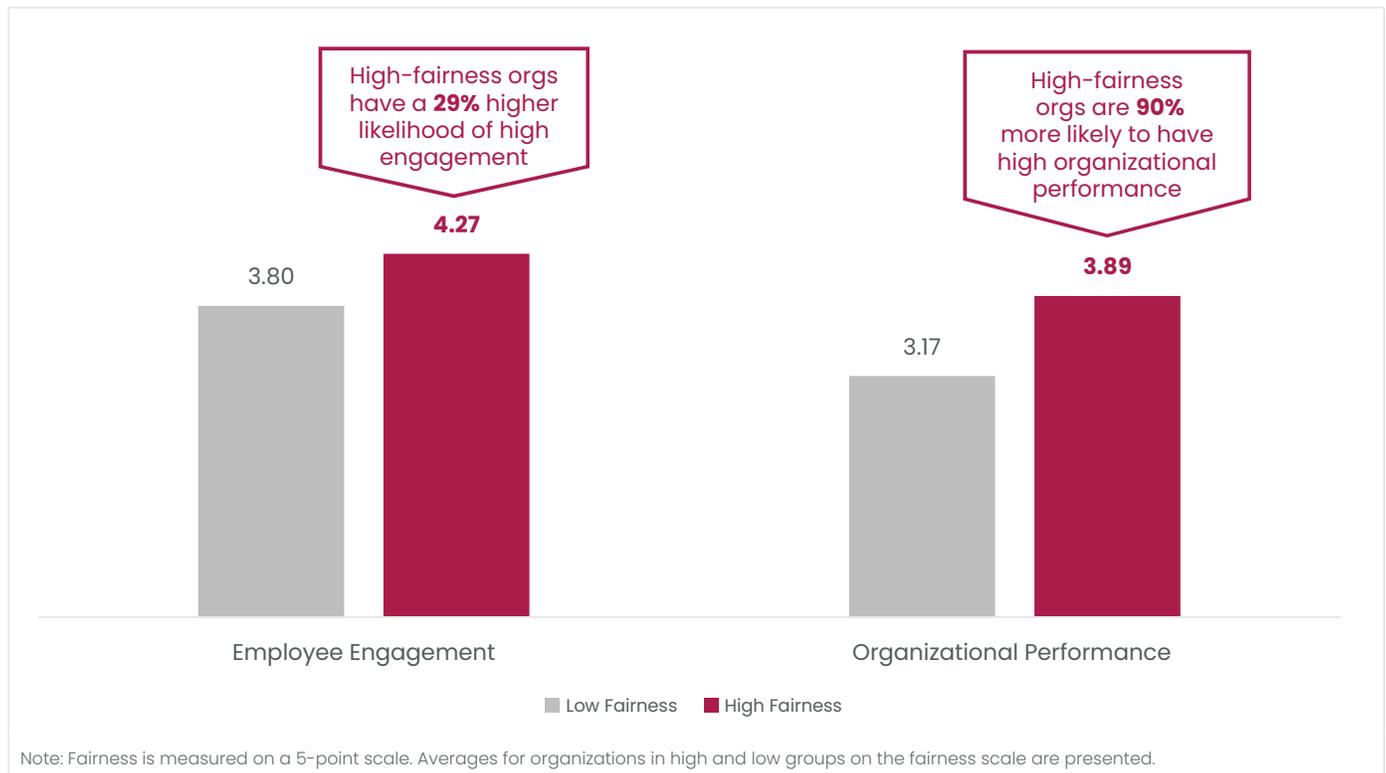
5 *“Manage the Culture Cycle,”* Heskett, J.L., The World Financial Review, 2011.

6 *“How to Build a Positive Company Culture,”* Kohll, A., Forbes, 2018.

7 *“The Leaders Guide to Corporate Culture,”* Groysberg, B., Jeremiah, L., Price, J., & Yo-Jud Cheng, J., Harvard Business Review, 2018.



**Figure 4: Low vs. High Fairness Culture – Average Scores on Engagement and Performance**



Source: RedThread Research, 2019.

What goes into creating a high-fairness culture? Our analysis identified three practices, but we want to underscore that they are representative of this overall concept of fairness in performance management. While the points below speak to two components of performance management practices – evaluation and compensation – fairness in all components is increasingly important (e.g., fair feedback, fair development opportunities). However, because pay and evaluation are still relatively transactional activities, it is easy for employees to assess the relative fairness of these. Thus, they tend to be the predominant areas in which discussions of fairness begin.

Evaluation and pay are often starting points in the discussion of fairness.

The three practices identified in our research include:

- Provides a fair and consistent performance evaluation process
- Pays and rewards people in a fair and equitable way
- Promotes pay transparency

We know from decades of research that procedural fairness<sup>8</sup> in both performance assessment and compensation processes is critical to the effectiveness of performance management. After all, if you do not think your work will be recognized and rewarded, you are less likely to want to go above and beyond.<sup>9</sup> More importantly, the processes used to determine these rewards have to be perceived as fair and/or equitable, and by facilitating procedural fairness, organizations can mitigate negative impact of rewards that may not always meet individual expectations.

However, in some of the recent redesign efforts, procedural fairness in the performance evaluation process may not be as strong as it once was. This is especially critical for organizations that may have abolished performance scores – our analysis shows that approximately 25% of companies have done this – and thus have removed some of the processes that encouraged consistency. For example, if an organization lacks performance scores and employees do not understand the connection between their performance and pay (if there is one), then they are more likely to perceive the performance assessment and compensation process as unfair.

And speaking of pay, let's talk about pay transparency. In today's world, organizations increasingly need to be clear on pay range expectations, what it takes to increase pay, and the frequency with which employees can expect pay to be adjusted. In addition to the impact on organizational culture, you may be asking yourself, "why is this so critical?" We have two reasons: (a) the information is already out there (hello <https://www.glassdoor.com/Salaries>), and (b) pay equity legislation is coming to a state or country near you soon (if it has not already).<sup>10</sup>

Organizations have an opportunity to get ahead of questions about pay transparency before it becomes more mainstream. However, given the risk associated with it and, therefore, the time it will take to create internal alignment on the topic, it is critical to get started now.

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Our analysis shows that approximately 25% of companies have abolished performance scores.

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Organizations need to be clear about pay and changes in rewards.

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8 *"Determinants of Perceived Fairness of Performance Evaluations,"* G. Greenberg, Journal of Applied Psychology, 1986. ; "Fairness in performance evaluation and its behavioural consequences," Sholihin, M., and Pike, R., Accounting and Business Research, January 2011.

9 *"2018 Trends in Global Employee Engagement,"* Aon, 2018.

10 *"A Guide to Pay Parity Laws Around the World,"* CloudPay, 2019.

How do organizations make fairness a reality for their employees? In the course of our interviews, we came across one example, from a global company, that we think is especially illustrative.

### **Company Spotlight: One company's journey toward a more engaged, year-round performance management process**

A global company has recently shifted its performance management approach so that the core outcome is no longer an annual leader-led, high-stakes review. The new philosophy is anchored in year-round quality conversations that inspire the highest levels of performance and development in order to drive business results.

A key consideration in this transformation was the varying needs of different teams within the organization. For example, some groups are more centered on long-term priorities that can span multiple years, and others are more defined by project timelines. There are also different needs among creative, technical and operational teams. In light of these variations, forcing a highly-regulated approach might have caused resistance or feelings of unfairness.

As a result, the performance management core team worked in close partnership with HR teams in each part of the businesses to provide clarity around which elements of the new approach were "core" – everyone should have a common experience, and which elements were "flexible" – businesses could make adjustments to fit local needs. Even after the roll-out, the performance management core team has continued regularly scheduled conversations with the HR partners to refine and reinforce the new approach.

A key insight during the implementation was that "less is more" when it comes to learning-aids and technology – busy leaders and employees find it easier to engage when they have one-



paggers and supporting technology that is so intuitive and free of required approvals that little to no training is required.

One “core” element of the new approach is year-round performance and development conversations, which can be initiated by either leaders or direct reports. There is an expectation that these conversations happen multiple times during the year, with a goal of reinforcing trusting and inclusive relationships, keeping work priorities on track and enabling a safe environment for development. The “flexible” part of this element is the cadence. For example, a group whose work is highly variable and project-based has check-in conversations that are more aligned with project cycles, happening roughly every 6 to 8 weeks. Another less project-driven group does check-ins on a more set schedule, every month.

Regardless of the cadence, leaders and direct reports can use the performance management technology to capture an informal “social-media” like stream of notes from these conversations, visible only to the two of them. In this new environment, leaders have reported that their confidence and comfort related to conversations with their employees increases throughout the year.

A second “core” element is objective-setting. While everyone is expected to set objectives, employees have flexibility to add, edit, or retire them at any time, and they don’t “expire” at the end of each business year. (They move to an archive when they’re either completed or retired.) This approach helps employees keep work aligned with evolving business priorities, so that performance management happens “in the flow of work” rather than as an HR-mandated event.

At the end of the year, employees reflect on the year and send “notes” to their leader about what they’ve accomplished and how they’ve developed. These notes do not become part of the permanent file, so employees can focus more on the content, and less on writing with perfection. Leaders prepare and share summaries that tell the story of the year, celebrating accomplishments, recognizing development and encouraging continuing growth.



Measurement has been an important element of implementation, first, to inform change management strategies, and second, to understand successes and opportunities. Current insights include:

- Partnership with an integrated team of HR functional partners is a critical success factor,
- Leaders need time and reinforcement to develop the skills needed for higher quality ongoing conversations – it won't happen overnight; and,
- There is a strong correlation between higher conversation frequency and positive sentiment across multiple dimensions of employee engagement.

## FEEDBACK

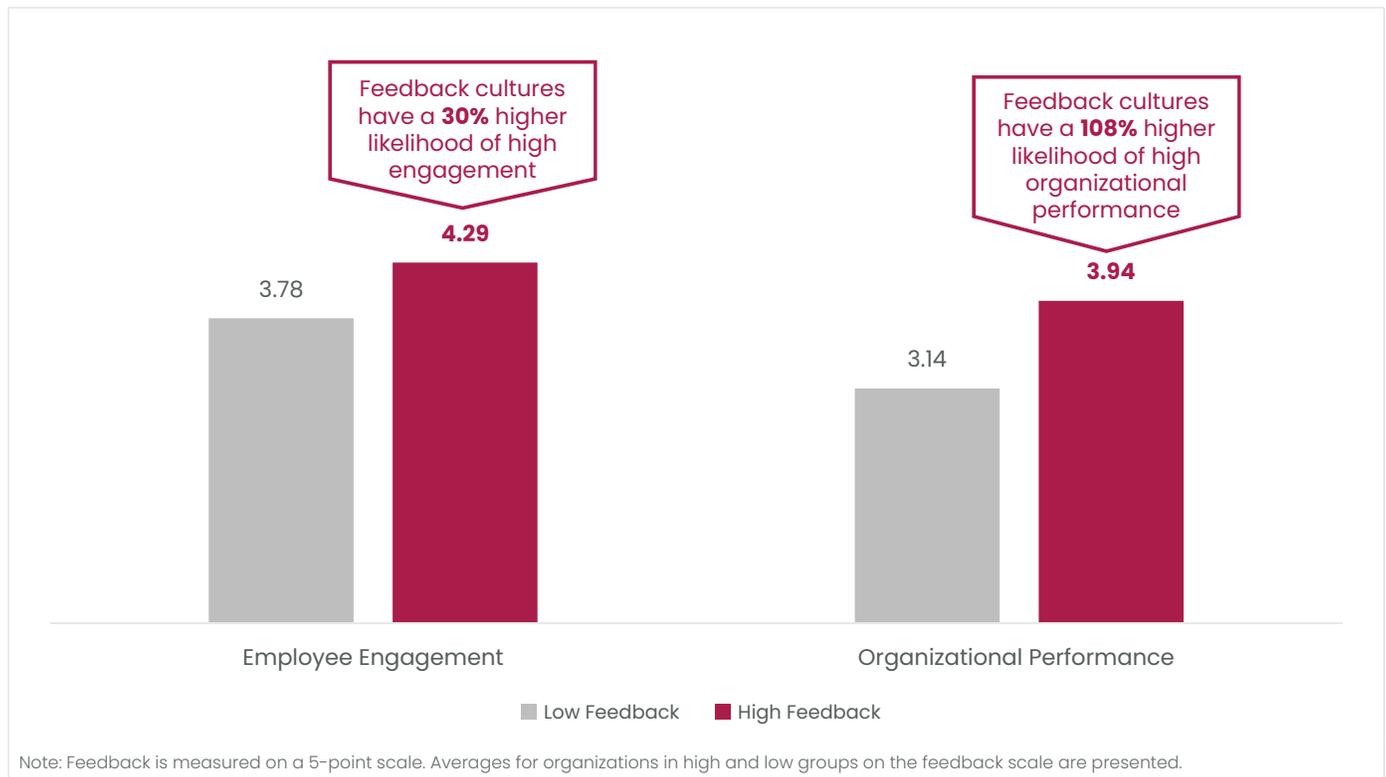
The second aspect to focus on is creating a high-feedback culture. As you can see in Figure 5, organizations with high-feedback cultures tend to perform better on employee engagement and organizational performance. Our further analysis reveals the importance of high-feedback cultures: those organizations that have them are 30% more likely to have high employee engagement scores and are a stunning 108% more likely – i.e., twice as likely – to score high on organizational performance. A high-feedback culture is one of the most significant influencers of organizational performance identified in this study.

