

# The State of Performance Management 2020

Adapt key practices to  
succeed in uncertain times



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## Executive Summary

Since the start of the Covid-19 pandemic, performance management (PM) has arguably become more important than ever. Its origins, however, can be traced back as far as third-century China. It began as a process to evaluate the performance of the official family members of the Wei dynasty emperors.<sup>1</sup>

The modern version of workforce performance management became a staple of most organizations in the 1960s when Peter Drucker, notable management consultant and author, introduced the concept of Management by Objectives (MBO).<sup>2</sup> Today PM is a very prevalent process. In fact, our research shows that more than 90% of organizations have a performance management process.

Despite this prevalence, however, few organizations believe they have highly successful performance management processes and systems. This is problematic because well-implemented performance management can simultaneously bolster business results while fueling individual growth among organizational members.

In this, our third consecutive annual study on The State of Performance Management, we explore a variety of topics:

- the impact of performance management on organizational and individual performance
- how performance management has adapted during the “Covid-19 era”
- the frequency with which various types of performance discussions are held
- key reasons organizations use a performance management system
- how performance is evaluated and tracked
- the proficiency of leaders conducting performance management discussions
- the use of technology as a performance management enabler
- the degree to which performance management will change in the future
- how organizations that have good PM systems and processes differ from those that do not

<sup>1</sup> McMahon, G. (2009). *Successful performance management: Effective strategy, best practice and key skills*. Dublin, Ireland: The Liffey Press.

<sup>2</sup> Drucker, P. F. (1954). *The practice of management: A study of the most important function in American society*. New York: Harper.

### About this survey

The State of Performance Management survey ran in May and June 2020. We gathered 341 complete and partial responses from HR professionals in virtually every industry vertical. Respondents are located all over the world, but most of them reside in North America, especially the United States.

The participants represent a broad cross section of employers by number of employees, ranging from small businesses with fewer than 50 employees to enterprises with 20,000+ employees.

Questions for the survey were guided by an independent panel of HR professionals, coaching and mentoring experts who we thank for their invaluable insights.

Below is an overview of the top findings from the study:

**Major Finding One: The Covid-19 pandemic is shifting performance management priorities.**

- More than half (55%) of HR professionals believe more performance management discussions are happening remotely due to Covid-19.
- This trend is also influencing training. More than two-fifths (44%) say their managers need new skills to manage employees remotely.
- Performance management conversations between managers and employees are expanding to include more than just traditional PM concepts. For example, two-fifths say more conversations are involving health and well-being.

**Major Finding Two: Most responding HR professionals indicate that their performance management processes need improvement.**

- One-quarter of leaders are perceived as viewing performance management as a “necessary evil,” but 23% say leaders view PM as crucial for overall business performance, and 17% say they see it as an aid to employee development.
- Just one-third of HR professionals say their performance management process meets organizational performance management goals to a high or very high degree.
- Even fewer say their PM process meets organizational goals related to employee development, performance or engagement.
- Only 32% agree that the managers in their organizations are satisfied with the PM system.

**Major Finding Three: Many managers lack necessary performance skills.**

- Just 28% say most managers in their organization are skilled at performance management.
- Part of the problem is a lack of training. Just two-fifths say most of their organization's managers have received enough performance management training.

**Major Finding Four: Performance management typically has multiple objectives for both the employees and the organization.**

- Most say performance reviews are motivated by the need to help employees learn and grow (71%).
- About the same proportion (70%) say PM is aimed at helping the organization improve overall performance.
- Sixty percent say it is used to boost communications between employees and managers.

**Major Finding Five: These days, managers are talking to their employees about performance more often.**

- Although formal performance reviews are still most commonly held just once a year, there is an eight percentage-point increase from 2018 of companies that conduct these formal appraisals twice a year or more.
- Other types of PM interactions tend to occur more frequently than performance reviews. For example, more than half (52%) say feedback between supervisors and employees occurs four times a year or more.

**Major Finding Six: Performance management technologies have become more commonly used and tend to have multiple capabilities.**

- More organizations are using technology for performance management (71%), an increase of nine percentage points from 2019.
- Most organizations use a performance management technology that is bundled or integrated (66%) with another technology (e.g., HRIS).
- Performance management technology systems have these capabilities most often:
  - facilitates the employee performance review or appraisal process (70%)
  - allows users to evaluate performance in relation to goals (64%)
  - allows workflow approvals (54%)

**Defining Small, Mid-sized, and Large Organizations**

Throughout the report, we look at the findings based on company size. We deem organizations with 1-99 employees as “small,” those with 100-999 as “mid-sized” and those with 1,000 or more employees as “large.”

