

NEW TRENDS AND CHALLENGES IN EMPLOYEE PERFORMANCE MANAGEMENT

This article is the English and updated version of a prior one, titled “Nuevas Tendencias y Desafíos en la Gestión del Desempeño”, published in volume 11 of ESE Alumni Magazine, year 2015.

“It is important to keep in mind that modern organizations are complex systems whose parts are interconnected, so that if we make changes in one process such as performance management, this is likely to have consequences in other parts of the system”.



Patricio Rojas

Ph.D in Strategic Management and Management Control, IESE Business School, Universidad de Navarra.

MBA, Pontificia Universidad Católica de Chile.

projas.ese@uandes.cl

Nowadays one of the greatest challenges leaders face in all kinds of organizations is employee performance management, which is particularly relevant in industries where human capital is vital for competitive advantage.

In consequence, it is not surprising that firms in the professional services industry are continuously looking for new and better ways of managing employee performance, as future success strongly depends on firms' capabilities for identifying, developing, and retaining the critical personnel that “makes things happen”. But being successful in these tasks is far from easy given the increasingly tough competition for talent.

This article describes how two of the largest firms in the professional services industry, Deloitte and Accenture, are redefining their approach to employee performance management. It also describes their motivations, goals, and some of the problems and potential undesired consequences that might result from these change initiatives, according to the scientific literature.

The Deloitte case

Deloitte decided to redesign its performance management systems in the wake of an internal survey showing that nearly 60 percent of the company's executives believed that the existing system neither had any effect on organizational performance, nor on employee engagement. Furthermore, estimates revealed that the current system consumed over 2 million person-hours a year – used primarily in completing forms, participating in meetings, and creating employee rankings. Given this diagnosis, the company decided to explore whether all these hours could be put to better use, with the goal of accomplishing three objectives: be able to (1) clearly identify good performance, (2) reward performance through variable compensation, and (3) fuel future performance.

After a process of analysis and redesign¹, Deloitte adopted a new system with the following characteristics:

- Leaders will conduct weakly conversations with each one of their team members to talk about next week's goals, what is expected from them, and how they can do their best work in the upcoming days.
- 360-degree reviews are replaced with four questions that team leaders will have to answer regarding their team members at the end of every project or once every quarter for long-term projects. The questions are:
 - Would you award this person the highest possible compensation increase and bonus?
 - Would you always want this person on your team?
 - Is this person at risk for low performance?
 - Is this person ready for promotion today?
- Although performance data will have a role on determining compensation, it will be just an input. The ones who will determine final compensation will be either a leader who knows the individual personally, or a group of leaders looking at people in similar positions.

The Accenture case

In July 2015, the CEO and Chairman of Accenture, Pierre Nanterme, announced in an interview the firm's decision to eliminate rankings and annual performance reviews for its almost 360,000 employees. At Accenture they concluded that time, money, and effort

consumed by their current employee performance management process was not accomplishing its main goal, namely improving employee performance. In addition, they believed that their current system didn't fit with the aspirations of younger generations, who wanted autonomy, quick promotion, and to assume leadership positions. Accenture's top management also concluded that new generations of employees wanted to know on an ongoing basis whether they were doing things right, rather than waiting for the annual feedback cycle. In addition, the vision of Accenture's top leadership regarding how to manage talent was, according to Nanterme, led by the philosophy that *"the art of leadership is not spend your time measuring, evaluating. It's all about selecting the person. And if you believe you selected the right person, then you give that person the freedom, the authority, the delegation to innovate"*.

Ellyn Shook, Accenture's Chief Human Resources Officer and the person who Nanterme credits with the decision to change, described² the new system as highly personalized and future-oriented, and composed of the following elements:

- Aligned priorities, obtained through frequent conversations regarding priorities and expected results between supervisors and their subordinates, the aim being to make sure that employees are progressing in the right direction.
- Ongoing feedback by means of frequent and highly personalized coaching conversations with employees to replace closed-door ranking meetings where leaders discuss about employees.
- Forward-looking discussions, where, instead of taking a retrospective view, conversations focus on employees' aspirations and the actions that can help them grow and progress in their careers.
- Eliminating the use of rankings for reward and advancement decisions, and instead, taking into account each person's skills, role, and contributions. This is achieved by involving in the decision those supervisors closest to people and who know their work best. And if somebody doesn't have the appropriate skills, then supervisors will have to engage in courageous conversations with underperforming employees to help them improve.

¹ The article "Reinventing Performance Management", Harvard Business Review, April 2015, describes the whole process.