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A high-feedback culture is one of the strongest predictors of organizational performance in our study.

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**Figure 5: Low vs. High Feedback – Average Scores on Engagement and Performance**



Source: RedThread Research, 2019.

These data underscore what people have intuitively known – that a high-feedback culture can help drive organizational performance. This is one of the areas where modern performance management practices excel in that much of the focus of those practices are on more continuous feedback conversations.

Modern performance management tends to excel in aspects of feedback.

There are a number of different ways to encourage high-feedback cultures, and our data point to just a few of the approaches that organizations can use:

- Providing resources to help employees understand how to give and receive feedback
- Encouraging open and honest feedback between peers
- Enabling peer-to-peer recognition

One example of how an organization does this comes from Children’s Hospital of Wisconsin, which offers training to both

managers and employees on how to conduct ongoing performance discussions, as described below.

### **Company Spotlight: Children's Hospital of Wisconsin trains managers – and employees – on feedback discussions**

When establishing organizational values and the guiding behaviors in 2012, Children's Hospital of Wisconsin knew that the ability to give and receive feedback honestly would be key to their value of Integrity. However, they knew that conducting conversations that provide employees, and sometimes managers, with constructive feedback is a skill that not everyone has. Therefore, as Children's began to ask managers and employees to conduct on-going conversations it was important to arm them with the tools necessary to do this successfully.

The solution was to provide training to help managers navigate these on-going discussions. Children's created an all-day course on the power of coaching and feedback. This course not only provided a foundational understanding of why coaching and feedback is necessary, but also gave leaders an opportunity to practice what can be uncomfortable. When it was first launched, it was simply a stand-alone offering. However, it was popular – really popular. Even though it wasn't mandatory, most managers went through the course. And the feedback on the course was strong. Over 99 percent of participants rated the course valuable and over 94 percent of participants felt confident applying what they learned from the course.

Since then, it has become part of the Children's Foundations of Leadership program. As new leaders join the organization or as individual are promoted into managerial roles, they go through this course as part of their training.

In addition, recognizing the need to refresh individuals during times in which critical conversations will take place, a shorter course is provided at the end of the year. This course focuses on self-awareness and acknowledging different behavioral

styles for leaders. It helps manager prepare for end of year discussions, how to navigate these, and how to follow-up. Employees also have the opportunity to gain skills in coaching and feedback through Children's one day culture shaping course, through online internal resources and focused communications throughout the year.

Over the last several years, employees at Children's have increasingly seen the value of performance development conversations. In 2019, in an employee survey, Children's found that almost every employee suggested they wanted these conversations to be more frequent than the traditional, once a year approach and 70% wanted them quarterly or monthly. Children's is one example of an organization helping managers and employees build this skill.

Another approach is to help managers and employees understand how to give and receive feedback. This approach is embraced by Fidelity Investments.

### **Company Spotlight: Fidelity Investments empowers and equips employees to ask, give, and receive feedback**

Fidelity Investments, a 40,000 employee financial services company, headquartered in Boston, Massachusetts leveraged recent developments in neuroscience to create a holistic, all-encompassing mechanism for asking, giving, and receiving feedback. This shift helps Fidelity employees make use of their coworkers' reactions.

In an era of increased collaboration where connection points with peers may be more frequent than connection points with a manager, Fidelity believes their employees can provide meaningful insights that can help their coworkers evolve in real-time. But to do so, Fidelity recognized that they would need to provide tools to mitigate the threat that individuals may feel during feedback discussions, in particular when feedback is unsolicited or unactionable.

“Everyone-to-Everyone Feedback” is a key enabler in Fidelity’s evolution to become more transparent, encourage continuous conversations, and develop a growth mindset among employees.

Fidelity wanted to ensure that their managers and employees understood each aspect of the feedback process; asking, giving, and receiving. It is not enough just to be able to ask or give feedback, there will be times when employees receive feedback that was unsolicited or different from what they expected. In those moments, Fidelity wanted to arm their employees with the right framework to take this information and use it to drive development.

To do so, Fidelity focused on the following:

- Developing a comprehensive feedback model
- Sharing frameworks for each of the three phases of feedback: asking, giving, and receiving
- Developing strategies to help employees accept and implement feedback they received
- Providing tools and resources for talent leaders to build their skills in feedback discussions

One of the differentiators for Fidelity’s feedback model is that there are three separate approaches for each phase of feedback. When employees ASK for feedback, they’re encouraged to ask specifically, ask inclusively, and ask frequently. When employees GIVE feedback, they are asked to reference the situation as well as its impact and action, reinforce and redirect, and – rather than the sandwich approach – give the receiver their “done wells” and “do betters.” Lastly, when employees RECEIVE feedback, they are asked to listen with intent, manage their reaction, digest the feedback, and then commit to action.

The frameworks were designed to help all employees have the same reference point on each component of feedback. Further, it gave the organization a language around feedback

so that it could happen in similar and consistent ways across the organization. Fidelity strives to make feedback part of everyday interactions among coworkers and doing so in a universal way that provides value across the enterprise.

In addition, Fidelity provides “meetings in a box” packages to managers with the tools needed to help have on-going feedback conversations in their organization. An info-torial (infographic meets tutorial) allows employees to consume the information in multiple ways—and at multiple stages (i.e., a deep dive video to learn the framework, and quick visual reference guide as a refresher throughout the year.)

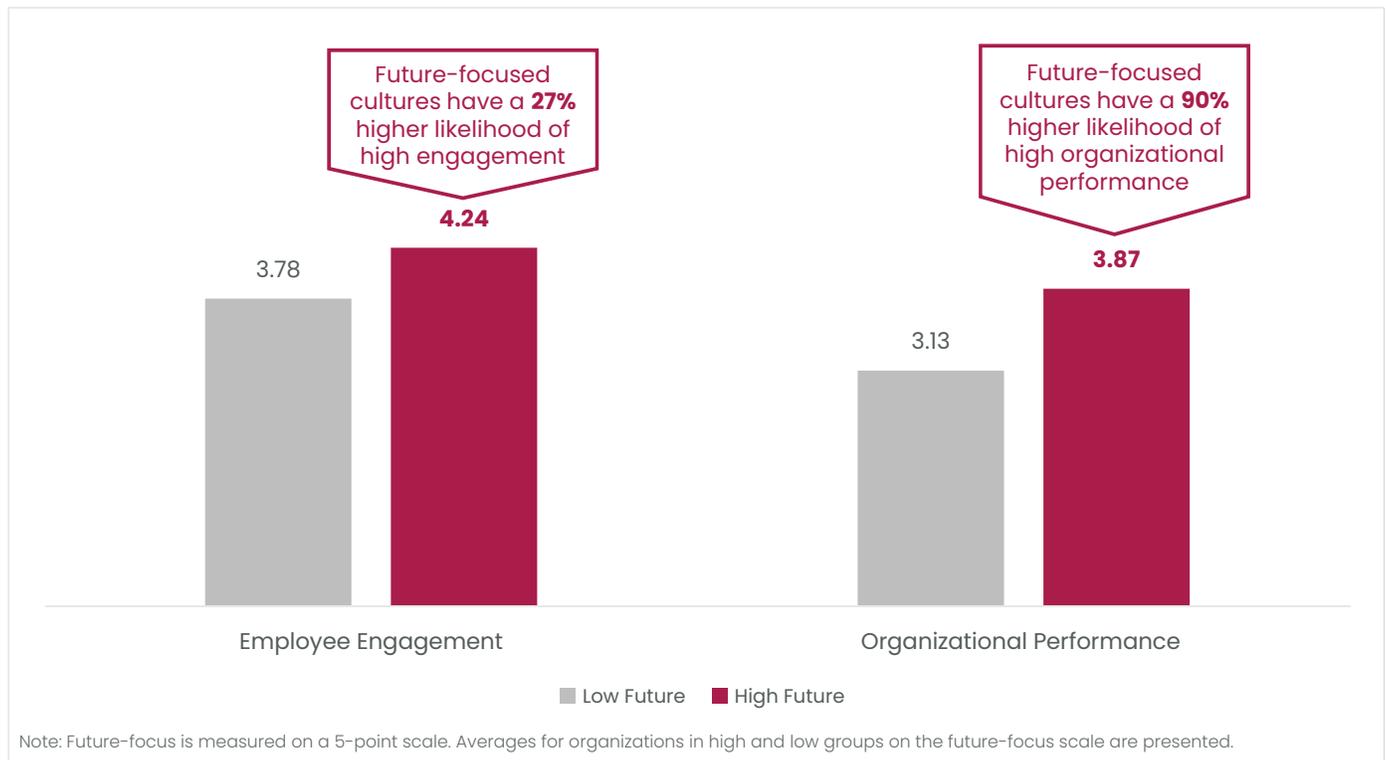
These feedback meetings help drive adoption at the local level by nudging managers further down the organization to conduct these conversations. Often times managers want to help drive these discussions, but aren’t always sure how – providing these packages helps each manager take ownership of their role in creating a more open, feedback-rich environment. Employees across the enterprise are now empowered to have these conversations and equipped with the right tools to make them impactful and solutions-oriented.

## **FUTURE-FOCUS**

While traditional performance management practices focus on the past (how someone did over the past year) or the present (what skills are necessary to perform better at the current job), our research shows that organizations need to focus on developing employees for the future. Organizations that did this had higher scores on employee engagement and organizational performance (see Figure 6). The impact of having a high future-focus was a remarkable 90% higher likelihood of high organizational performance and a 27% higher likelihood of high employee engagement scores.



**Figure 6: Low vs. High Future-Focus – Average Scores on Engagement and Performance**



Source: RedThread Research, 2019.

So, what is a future-focused culture exactly? It means that an organization creates the conditions for employees to develop the knowledge, skills, and capabilities they need to thrive in the future. In our data, this concept was represented by the organization doing the following three activities:

- Invests in developing managers' people management skills
- Encourages employees to continuously learn and develop skills
- Encourages people to believe that their basic abilities can be developed (i.e., growth mindset<sup>11</sup>)

We want to underscore that there are many ways to create a future-focus and that organizations' approaches should not be limited to just these three activities. For example, a large media company encourages managers and employees to center their conversations, at the beginning of the year, around career aspirations. This helps

Organizations need a culture that prioritizes the development of employees.

<sup>11</sup> Source: [Mindsetworks](#), 2019.

the discussion focus on skills they want to develop not only in their current role, but the responsibilities they'd like to take on moving forward. Starting the conversation with future-oriented goals allows employees, as this company puts it "to find the sweet spot where [performance and development] all comes together."

The fact that organizations need to create the conditions for employees to be prepared for the future is not surprising. As we mentioned in the beginning, technologies, faster-moving markets, shareholder expectations, and employees' desire for future employment opportunities are resulting in a need for employees to be consistently and continuously developed.