**Major Finding Seven: Performance management will continue to change in the near future.**

- Just over a third (37%) say their performance management system will change to a high or very high degree.
- Many say that over the next three to five years, performance management will become:
  - more integrated with employee engagement and satisfaction data (62%)
  - more focused on development activities (58%)
  - less formal and structured (46%)
  - better at boosting employee performance (45%)

**Major Finding Eight: Organizations that achieve all performance management goals to a high or very high degree are more likely to:**

- adapt performance management practices in response to Covid-19 challenges
- see improved employee performance, development and engagement due to performance management practices
- have more frequent and informal performance-related conversations
- say their managers are good at having performance-related conversations
- see performance management as a crucial part of business performance
- use technology to support their performance management process





## Performance Management in the Covid-19 Era

Globally, most organizations have had to alter at least part of their operations due to the Covid-19 pandemic. As we write this report, many organizations have adopted remote work arrangements to maintain social distancing. In addition, many companies have changed work structures and procedures for employees who cannot do their jobs remotely and yet need to reduce risks of contagion. As a result of these and other changes, performance management processes have been adapted to new realities. Although the future remains uncertain for now, it is likely that at least some of these PM adaptations will continue even after the pandemic recedes.

### **Finding: Most firms say that the Covid-19 crisis has changed their performance management process in some way**

The large majority of respondents (85%) state that the Covid-19 crisis has somehow changed performance management in their organizations. Naturally, with Covid-19 pushing many organizations to allow employees to work from home, the most widely-cited response is that more performance discussions now occur remotely rather than in person (55%).

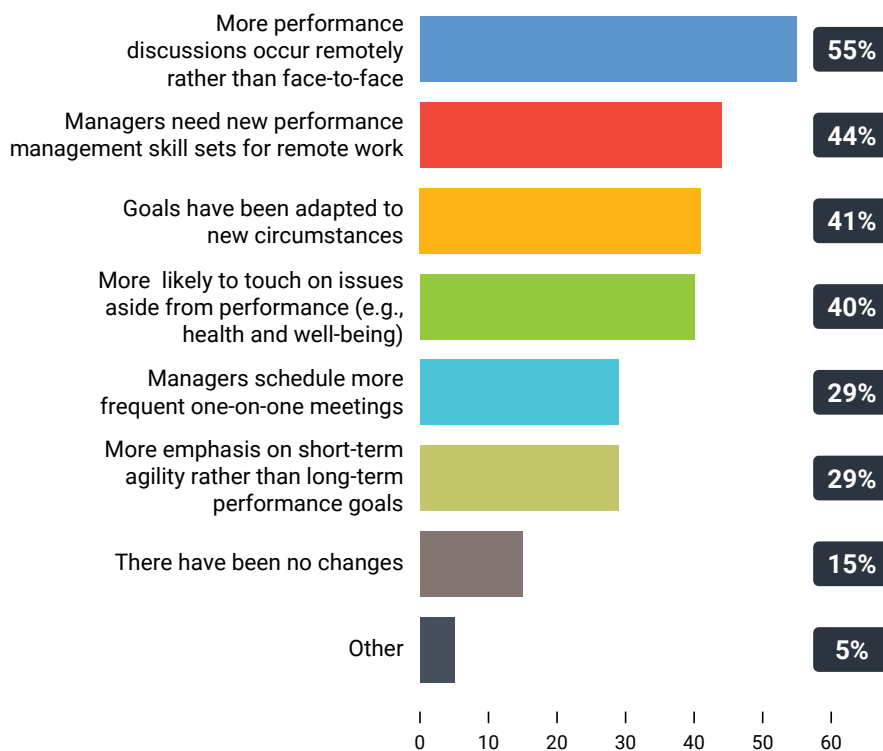
On a related note, more than two-fifths say their managers' current PM skills are not up to the challenge of managing remote employees. The HR professionals responding to this report indicate that these managers will require some new performance management skill sets. These managers may be unprepared to properly manage factors such as remote but regular performance check-ins. Of course, challenges could also be caused by the absence of the necessary tools needed to manage remote employee performance effectively.