² http://www.huffingtonpost.com/ellyn-shook/dump-performance-appraisals-and-help-employees-be-their-best_b_7933268.html



Implicit Assumptions and Likely Consequences of these Changes

We now discuss the underlying assumptions behind the changes these two firms are implementing. These assumptions will help illuminate some likely consequences, both at the level of the employee performance management process, and also at the level of the firm as a whole.

Assumption 1 - The problem has to do with the design of the Performance Management system, and not with its implementation (Deloitte & Accenture)

While Deloitte describes the decision to make relevant changes to their performance management systems as a “re-invention”, Accenture portrays the same decision as “revolutionary” and “radically redefining the rules of the game”. Both approaches suggest that the people leading these change initiatives perceive that current systems’ problems are essentially “design” issues, and not simply that the existing systems were poorly implemented. But the performance of socio-technical systems depends both on the tool as such – the performance management system, and on the way it is used. So if one changes the tool but does not address usage-related issues, the new solution may run the risk of not just perpetuating the existing problems, but creating new ones as well. A relevant question is whether an adequately thorough analysis of the implementation of the extant system would reveal it to

be so problematic that the only solution is to radically redesign it, or instead show that problems could be addressed with some adjustments to both the tool and the way it is used.

Assumption 2 – Increased frequency of evaluation is better (Deloitte & Accenture)

At first sight, this assumption sounds pretty reasonable, especially taking into account the usual practice of giving feedback once per year that clearly seems not enough. However, do all employees require weekly feedback? Will all supervisors have something new to tell their subordinates every week? Having an increased frequency of conversations is something valuable only if there is new information to share and discuss, particularly when supervisors can contribute to subordinates’ interpretation of that new information. These conditions are true only for those employees that are just starting their careers and working on simple matters. But for those senior and experienced employees working on highly technical and complex matters – topics that perhaps not even their superiors understand – increased frequency could be a waste of valuable time better put to use elsewhere. Indeed, the differences between senior and junior employees, both in terms of experience and in their size as a share of firm’s workforce, suggest that designing separate systems for each segment could solve some of the issues affecting current employee performance management systems.

Assumption 3 – Straight talk and courageous conversations are natural to human beings (Accenture)

Many studies in the psychology and management literature describe the human tendency to avoid conflict, and also identify the related consequences to organizations. For instance, Argyris and Schön describe “defensive routines” and their capacity to destroy organizational learning capabilities. Given the tendency to avoid uncomfortable situations, people circumvent the experience of embarrassment or threat by bypassing problems instead of addressing them. One of the direct effects this problem has in employee performance management is the issue of the “leniency bias”, namely supervisors’ tendency to be excessively generous when evaluating their subordinates, giving higher grades than those which would result from an objective evaluation, particularly avoiding giving low grades, except in cases of extremely poor performance. In addition there is the “Dunning-Kruger” effect, a cognitive bias by which people believe their skills are superior to their actual level and that results in all individuals believing they are above average³. So, in the context of performance management, the action of these two biases suggest that straight talks and courageous conversations are far from natural, and a usual situation is that managers give excessively generous grades, and employees believe they are above average.

These biases and their consequences are not neutral to the design of performance assessment systems. A first consideration is who bears the burden of disconfirming employees’ expectations regarding their performance. While in multi-assessor systems such as the 360-degree