This is underscored by some recent data from the World Economic Forum: a majority of employees (54%) will need reskilling and/or upskilling by 2022. Unfortunately, only a third of employees that are at risk of job displacement received training in the last year.<sup>12</sup> Organizations need to be able to quickly and seamlessly update their workforce capabilities or face the future without the skills that will help them compete.

To be clear, this is not just about offering training courses. Organizations need to create the conditions and environment where employees are encouraged to learn on their own, not just be told to take a specific class. The reason for this is that the days when HR or the L&D department knew exactly which skills the employees needed to learn are long gone (if they ever existed at all). Employees and their managers are much better placed to understand which skills jobs require today and in the future. Therefore, it is critical to build a culture where employees believe they can and should develop necessary skills and are motivated to gain those skills.

How would an organization go about creating this type of culture? An example of an organization doing this is PwC, as described below.

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There is a mismatch between the number of employees that need upskilling and the number of employees that receive it.

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<sup>12</sup> [\*"We need a reskilling revolution. Here's how to make it happen,"\*](#) Brende, B. / The World Economic Forum, 2019.

## Company Spotlight: PwC develops a future-focused culture and prepares their workforce for tomorrow's challenges<sup>13</sup>

PwC is a professional services firm with 250,000 employees and headquarters in London, UK.<sup>14</sup> Recognizing that their workforce needed to begin preparing now for the skills they'd need in the future, PwC created an app to help employees gain a better understanding of their strengths and gaps with regard to technology capabilities and digital skills. The app also helps direct employees to development options that have been curated by PwC.

The development and learning opportunities provided by PwC stretch across a variety of topics and delivery methods. This enabled employees to pick and choose the curriculum and mode of learning that best suits their needs. This also sends the signal that PwC is willing to meet employees where they are in their development journey and helps cultivate a culture in which development and continuous learning were not a sign of any shortcoming but are encouraged and celebrated.

In addition to the app and development curriculum, PwC identified employees that had been super-users of sorts: consuming large amounts of development content. These individuals were then trained to be resources for other employees. More specifically, these employees help peers with learning and developing in particular areas in which they have more knowledge or expertise.

This practice brings employees together and illustrates that PwC expects peers to help each other develop. It helps create a culture that values peer-to-peer learning. In addition, it helps employees get the information they need when they need it and in a highly contextualized manner. With their peers, they move from the curriculum to wrestling with a real problem. Again, this signals to employees that development and continuous learning is "how things get done" at PwC.

<sup>13</sup> "Successful learning programs help employees teach each other," O'Donnell, R., HR Drive, 2019.

<sup>14</sup> Source: <https://www.statista.com/statistics/189763/number-of-employees-of-pwc-by-region-2010/>



## A note on culture and learning

Cultures often, either intentionally or unintentionally, undermine employees' beliefs in their abilities to learn and grow. For example, organizations may:

- Look to buy skills rather than build them internally. Most organizations don't really have a good idea of what skills their employees possess. When organizations look externally for talent, they are essentially expending quite a bit of effort looking for skills externally that they don't bother looking for internally. This sends the message that all new skills and capabilities have to be learned outside the organization and that effort spent on developing new skills will be unrewarded.
- Use unfair or demoralizing practices. Recently, one organization, in the course of a large restructure, opened up all jobs to both existing employees and external candidates so that employees had to compete with external candidates for jobs they were already doing. While the company saw this as an opportunity to increase the skill levels in their organizations, the move did little to build trust or increase engagement, and it sent the message that no matter how well employees had performed or how willing they were to learn and grow, it wasn't enough.

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Cultures often, either intentionally or unintentionally, undermine employees' beliefs in their abilities to learn and grow.

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## Lever #2: Capability of Managers

Let's move on to the second lever: capability of managers. Our analysis shows that manager capability primarily influences individual performance. Therefore, if your organization is trying to drive individual performance, this is the place to focus. As one executive put it,

"We have the belief that performance lives between the relationship of the leader and the direct report."



While it may seem obvious that manager capability is critical to performance management, we have found it to actually be one of the biggest stumbling blocks for organizations. This is especially true for organizations that have moved to a more frequent, continuous performance management approach, which requires managers to engage with their direct reports much more often. This more frequent interaction, if a positive experience, can make a big impact on performance.

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Manager capability is often a stumbling block for organizations in modern performance management.

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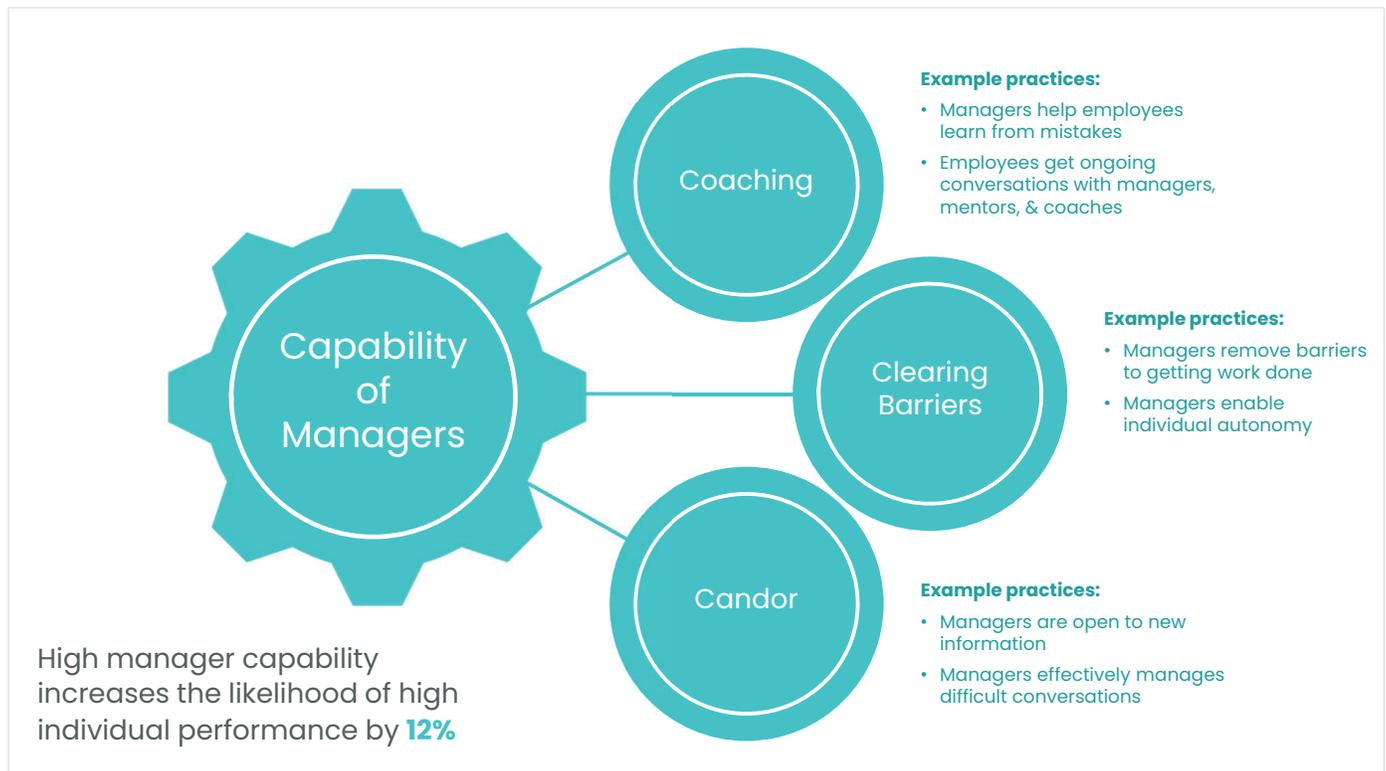
However, if managers' capabilities are inadequate, the more frequent interactions can actually amplify a potentially negative employee experience. Therefore, it is absolutely critical that organizations invest in the capability of their managers as they are upgrading their performance management practices.

So where should organizations focus? Our analysis revealed three areas (see Figure 7):

- Coaching
- Candor
- Clearing barriers

When organizations help their managers do these things well, they are 12% more likely to experience high individual performance. While this number may seem small, when it occurs broadly across an organization, it can result in big change.

**Figure 7: The three areas of manager capability**



Source: RedThread Research, 2019.

## COACHING

One of the big shifts in the move to modern performance management has been this concept of managers moving from assessors and allocators of work to serving as coaches. Coaches are different in that their primary role is to encourage and enable performance, not to control it.

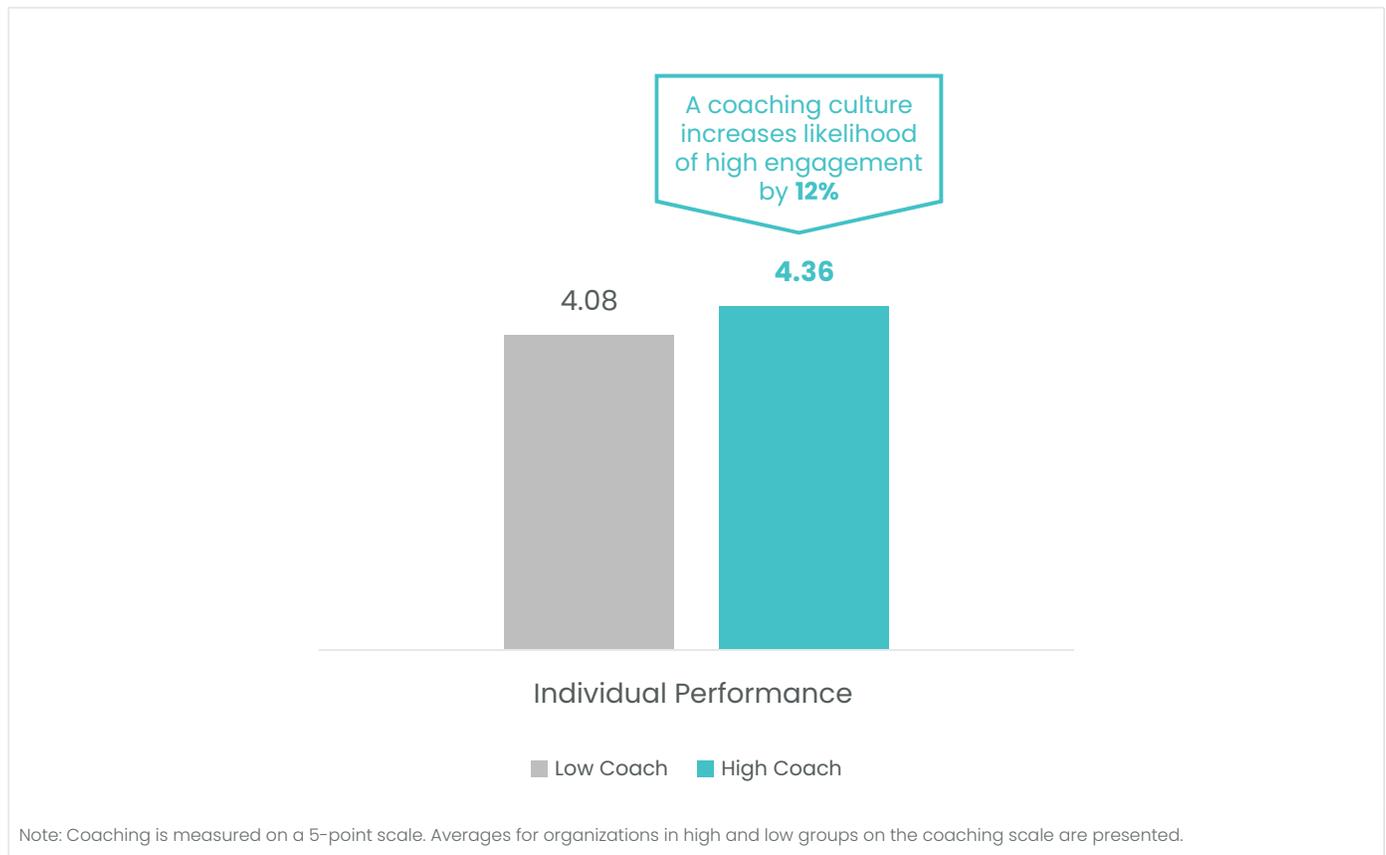
Our analysis supports the importance of this shift, showing that organizations that are high on coaching tend to perform better when it comes to individual performance (see Figure 8). Specifically, when organizations are high on coaching, they are 12% more likely to also have individuals who score high on individual performance.