Covid-19 is not only disrupting organizations but also disrupting the personal lives of their employees. Because external stresses can have an impact on an employee's performance, it is encouraging to see that 40% say more PM-related conversations involve health and well-being rather than just performance. Two-fifths also say that their performance goals have been adapted to new circumstances.



Covid-19 has affected small and large organizations somewhat differently. Respondents at small organizations say the biggest change is that their managers need new skill sets for remote work (46%), while those from large companies say performance conversations occur remotely rather than face-to-face (73%).

**Survey Question:** How has the coronavirus era changed performance management?



Only 15% say performance management has not changed at all due to Covid-19



# The Current State of Performance Management

## How Common Is Performance Management?

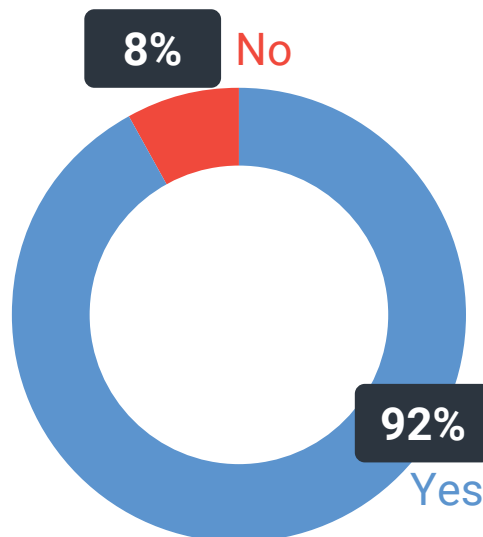
**Finding: Most organizations have a performance management process**

Performance management processes are a staple in most companies. Nearly all respondents say their organization has a performance management process (92%). However, as we will see in this report, many of these organizations are still struggling to develop high-quality PM processes and systems.

Organization size does make a difference in this case. The vast majority (95%) of larger organizations have performance management processes whereas only 76% of small ones do. Mid-sized companies fall in between at 92%.



**Survey Question:** Does your organization have a performance management process?



## How Successful Is Performance Management?

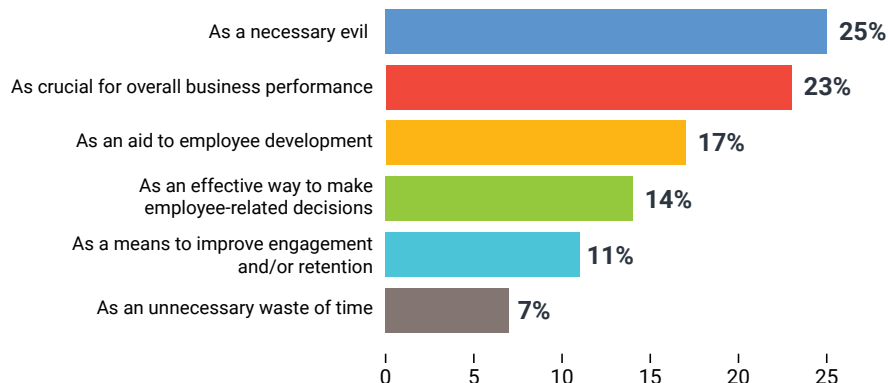
### Finding: Top leaders too often view performance management as a “necessary evil”

Most HR professionals think their top leaders view performance management in a positive light. Based on the impressions of respondents, nearly a quarter (23%) of leaders view PM as crucial for overall business performance. The percentage who chose this response rose six percentage points since the last time the survey was fielded. Many leaders view it in other positive ways, such as an aid to employee development, a good way to make employee decisions, and a means to engage and retain personnel.

However, about a third of leaders (32%) view PM in a more negative light. That is, 25% view PM as a “necessary evil” and another 7% see it as an unnecessary waste of time. We remain hopeful that in the future more leaders will view PM in a positive light as performance management systems and processes improve.

Compared to the average, leaders at small organizations have a higher opinion of performance management and its benefits. Respondents from these companies are far less likely to say performance management is viewed as a necessary evil (13%) and are more likely to say it is crucial for overall business performance (30%) as well as an aid to employee development (25%).

**Survey Question:** In your organization, how do most top leaders tend to view performance management? (select the one that best applies)



Just under a quarter say performance management is crucial for business performance

## Finding: Only 28% believe managers are satisfied with their current performance management system

More HR professionals disagree (34%) than agree (28%) that their managers are satisfied with their organization's performance management system. The rest are noncommittal or don't know. This is another indicator that improvements are required in most organizations.