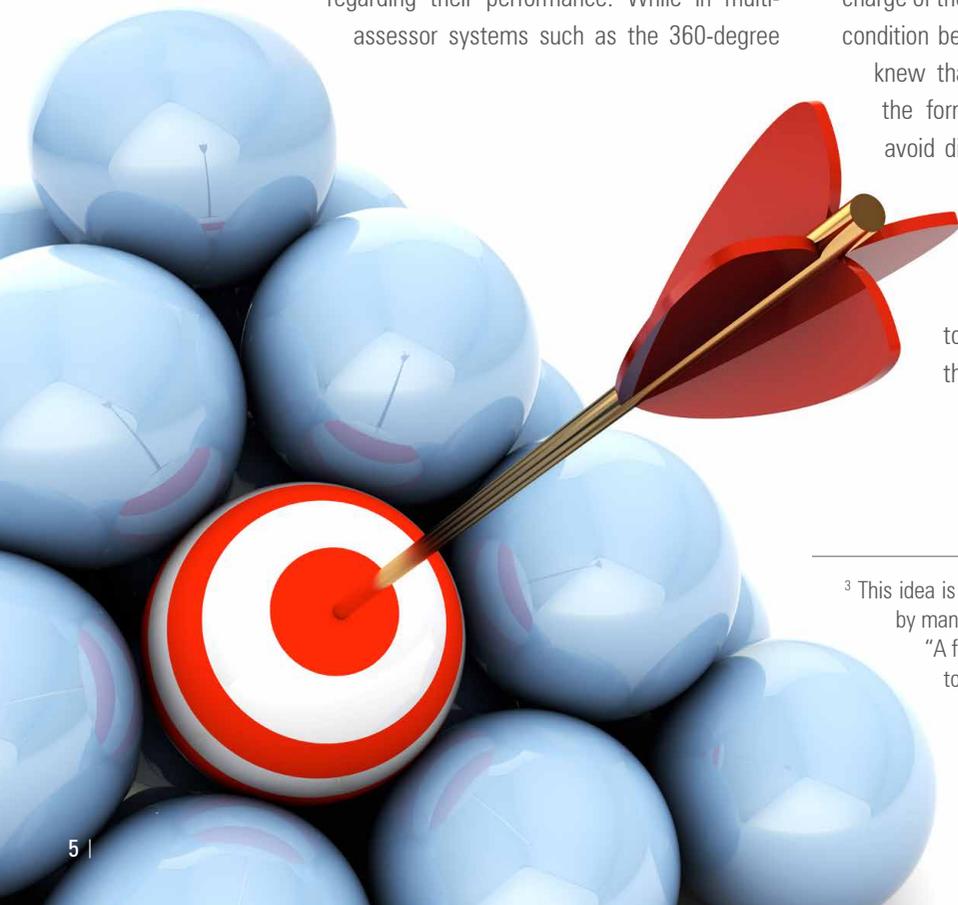
reviews the burden is shared among many, when the supervisor is the solely responsible for assessment employees are very clear who is to blame for grades and bonuses below expectations. The more optimistic are employee expectations, the heavier the burden for supervisors when they are the only ones responsible for assessing their subordinates. A second consideration is that, due to the “leniency bias”, the amount of people receiving good grades, and thus suitable for receiving rewards, is larger. So, with the exception of firms with unlimited resources, the pool of money for rewards has to be distributed among more individuals. This means that people not worthy of being rewarded receive a bonus, while people extremely worthy of being rewarded receive an incentive that is smaller than they deserve. Along these lines, recent empirical studies show that “Calibration Committees⁴” are an effective tool to counteract the “leniency bias” and the excessive amount of “outstanding employees” that it produces.

Assumption 4 - Performance assessment grades are independent of the way in which they are used (Deloitte)

Deloitte conducted a study that concluded that their extensive multidimensional performance evaluation could be replaced with four simple questions to supervisors, as they found high correlation between objective performance indicators and the above mentioned questions. But in the study supervisors were told that their answers would be confidential and also they were assured that employees will not know about their answers. Those in charge of the study recognize that they included the confidentiality condition because prior experience told them that if supervisors knew that team members had access to their evaluations, the former may be tempted to sugarcoat the results to avoid difficult conversations. So if instead of using the four questions for a confidential study they are used for evaluating and end up having consequences to employees, the inescapable result will be that their predictive capacity will deteriorate due to supervisors sugarcoating, perhaps to such a degree that they will be no longer useful.

³ This idea is not new. As early as the 1600, Shakespeare – considered by many as one of the greatest connoisseur of human nature - said “A fool thinks himself to be wise, but a wise man knows himself to be a fool”.

⁴ Calibration Committees are meetings where several supervisors create a ranking of employees.



Assumption 5. We Have the Right People (Accenture)

It is hard to disagree with Pierre Nanterme regarding his idea that, if you have the right people, then you should give them autonomy and avoid wasting their time with unnecessary bureaucratic burdens. The big questions, then, relate to if one does in fact have the right people, and what one can do to make sure that this is the case. How frequently firms, when hiring someone, have absolute certainty of his or her potential? What about candidates with little or null prior job experience?

Given the potential for hiring mistakes, and the fact that not everyone benefits equally from training, the assumption that firms have the right people is doubtful. Indeed, the concrete reality of many companies is that they have a group of outstanding employees, a large number of employees with reasonable performance, and a group with lacking performance. So, what will happen then if firms treat them all as if they were outstanding? One need not be exceptionally creative to conclude that some of those employees with lacking performance will make mistakes, and the more power and autonomy they are given, the worse the consequences will be.

Assumption 6. The effects of organizational effort devoted to performance management are limited to improving performance and motivation (Deloitte & Accenture).

If an organizational process consumes valuable resources and returns poor results, it is reasonable to do away with it. But what happens if it includes a number of additional functions that create value in the organization?