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One of the crucial shifts in modern performance management is enabling the manager to be a coach.

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**Figure 8: Low vs. High Coaching – Differences in Average Scores on Individual Performance**



Source: RedThread Research, 2019.

While there are many things that managers can do to be effective coaches, our analysis specifically turned up the below:

- My manager helps me learn from my mistakes rather than holding them against me
- I have useful and ongoing conversations with my manager, mentors or coaches

There are a few points to underscore here. First is the focus on continuous learning versus assessing. If you recall, when we talked about future-focus in the culture section, we saw something similar, where the culture was encouraging ongoing learning and a growth mindset. It is important for the culture to reinforce that message, and the manager plays a key role in this by helping employees learn from their mistakes and not just holding them accountable for them.

Managers should coach employee through their mistakes, not take punitive measures, when they occur.

This can be a hard balance to strike, and organizations may be able to learn something from Smith College, an all-women's college in Massachusetts. Smith College created a program to put the failures of their students, faculty, and staff on display for all to view. The program, *Failing Well*,<sup>15</sup> aimed to help individuals speak more openly about failures, particularly in a highly competitive environment. The program, which included seminars, presentations, and workshops, was designed to help students see failure as foundational to learning.

We have also seen some corporations do this effectively. For example, Google created an official policy for how to document and learn from failures throughout the organization.

### Company Spotlight: Formalizing failure to learn at Google<sup>16,17</sup>

Google – an internet services and products company, headquartered in Mountain View, California, with 62,000 North American employees – recognized the need to formalize a process to get the most out of their failures. To that end, they created an organizational policy around how to capture the lessons learned when significant undesirable events occur (a.k.a. failure).

The policy is a structured reflection process, similar to after action reviews. These “postmortems” are used only when significant reflection is needed. Not every mistake needs to be analyzed, but the ones that have the opportunity to teach large lessons should be leveraged. During the reflection, the team will document not only what happened but also how it happened, why it happened, and the impact of the event. More importantly, the team will identify ways to avoid the same failure in the future.

<sup>15</sup> *“On Campus, Failure Is on the Syllabus.”* Bennett, J., NY Times, 2017.

<sup>16</sup> *“Google Has an Official Process in Place for Learning From Failure – and It’s Absolutely Brilliant.”* Bariso, J., Inc.com, 2018.

<sup>17</sup> *“Postmortem culture: how you can learn from failure.”* Lunney, J., Lueder, S., O’Connor, G. / Google, re:Work, 2018.

A critical component of these postmortems is that blame is not assigned and employees are not punished. Documenting the incident does not give managers permission to use the information to impose punishments. This creates psychological safety, allowing for individuals to openly share their ideas and to create the space necessary to learn from failures.

Another thing we learned from the data is the criticality of having ongoing performance conversations – and the fact that they must be useful. It is not enough for a manager or direct report to put time on the calendar. The direct report has to actually find the discussion useful.

What makes for a useful conversation? In the next couple of sections, we talk about at least two items: providing candor and clearing away barriers. However, in your organization, there may be other elements that comprise a useful manager/direct report conversation.

For example, at Intermountain Healthcare, a Utah-based, not-for-profit hospital system, managers are not given a set of questions they have to ask during their check-in conversations. Instead they are encouraged to cover three types of discussions:

- Connecting and removing barriers
- Contribution towards results
- Growth and development

These three areas help managers understand challenges their employees are facing, help employees understand how they are performing, and get a sense for what and how they can develop further.

Another example comes from clothing retailer, Gap Inc., which is headquartered in San Francisco with 135,000 employees. Gap encourages managers to use their check-ins to discuss performance – things like progress against goals, career aspirations, 180 assessments – anything that will create an insightful conversation for employees. All check-ins should include real-time feedback; using a three-question feedback model:

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It is not enough for a manager or direct report to put time on the calendar. The direct report has to actually find the discussion useful.

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- What went well?
- Where did you get stuck?
- What could be done differently next time?

These questions help individuals self-reflect and come up with actionable next steps on their own.

The last point to make is that ongoing conversations can take place between an employee and their manager, a mentor, or a coach. While a majority of the organizations we spoke to suggested that the manager is the primary point of contact for these ongoing conversations, that may not always be the case in every organization. In fact, within some organizations, work is structured in such a way that the manager does not always have the most direct, clear line of sight to an employee's performance. In these situations, mentors or coaches may be best suited to provide this ongoing dialogue.

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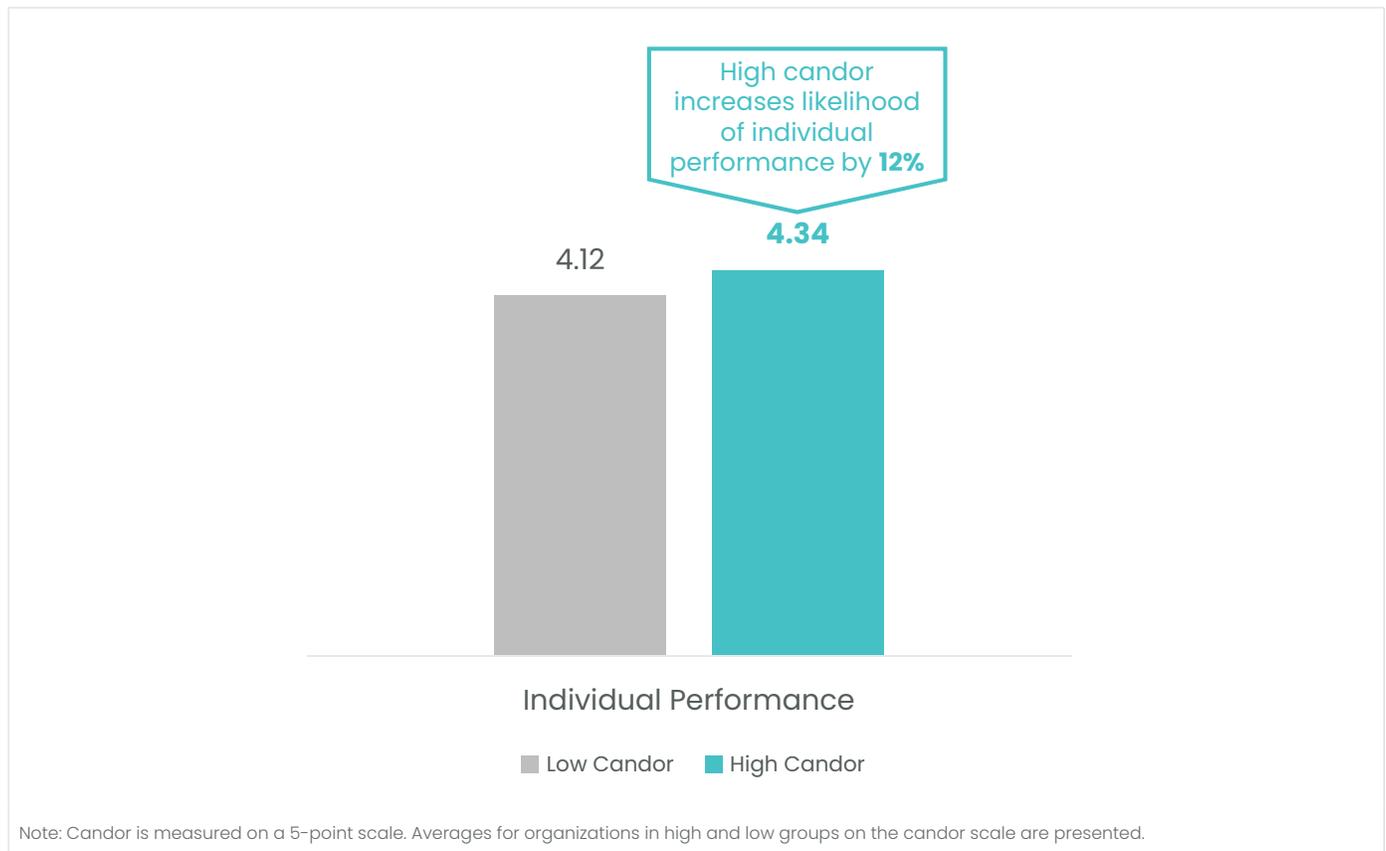
Ongoing conversations should occur between an employee and the individual with the best line of sight to their performance.

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## **CANDOR**

While the first point around coaching may have been obvious, the criticality of managers demonstrating candor may not be quite as clear. However, we did find it to be important, as shown in Figure 9. Organizations where the manager was high in candor were 10% more likely to also have high levels of individual performance.

**Figure 9: Low vs. High Candor – Differences in Average Scores on Individual Performance**



Source: RedThread Research, 2019.

Candor can be a lot of different things, but in our survey, the concept showed up as the following items:

- My manager is open to new information
- My manager effectively manages difficult conversations

What's interesting about this particular grouping of concepts is that it underscores that candor is a two-way street. Managers are open to receiving new, potentially unwelcome, information. But they can also manage difficult conversations, which means they may be delivering new, potentially unwelcome, information as well.

Why is this manager capability essential to performance management? Because candor and honesty are a critical part of trust – and strong manager relationships essentially come down to trust. Employees need to believe that they can count on their

What's interesting about this particular grouping of concepts is that it underscores that candor is a two-way street.

manager to listen and to communicate effectively, even when it is hard. One director we spoke to summarized this point nicely,

“It’s about building the kind of relationships that inspire the kind of trust where you actually can develop and you can talk about performance and people are motivated to improve.”

Candor can be one of the more difficult skills to teach because it requires a willingness to engage in challenging topics while still maintaining openness to and empathy for the other person in the conversation. Given this challenge, many managers are ineffective at it. However, some organizations have proven effective at teaching it, and even simple practices can make a huge difference. Such is the case for ZenHub, which is highlighted below.

### Company Spotlight: ZenHub increases candor to develop its engineers<sup>18</sup>

ZenHub, a project management software firm located in Vancouver, Canada, implemented ideas of [Radical Candor](#) to help their engineering team be able to challenge each other more directly. Two practices were put into place at ZenHub that helped employees and managers have more candor in their interactions with each other: (a) using the stop, start, continue framework; and (b) conducting root cause analysis.

ZenHub already had retrospective meetings into place at critical points in a project (e.g., after launch, following each sprint). During the retrospective meeting, each team member is asked to identify things they need to start doing, stop doing, or continue doing on future projects.

Root cause analysis helps the team dig further into problems so they can identify where it started. Importantly, this practice is used the moment an error or issue arises. Instead of simply identifying and commenting on an incorrect code or bringing it up later (after it had been fixed), the team stops and

<sup>18</sup> [“Radical Candor and Software Engineers: Interview with ZenHub,”](#) Lockhart, E., Radical Candor,

discusses why the code was incorrect and how it happened in the first place. This provides in-the-moment feedback and promotes learning in the flow of work.

The simple practices incorporated by ZenHub promote candor because managers and employees are able to talk about problems openly. Because they focus on a shared goal when discussing problems, ZenHub helps employees avoid “the blame game.” The result is that employees can find solutions, develop, and learn how to do things better the next time.

## CLEARING BARRIERS

The final component of this section is managers’ capabilities at clearing barriers for their employees so those individuals can do their best work. As shown in Figure 10, organizations that do this well have individuals who have higher levels of individual performance – in fact, they are 11% more likely to have higher levels of individual performance.

**Figure 10: Low vs. High Clearing Barriers – Differences in Average Scores on Individual Performance**



Source: RedThread Research, 2019.

Our analysis identified two specific practices within the concept of clearing barriers (see Figure x):

- My manager removes barriers to getting work done
- My manager enables individual autonomy

There really are two elements here: managers make sure that other people, processes, or policies are not blocking the progress of their employees, and the manager themselves are also not blocking progress.

As anyone who has ever managed people knows, doing both of these things is not necessarily easy. Our research uncovered some suggestions<sup>19,20</sup> on how to do this:

- Remove “just because” policies or those that focus on the few “bad apples”
- Make sure meetings have a clear objective that couldn’t be achieved without the meeting
- Remove some of the technical tasks of managers and reward them for managing their team
- Identify the situations or problems that employees have the authority to handle on their own
- Provide a clear framework of when and how to escalate issues
- Keep a repository of solutions to common problems for easy access
- Review perceived barriers to ensure that it isn’t a skills or capability deficiency and, if so, provide the necessary training

### Lever #3: Clarity

In addition to shifting to continuous performance check-ins, organizations have also moved to more continuous goal management. While our analysis shows this is a good thing, as it provides more clarity for “today” (meaning, in the short-term), our research shows that employees also need clarity for “tomorrow” (meaning, in the longer-term), when it comes to their goals and

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Employees need clarity on what is expected of them in their current role and in the future.

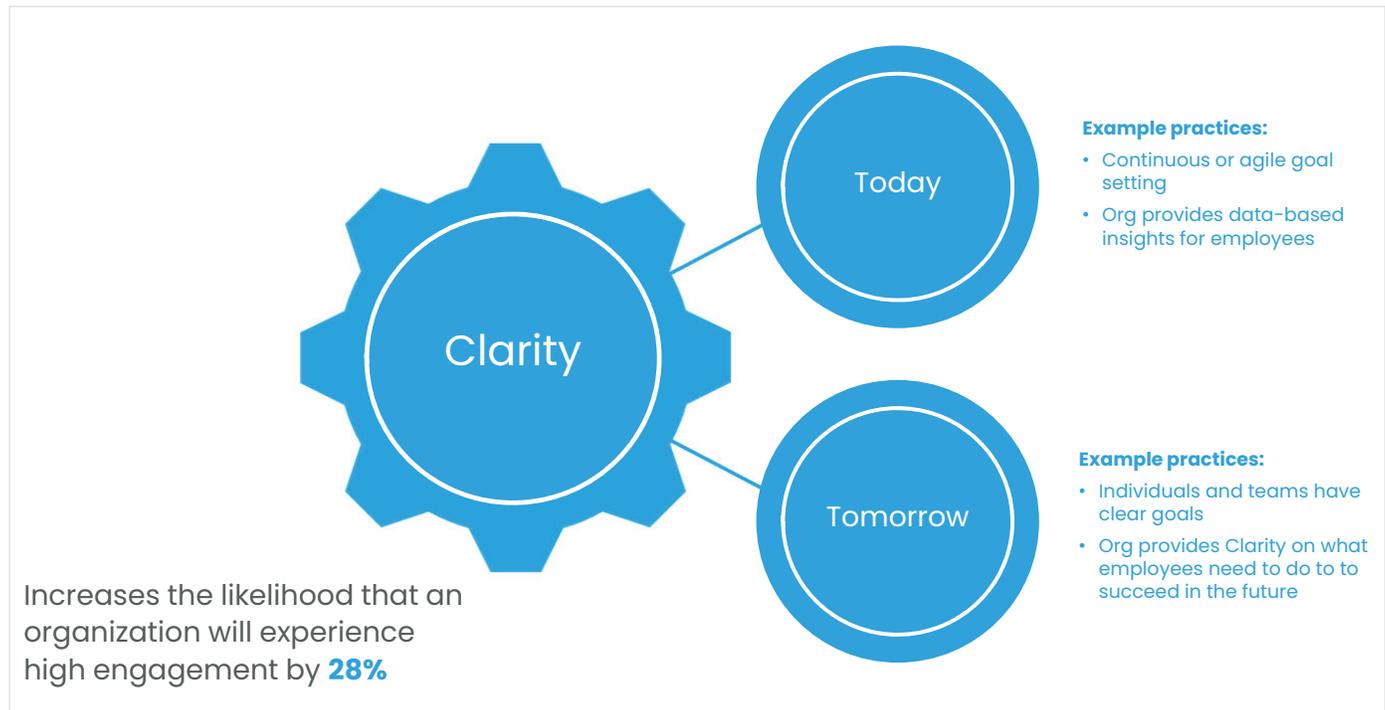
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19 “7 Ways Managers Can Remove the Barriers to Real Work,” Peterson, B., Talent Management & HR, 2010.

20 “Servant Leadership 101: 5 Steps to Remove Barriers to Success,” Ockerman, S., Agile Socks, 2019.

objectives. Therefore, a focus on creating greater clarity needs to focus on both today *and* tomorrow (see Figure 11). Our analysis uncovered that when organizations do these things well, they are 28% more likely to experience high employee engagement, which can drive individual<sup>21</sup> and organizational performance.<sup>22</sup>

**Figure 11: Overview of Clarity Lever**



Source: RedThread Research, 2019.

The fact that employee engagement is the primary outcome of greater clarity is interesting because it can influence how we design for clarity. For example, if clarity does not drive individual or organizational performance directly, do we need to provide detailed reports on goals or goal achievement to senior leaders? Probably not, unless they have a specific action in mind for those reports. Ensuring that managers, their employees, and their teams understand the goals and are bought into them is probably good enough.

Or, similarly, do we need big reports on every employee's performance metrics rolled up to senior leaders? Again, likely no,

21 "Work engagement" Schaufeli, W. and Salanova, M., *Managing social and ethical issues in organizations*, 2007.

22 "Employee Engagement: Tools for analysis, practice, and competitive advantage," Macey, W., Schneider, B., Barbera, K., & Young, S., WileyBlackwell, 2009.

so long as employees and managers are getting the data and information that they need in order to give useful feedback. It's important to remember the purpose of the activity and the impact it has before designing it. Just because we can measure or report on something, does not mean we should.

### **The importance of targeted processes**

As organizations accumulate more data on employees, it is easy to design processes that use that data for all employees. However, it is really important to focus on the objective of a process, and to design it to specifically achieve that objective.

Let's take the example of a larger media company. For one key decision, "how to differentiate rewards for top performers," they are testing "playcards" that provide succinct information on the extent to which an individual's performance was extraordinary. These cards provide a visual representation of where this individual sits across three performance criteria. Scales are not used, but a slider is provided. Additionally, leaders can add 1-3 top accomplishments to each playcard so there is context for calibration and rewards conversations.

Importantly though, playcards are not developed for every employee because – well – that isn't helpful. They are only created for top performers because the goal is narrowly focused on meaningfully differentiating rewards for this segment of employees.

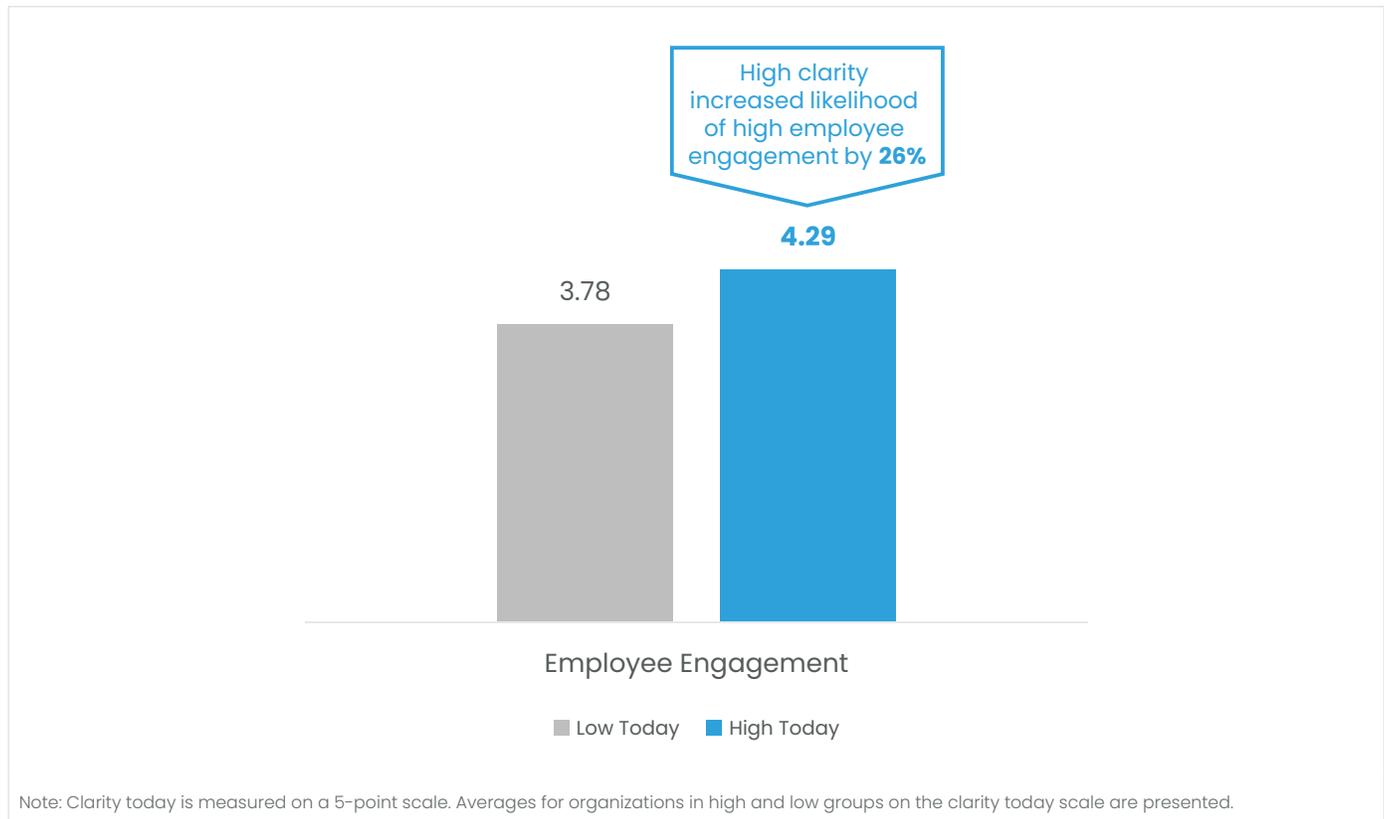
There is no reason to curate this amount of data on all employees when it's usually quite clear who is underperforming, and for the majority, who are performing well, rewards tend to be similar. Leaders really only need the data on the people they will be making decisions about.

The value of data is not in the fact that the organization has it or that they have a lot of it. The value of data is in how the organization distills it down to actionable insights that are given to leaders (and employees) at the right time and in the right context.

## TODAY'S CLARITY

Creating clarity for today is critical for organizations trying to drive employee engagement, as shown by Figure 12. Our analysis revealed that when organizations create a high degree of clarity for the short-term, they are 26% more likely to have high levels of employee engagement.

**Figure 12: Low vs. High Clarity for Today – Differences in Average Scores on Employee Engagement**



Source: RedThread Research, 2019.

When we talk about clarity for today, our analysis is based on the two items in Figure 11 (but, as always, we encourage organizations to think about the overall concept, not just these two items below):

- Encourages employees to update goals regularly in a continuous or agile goal management approach
- Uses data-based insights on how the employee is performing and how they are useful

Much has been written recently about the benefits of updating goals more regularly.<sup>23</sup> By having regular conversations between managers and employees on goals and keeping those goals up to date, employees will have greater clarity on what they are expected to do.

Continuous goal management means that employees do not need to set goals on a specified cadence or update them at regular intervals. Rather, employees are encouraged, in this approach, to set goals in alignment with how they get their work done. The key to a continuous approach to goals is that more regular discussions about goals, goal progression, and goal relevancy are conducted. An example of an organization that does this well is Cigna.

### **Company Spotlight: Cigna increases flexibility in goals to support development and accountability**

Several years ago, Cigna<sup>24</sup> – now a global health services company with more than 74,000 employees worldwide – wanted to change their philosophy to drive performance and development. More specifically, they wanted to enable personal growth and deeper connection among team members. To do that – they had to redesign their approach to performance management.

Before going through a performance management transformation, Cigna had annual goals and with that the traditional language around those goals.