The characteristics of performance management processes in professional service firms, particularly those such as Deloitte and Accenture, suggest that, classical systems such as Calibration Committees, possess several additional features, including:

- They affect employee perception regarding whether the performance evaluation process is fair or not. For example, most of those working in Deloitte believe the classic evaluation process is fair. They appreciate its predictability, and value the fact that each person is assigned an advisor who is present at the meeting where their performance is discussed. Calibration Committees increase perceptions of fairness in the performance evaluation process, as they “level the playing field” in terms of

the criteria employees are assessed on. Calibration Committees reduce the sense of injustice that results when not-very-demanding supervisors reward people who their workmates know are not as good at their work, but perhaps quite skilled in telling stories and putting pressure on their bosses.

- They reduce the personal cost of supervisors because everyone knows that the evaluation does not depend entirely on them, but also on other managers, peers, and even subordinates in the case of 360-degree reviews.
- They are spaces where top managers can get to know and negotiate with one another, especially among the managers taking part in the Calibration Committees. After a few meetings it becomes increasingly clear for managers which colleagues tend privilege their own people at the expense of people from other areas, and thereby managers can make mental note of which colleagues are working for the common good or just for themselves. This information is extremely valuable in order to know who they can count on and work with in the future, perhaps on projects and initiatives that are key to the success of the company.

Assumption 7. Looking at the past course of action is opposite to looking towards the future (Deloitte & Accenture)

At Deloitte top officers say they are shifting their investment of time and focus to fueling performance in the future rather than assessing the past. In turn, in Accenture they want to engage in future-focused conversations rather than taking a retrospective view, in a change process that requires getting rid of 90 percent of what they have done in the past.

But how can firms learn and improve if they don't take the time to evaluate what they did right and wrong, and to think about how to use this knowledge to better face the future?

The fact that two large companies are redesigning their performance management systems without considering to use the large amount of information on past performance they possess is surprising, even worrying if actual plans are effectively discarding all that information. And if it is simply a discourse, soon or later employees will realize that.

Conclusions

The previous discussion identifies a number of issues that both Deloitte and Accenture – and also other human-capital-intensive firms – should explore so that changes to their performance management systems generate value and the adage “the cure is worse than the disease” does not prove true. Notice that to have identified problems in these companies’ new systems should in no way be considered an attempt to defend classical performance management. On the contrary, the latter has significant shortcomings and it is entirely reasonable and valuable to try to improve it.

However, it is important to keep in mind that modern organizations are complex systems whose parts are interconnected, so that if we make changes in one process such as performance management, this is likely to have consequences in other parts of the system.

For example, both companies argue for increasing the frequency of feedback and give a central role to top management in this process. But there is a risk that more frequent feedback can in fact take more time than that taken by current systems. For instance, in the case of Deloitte, increasing the frequency will easily require over 2.3 million person-hours a year⁵.

A relevant question is, where will they get these additional 2.3 million hours? Will more management positions be hired for? Will they take time away from project management or away from formulating proposals to customers? From this estimate it is clear that there is a danger that the increased time spent on the feedback process could come into conflict with the other key activities of the organization.

Also, in both firms, managers must assume the role of coach, but, do they know how to do this well? If they do not know, will they be trained? What will managers have to stop doing in order to attend training?

On the other hand, the big question remains regarding the effect on managers themselves of having tasks consolidated and placed on their shoulders. With the new systems managers will become - in the eyes of their subordinates - the ones solely responsible for making decisions regarding incentives and promotion. Will management, who represent a significant portion of talent in these companies, be grateful for this change? Will this new system increase their motivation to continue working for the company? A management system should be designed to facilitate the work management is responsible for. When designs require heroic effort, the only thing they do is increase their probability of failure several times over.

Deloitte and Accenture are two large and relevant companies. For those people redesigning their performance management systems, surely it is stimulating to be part of the innovative and creative changes described in this article, especially considering the great impact they could have on the future of both companies.

However, it is important to remember that knowledge and science progress by building on previous discoveries. Hopefully, both companies can take advantage of the knowledge base that already exists, and thereby avoid the adage that says, “For every complex problem there is an answer that is clear, simple, and wrong.”

⁵ The estimate takes into account 15 minutes per weekly feedback for each employee. This time includes actual conversations, prior preparation, note taking, and moving to and from meetings. It does not include the time it will take each manager to carry out the quarterly evaluation of subordinates, or annual compensation and promotion decisions. The estimate is based only on Deloitte Americas. For the company at a global level, the estimate is 5.2 million hours per year.