Cigna replaced their traditional annual goal setting process with an approach that centers on collaborative goals set through discussions between managers and employees during their check-ins. These check-ins are, at a minimum, quarterly and the conversation about goals may be different at each touch point. That is, Cigna does not specify what

23 Garr, Stacia Sherman / Bersin by Deloitte, *“High-Impact Performance Management: Using Goals to Focus the 21st Century Workforce,”* 2017. available to the public here: <https://www.youtube.com/watch?v=jTV9FFgaoKg>

24 Source: <https://www.cigna.com/about-us/company-profile/cigna-fact-sheet>

managers and employees should discuss about goals, but encourages them to discuss goal progression, outcomes, career aspirations, and whether the goal(s) are still relevant.

The intention of encouraging dynamic goals is to get Cigna employees to be intentional about the goals they set. By allowing goals to be dynamic, employees were able to identify the most relevant objectives for their role. In addition, being encouraged to review and update these goals helps employees understand where they stand throughout the year and close gaps when they are identified.

Growth Mindset is an important aspect of the new performance management philosophy at Cigna. Dynamic goals, and the practices that support them, foster growth mindset at Cigna, which excites employees about new challenges and developing new skills so they can collaborate with others to solve big problems to benefit the stakeholders we serve. In a fast changing environment – talent needs to be focused on moving to where the market needs are, taking on new skills and development to stay relevant to emerging needs, and not be focused on static aged goals or be reticent of taking thoughtful risks.

While some companies still have formal goal-setting systems, processes, and technologies, others have removed them altogether. For example, Cisco replaced traditional performance management with a weekly check-in between team leader and team member about their upcoming work and priorities.

By providing a lightweight, employee-driven experience, organizations hope that goals will be more aligned to how, when, and why employees are engaged in their work. In addition, it puts the responsibility on the manager to have a relationship with their direct reports so they are not reliant on goals that are put in a system (and often forgotten) when conducting development or performance discussions.

Something that has been written about less – at least in the context of all employees – is the concept of using data-based insights on performance. While we tend to see very quantitative teams, such

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There are many ways to support a continuous approach to goals.

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as sales or customer service teams, receive and react to data on their performance, we tend not to see this concept as broadly across the enterprise. However, our research shows that when employees across the enterprise see that data and are able to respond to it, they tend to have higher levels of engagement.

This makes sense because the data is another source of feedback on performance, which can help employees understand the impact of their work. Further, data-based insights can also reduce some of the subjectivity that individual employees may receive as a result of inconsistent managers.

An example of an organization providing data-based insights is SAP.

### **Company Spotlight: SAP uses data-based feedback tool to coach managers on their employee communications**

One organization looking to provide data-based insights is SAP, a German multinational software corporation of nearly 100,000 employees that makes enterprise software to manage business operations and customer relations.<sup>25</sup> Like many large organizations, SAP realized that its managers could benefit from stronger communications with their direct reports. The challenge, as always, though, is how to deliver the feedback and information managers need, in the right moment, to help them improve their communications.

To address this need, SAP recently conducted two pilots of a new AI-powered coaching tool, that gives feedback to managers on who they are communicating with and the frequency, tone, and responsiveness of those communications. The technology uses natural language processing by scanning the words and the metadata of email communications and then delivering coaching & feedback directly to managers themselves – not to any corporate leaders. Importantly, individuals in the pilot had to opt in – it was not something imposed upon them.

<sup>25</sup> Source: [https://en.wikipedia.org/wiki/SAP\\_SE](https://en.wikipedia.org/wiki/SAP_SE)

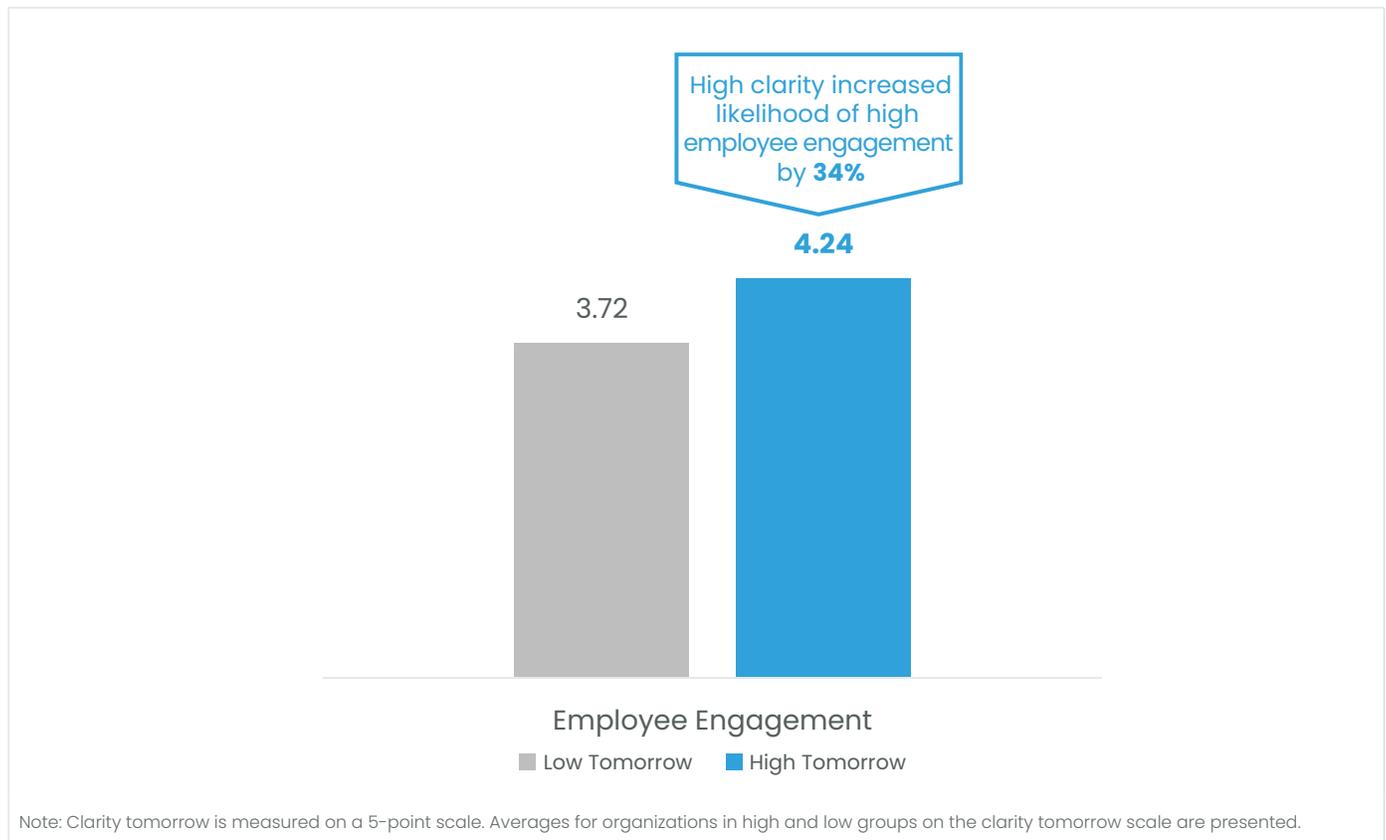
The SAP team rolled out an initial small pilot to approximately 35 HR and corporate innovation managers to determine if the data and insights from the tool were useful – and they found that they were. Following that, the SAP team did a larger roll-out to approximately 250 sales managers, where 79% of those eligible to participate chose to do so. SAP reports that while there was some concern about AI “looking over their shoulder,” these managers expressed a greater interest in the types of insights the software could provide and if it could help them improve their performance.

The results of the pilots, to date, are really positive. SAP reports that 96% of managers have remained engaged with the product since the initial roll-out. Of those managers who have adopted the technology, 90% continue to engage with the recommendations sent to them on at least a monthly basis – and this has been the case for 9-month period of the pilot. In addition, 83% of managers said that the tool improved their self-awareness of how they interact with the team. Finally, SAP says they saw a 17% increase in the level of recognition of employees’ efforts by the managers who participated in the pilot, when compared against their average rates of recognition over the previous 3 month period.

Given the research link between employee recognition and employee engagement, SAP is hopeful that this will translate into higher employee engagement & leadership trust, both which drive performance, as a result of these efforts. SAP is planning to expand on the initial two pilots and to further assess the impact of this new, data-based tool for managers.

An often less-discussed aspect of clarity is that of being clear about longer-term expectations, or what we call “clarity for tomorrow.” We find that organizations that are able to create high levels of future clarity are 34% more likely to have high levels of employee engagement (Figure 13).

**Figure 13: Low vs. High Clarity for Tomorrow – Differences in Average Scores on Employee Engagement**



Source: RedThread Research, 2019.

When we think about clarity for tomorrow, it is really about clearly articulating the longer-term goals and expectations of employees and their teams and what is necessary to succeed in the future. We identified the below practices, but believe there are many other ways to do this as well:

- Ensures individuals and teams have clear goals
- Provides clarity on what I need to do to succeed in the future

As we think about it, this concept dovetails well with the future-focused culture concept. Together, they are encouraging organizations to create environments where employees understand the big-picture expectations of them and then are provided with the context and resources to continuously learn and achieve those expectations.

Employee need the big-picture of the future as well as resources to make that a reality.

One way that organizations can provide clarity for the future is to provide an avenue for leaders to share their stories – to discuss their career paths, along with the skills and experiences needed for them to advance. One media organization has leaders share their career paths in podcasts made available to their employees. Many of their leaders have taken nontraditional paths and so sharing their stories with employees provides different viewpoints on development and clarifies what is expected of them as they advance in their careers.

Another example of an organization that helps provide clarity for tomorrow – and specifically around the skills necessary for the future – is Sapient.

### **Company Spotlight: Sapient leverages collaboration to increase clarity of tomorrow's expectations**

Sapient is a marketing and consulting company that provides business, marketing, and technology services to clients. Employees must remain on the cutting-edge of new knowledge, technology, and skills to serve their clients. To do so, Sapient must make sure clients have clarity on their role today and what is likely expected of them in the future.

Skills in the technology sector change so rapidly, and because the team is limited, Sapient leverages the idea of collaboration to a large extent, and they do so in three main ways.

First, the L&D function itself collaborates with the business functions to ensure everyone is on the same page about future skills, strategy, and participation. This is particularly important when it comes to developing skills that will be essential in the future but don't necessarily serve the business today.

Second, Sapient employees collaboratively learn by sharing information that could be beneficial to their peers. Employees are encouraged to build case studies, tell stories about the things they have encountered, and share best practices and problem-solving techniques. In particular, employees should share information around new or complicated technologies.

Sapient leverages technology to help make information sharing across the organization easier. This technology allows employees to create communities around projects or topics, post articles, start discussions, or link to relevant information and data.

Finally, Sapient also collaborates with their external partners. Because their partners have extensive knowledge about the future of cloud computing, Sapient is able to leverage that knowledge and even find specific learning opportunities for their employees that allow them to scale in ways they couldn't otherwise.

# Final Thoughts

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We began this report providing a model of performance management. Instead of outlining the do's and don'ts of specific practices, we presented the three levers that support positive performance outcomes because the truth is, there are no "silver bullets" in enabling better performance.

Our message is simple: organizations should pay attention to how their performance management practices foster and reinforce their culture, the capability of their managers, and the clarity they provide employees. Practices that cultivate future-oriented cultures of feedback and fairness drive both engagement and organizational performance. Further, when managers act as coaches, display candor, and clear barriers it drives individual performance. Finally, practices that provide clarity to employees for today and for the future (tomorrow) drive employee engagement.

Throughout the report, we offered insight on why these aspects of culture, manager capability, and clarity matter. We also highlighted companies that are addressing these levers in different ways. Importantly, each story highlighted different practices that helped each organization address a component of our model. In some cases, these practices fit neatly into the performance management domain, while others did not.

Ultimately, any practice that enables an organization or an individual to increase performance is a performance management practice. It no longer matters where the practice "sits." Modern performance management is about creating the right environment for both individuals and organizations to thrive. In order to do that, practices must foster the right culture, enable manager capability, and provide clarity for individuals.



# Recommendations for Getting Started

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As we've illustrated throughout this report, many different practices can help create effective performance management. How organizations approach performance management differs in unique and nuanced ways.

Below are recommendations for organizations to begin rethinking their approach to enabling performance. These are not individual practices, but instead point to ways that organizations may be able to foster:

- Cultures that are fair, foster open feedback, and focus on the future
- Capabilities in managers that enable them to coach, display candor, and clear barriers
- Clarity for today's needs and tomorrow's expectations

## Recommendation #1: Define the desired state

As we mentioned at the beginning of this report, organizations should be using both performance management at the individual and organizational level, which enables performance directly, and engagement, which drives performance indirectly. To that end, organizations need to think about what performance means at their organization. In fact, we start every interview off with that very question: "What is your organization's performance philosophy and why do you engage in performance management?"

While that seems like a fairly obvious question, you'd be surprised the answers we hear. Some organizations seem to want to address engagement, and motivation, and development, and workforce planning, and evaluation, and . . . the list goes on. This signals to us that the organization hasn't really defined performance for their employees and what that looks like in their organization. That usually also means that they don't know why they have performance

management practices in place beyond the fact that they have always existed.

It is one thing to understand the concept(s) that support performance management, but it is another thing entirely to be able to articulate your organization's definition of performance. Once an organization understands its philosophy, it is easier to envision the desired end-state. As you look at your performance management practices, it is important that you are able to answer the following questions:

- What does performance mean in our organization?
- What specific metrics are we trying to influence with our performance practices?
- How are we trying to enable strong performance?
- What practices should we stop, start, or change?
- What would it look and feel like if our organization was effectively enabling high performance?

These questions will help you refine how you can best enable performance at your organization. Remember, every organization can (and likely will) have a different spin on these questions and the associated answers, which will help guide the practices you implement. Start with the desired end-state of better performance, not the practices.

## **Recommendation #2: Audit current practices**

As this report makes clear, many organizations do lots of different things and do them successfully. We also talk to organizations that have very similar practices, yet these practices succeed in one organization and fail in the other. This may be because the practices aren't aligned to the performance goals or culture of the organization.

Note: In this report, we discuss the role and importance of culture. Our perspective is that organizations that want to move toward more modern approaches of performance management should create cultures that support a future-oriented perspective, open feedback, and promote fairness. However, the nuances of culture are limitless, and each organization is different.



Practices should be pressure-tested to see if they actually align to the organization's performance management aims and organizational culture. Take the time to look at each performance management practice and

- Determine the critical practices by working backwards to understand what would happen if this practice was not implemented in the organization, making sure to see past the immediate repercussions to "ripple effects" with other areas of talent management or the employee experience.
- Appoint a devil's advocate to
  - Argue why current practices might not be suitable for your organization
  - Create counterarguments to any reasons you use to defend the practice
  - Identify negative behaviors or values that might be reinforced through these practices
- Identify the values and behaviors each practice supports and outline how that aligns to organizational culture or the goals of the performance management approach.
- Call out the gaps that are highlighted during the audit – the areas in which a practice is needed, but absent.

The goal of the audit process is not to create a more complex and complicated approach, but to actually identify the practices that might be running counter to the desired state. A simplified process, with practices aligned to the culture and desired goals, may require new practices, small tweaks to current practices, or removing some practices altogether.

### **Recommendation #3: Get the employee perspective**

We talked to a few organizations that were able to point to the employee perspective and could clearly articulate how performance management was viewed by employees. However, when asked, most organizations only referenced the employee engagement survey. Our perspective is that this is not enough. Oftentimes, practices are developed and implemented in isolation by HR and then placed upon the organization. While well-intentioned, this can often lead

to practices that are perceived as unfair or disconnected to the employee experience.

Getting employees involved in any performance management redesign can be a valuable way to (a) gain buy-in, (b) test out assumptions, (c) try different variations of the same practice, and (d) increase perceptions of fairness.

This can be done through a combination of several mechanisms:

- Pulse surveys
- Items on annual employee surveys
- Stand-alone surveys
- Sentiment analysis
- Feedback forums for HR
- Townhall meetings
- Focus groups

## **Recommendation #4: Train managers (and employees)**

In a perfect world, managers would know how to give feedback in ways that promoted action and insight, and employees would be able to receive constructive feedback without feeling threatened. That simply isn't the case. Being able to openly and candidly give and receive feedback is a skill that doesn't come naturally to all employees and managers.

Organizations should provide training and ongoing support for managers and employees that are navigating these discussions. As organizations continue to rely on these real-time, frequent discussions between managers and employees, they must also give their people the skills to make these interactions successful.

In addition, organizations should look for ways to “nudge” employees at critical moments with information, tools, and tips. For example, before annual summary performance discussions, employees should be “nudged” to connect with their managers and collaboratively prepare for this conversation. Managers can be “nudged” to reach out to their direct report's peers, project leads, and customers to gain

insight into their performance and prepare a summary in advance of the meeting. These nudges can remind each party of their responsibility during the meeting and how they can give and receive feedback during the discussion.

Another opportunity for training is to help managers move beyond tactical and technical proficiency. Managers should be provided with people management training. They should be given the tools needed to identify skill gaps, identify development opportunities, and how to use data to help employees see current and future skill needs.

## **Recommendation #5: Share critical information**

In many organizations, leaders have a tendency to hold data to themselves and only share it with employees on an as needed basis. However, as we indicated in this research, enabling employees via by giving them data-driven insights on their performance can be a very powerful practice.

To that end, we encourage organizations to focus on how they can make information available as far down in the organization as possible. Some critical questions to ask include the following:

- What information do we think could better enable performance?
- Who needs information and what do we expect them to do with it?
- How can we present this information in an actionable way?
- How can we make this information tailored to specific individuals and their teams?
- How often do we need to update this information?

By asking these types of questions, organizations can figure out how to be more transparent and give employees the critical information they need.

## **Recommendation #6: Consider the use of technology**

We get it. There are a ton of technologies out there and it's hard to keep them all straight. Technology can aid in both the logistical burdens of performance management and the employee

experience. However, we would argue that technology should not be the driver of change. Instead, organizations should leverage technology to suit their approach to performance management – not the other way around.

The upside of having so many technology options is that it will become less common that an organization has an idea that a vendor cannot address. That said, there are a few questions organizations should ask when considering technology:

- To what extent will this technology encourage the practices that will help create the culture, capability of managers, and clarify our organization needs?
- To what extent will this technology be usable and delightful for managers and employees? In what ways does it integrate into work productivity tools where they already spend their time?
- To what extent does this technology provide data and insights to managers and employees that will help them improve their performance?
- How flexible is the technology and how much of the customization can your organization do without external help?
- How well do you think your organization's needs and culture align to those of the vendor?

There are many other questions you could ask, but hopefully these will get you started.

# Appendices

## Appendix A: The Three Levers of Performance and Engagement

Figure 14 is a single view of the three levers of performance and engagement.

**Figure 14: Three levers of performance and engagement**

LEVER	CULTURE	CAPABILITY OF MANAGERS	CLARITY
<b>AREAS OF FOCUS</b>	<ul style="list-style-type: none"> <li>Fairness</li> <li>Feedback</li> <li>Future-focus</li> </ul>	<ul style="list-style-type: none"> <li>Coaching</li> <li>Candor</li> <li>Clearing barriers</li> </ul>	<ul style="list-style-type: none"> <li>Today</li> <li>Tomorrow</li> </ul>
<b>OUTCOMES IMPACTED</b>	<ul style="list-style-type: none"> <li>Organizational performance</li> <li>Employee engagement</li> </ul>	<ul style="list-style-type: none"> <li>Individual performance</li> </ul>	<ul style="list-style-type: none"> <li>Employee engagement</li> </ul>
<b>PRACTICES</b>	<p><b>Fairness</b></p> <ul style="list-style-type: none"> <li>Provides a fair and consistent performance evaluation process</li> <li>Pays and rewards people in a fair and equitable way</li> <li>Promotes pay transparency</li> </ul> <p><b>Feedback</b></p> <ul style="list-style-type: none"> <li>Provides resources to help employees understand how to give and receive feedback</li> <li>Enables peer-to-peer recognition</li> <li>Encourages open and honest feedback between peers</li> </ul> <p><b>Future</b></p> <ul style="list-style-type: none"> <li>Invests in developing managers' people management skills</li> <li>Encourages employees to continuously learn and develop skills</li> <li>Encourages people to believe that their basic abilities can be developed</li> </ul>	<p><b>Coaching</b></p> <ul style="list-style-type: none"> <li>My manager helps me learn from my mistakes rather than holding them against me</li> <li>I get useful ongoing conversations between my manager, mentors or coaches and me</li> </ul> <p><b>Candor</b></p> <ul style="list-style-type: none"> <li>My manager is open to new information</li> <li>My manager manages difficult conversations</li> </ul> <p><b>Clearing barriers</b></p> <ul style="list-style-type: none"> <li>My manager enables individual autonomy</li> <li>My manager removes barriers to getting work done</li> </ul>	<p><b>Today</b></p> <ul style="list-style-type: none"> <li>Uses data-based insights on how I'm performing and they are useful</li> <li>Encourages employees to update goals regularly in a continuous or agile goal management approach</li> </ul> <p><b>Tomorrow</b></p> <ul style="list-style-type: none"> <li>Provides clarity on what I need to do to succeed in the future</li> <li>Ensures individuals and teams have clear goals</li> </ul>

Source: RedThread Research, 2019.

## Appendix B: Research Methodology

This study began in April 2019. Our research scope was to think about all the changes that have occurred in performance management in the last 7-10 years and begin to understand what aspects of modern performance management were working. To that end, we sought to answer the following questions:

- How are organizations thinking about performance management and how has that evolved in the last 7-10 years?
- Are organizations implementing progressive practices as often as popular press would have us believe?
- What matters most and how are different organizations implementing these aspects of performance management?
- How are organizations balancing the need to address organizational needs and individual desires to develop and be engaged?
- How does performance management impact organizational performance, individual performance, and employee engagement?

A literature review on performance management was the first step in our process. We reviewed 50 articles and published a [summary](#) of these readings in May 2019.

Following this, data collection began. Data collection was done through the following methods:

- 20 interviews with vendors and organizational leaders
- Two roundtable discussions with performance management practitioners
- A 30-item survey open to HR leaders and individual contributors

The survey was open from June 2019 to July 2019. Upon completion, the data was evaluated for response time and response rate. Some items were removed due to low response rate. Respondents that were outliers in terms of completion time or level of survey completion were removed.



Data was analyzed between July 2019 and August 2019. During this time, the following methods were used:

- Frequencies and descriptive statistics
- Correlation and regression
- Analysis of variance (ANOVA)
- Factor analysis
- Risk ratio (relative risk)

Based on factor analysis and theory, three factors, which we call levers, were identified. Theoretically driven sub-factors or components were created. Reliability analysis was run on all levers and components, yielding appropriately high reliability.

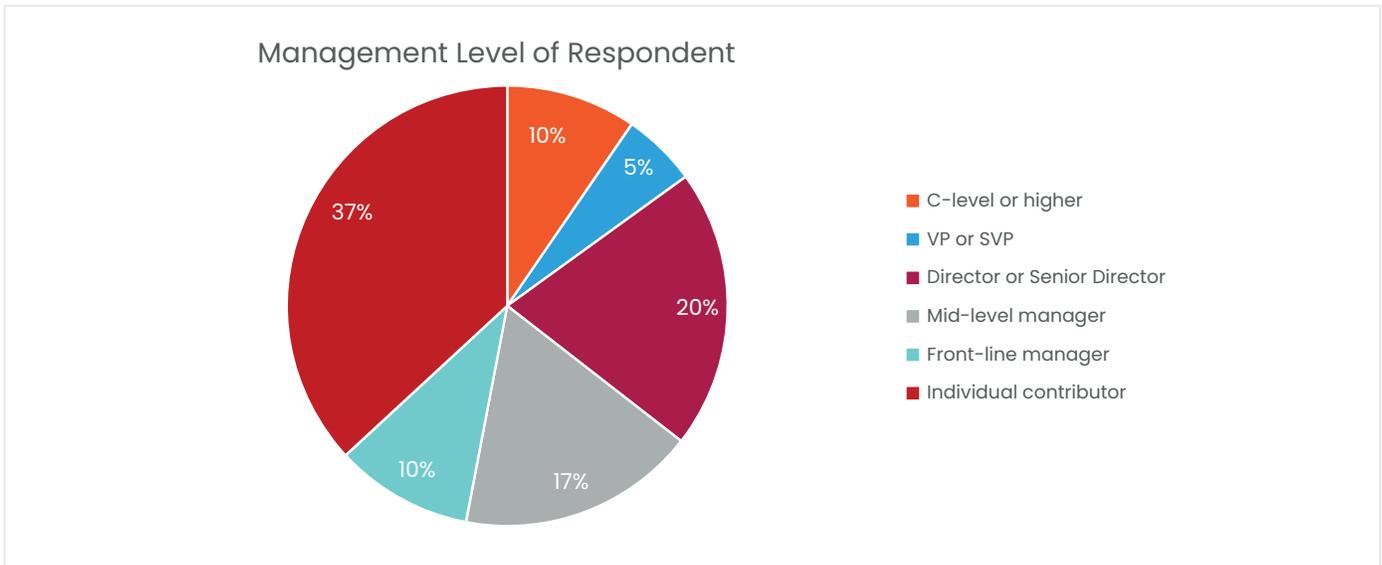
Lever and component scores were created through averages (simple means) and used in subsequent analysis (e.g., regression). Some analysis required variables to be dichotomized. Cut points were theoretically derived at the point at which the scale would suggest competitive advantage (i.e., 4 or 5 on a 5-point scale).

## **Appendix C: Demographics**

After data cleaning, a final set of 368 respondents was included in the analysis.

Of this set, 10% were C-level or higher, 6% were VPs or SVPs, 21% were Directors or senior Directors, 18% were mid-level managers, 10% were frontline managers, and 37% were individual contributors (see Figure 15). Note: these percentages add to slightly over 100% due to rounding.

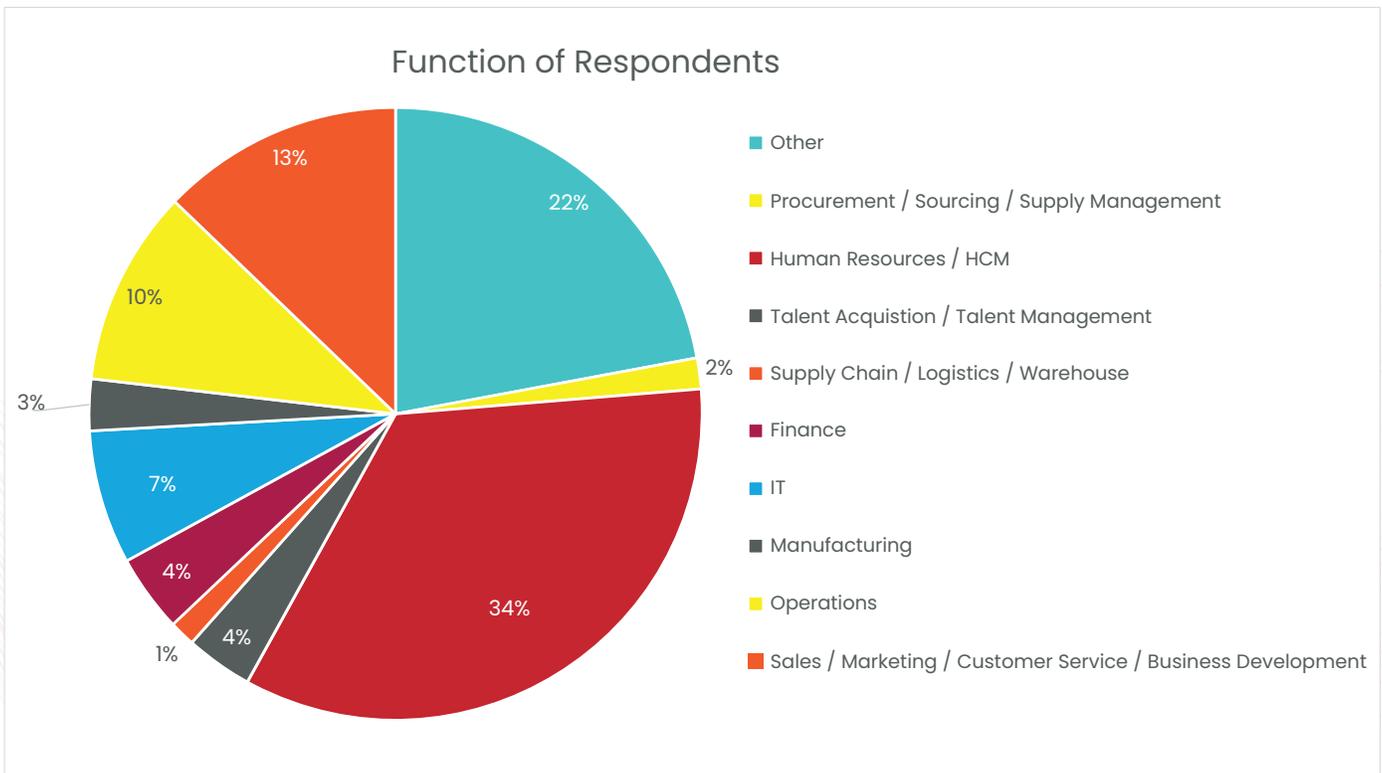
**Figure 15: Demographics – Level**



Source: RedThread Research, 2019.

In addition, 34% of respondents indicated that they were currently in a Human Resources role (see Figure 16).

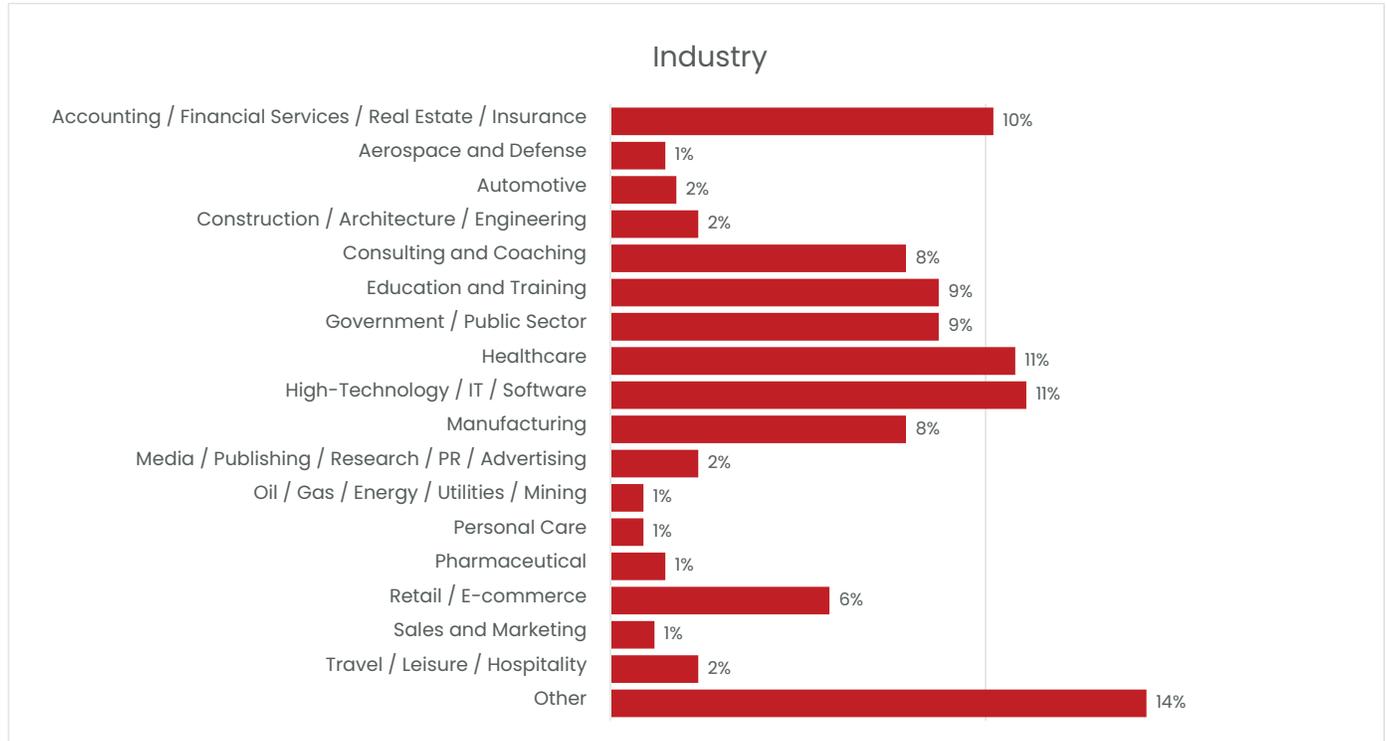
**Figure 16: Demographics – Function**



Source: RedThread Research, 2019.

In terms of industry representation, a majority of respondents indicated they worked in Healthcare, High-Tech IT, and Accounting (see Figure 17).

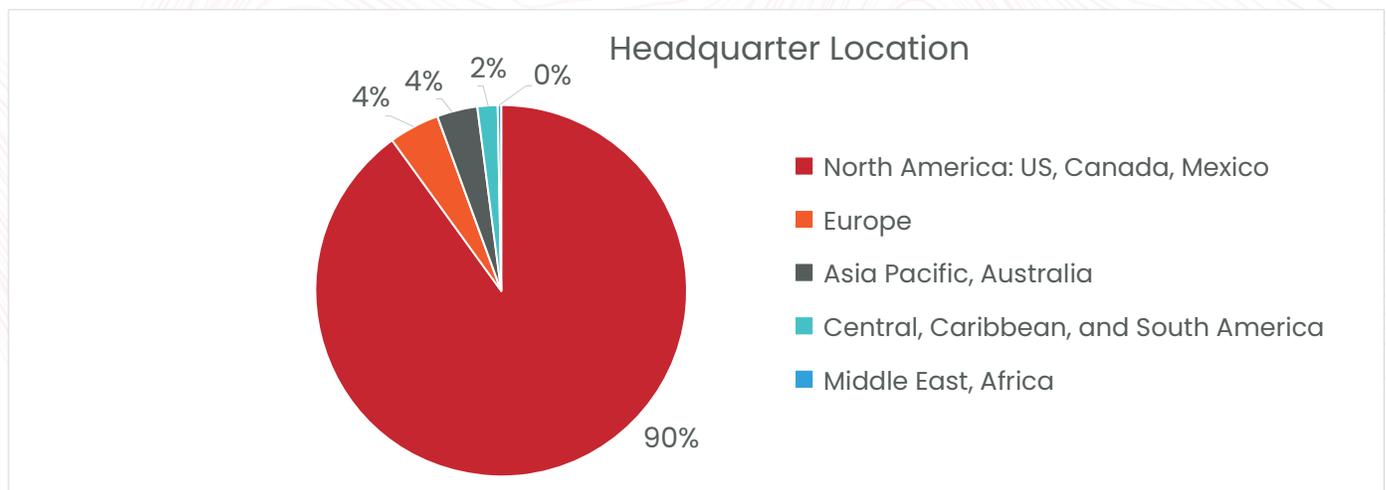
**Figure 17: Demographics – Industry**



Source: RedThread Research, 2019.

Lastly, with regard to location, 90% of our sample indicated that their headquarters were located in North America (see Figure 18).

**Figure 18: Demographics – Headquarter Location**



Source: RedThread Research, 2019.

# Authors

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Stacia is a researcher and thought leader on talent management, leadership, D&I, people analytics, and HR technology. A frequent speaker and writer, her work has been featured in Fortune, Forbes, The New York Times, and The Wall Street Journal as well as in numerous HR trade publications. Stacia co-founded RedThread Research in 2018, after leading talent and workforce research for eight years at Bersin by Deloitte. Before Bersin, Stacia spent approximately five years conducting research and creating learning content for the Corporate Leadership Council, part of CEB/Gartner. She has an MBA from the University of California, Berkeley, and a master's degree from the London School of Economics.



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