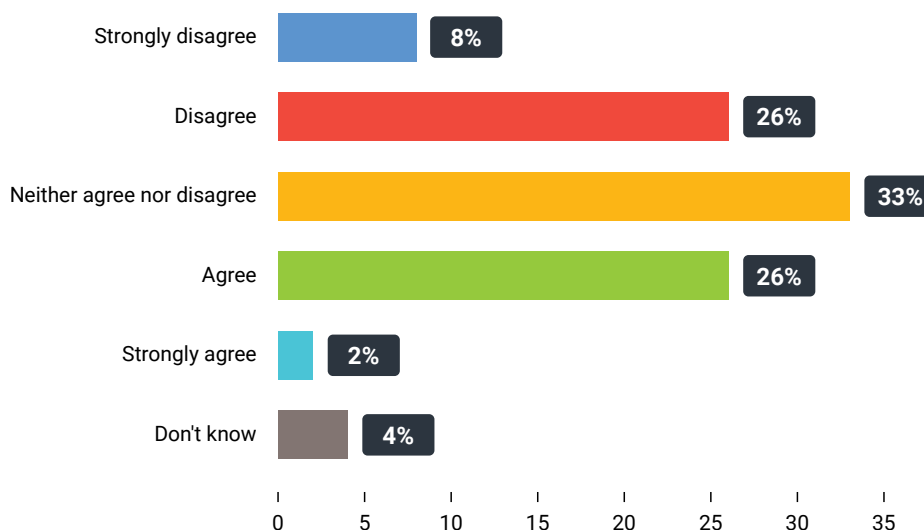
The good news, however, is there is a slight decrease in the percentage of those who disagree or strongly disagree. In 2019, 41% said they disagree or strongly disagree, a decrease of seven percentage points. This is another hint that, overall, PM systems have been undergoing improvements in recent years.

Small companies are more likely than average to say their managers are satisfied with their organization's PM system. Thirty-nine percent of those at small organizations agree or strongly agree compared with just 34% of mid-sized and 21% of large companies.



**Survey Question:** To what extent do you agree with the following statements about most managers in your organization?

Percent saying managers in their organizations are satisfied with the PM system



Only 2% strongly agree that their managers are happy with their organization's performance management system

## Finding: Only about a third of HR professionals say their PM process meets organizational performance management goals to a high or very high degree

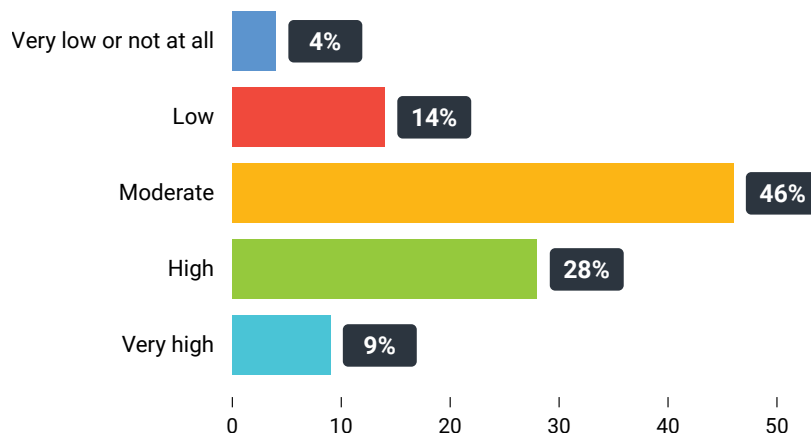
Only 9% say their PM process meets all organizational performance management goals to a very high degree, though a further 28% say it does to high degree. This represents an increase of four percentage points from 2019.

The rest of the respondents say their performance management processes meets all organizational PM goals to only a moderate or lower degree, suggesting that most organizations could substantially improve their performance management processes.

HR professionals from larger organizations are most likely to say that their organization's PM process has the ability to meet all organizational performance management goals to a high or very high degree (43%), compared with mid-sized (28%), and small organizations (38%).

Later in this report, we compare those organizations that are doing a better job at achieving all their PM goals with those that are having difficulty in this area. Our goal is to determine which practices are most closely associated with greater success.

**Survey Question:** To what degree does your organization's performance management process result in the ability to meet all organizational performance management goals?



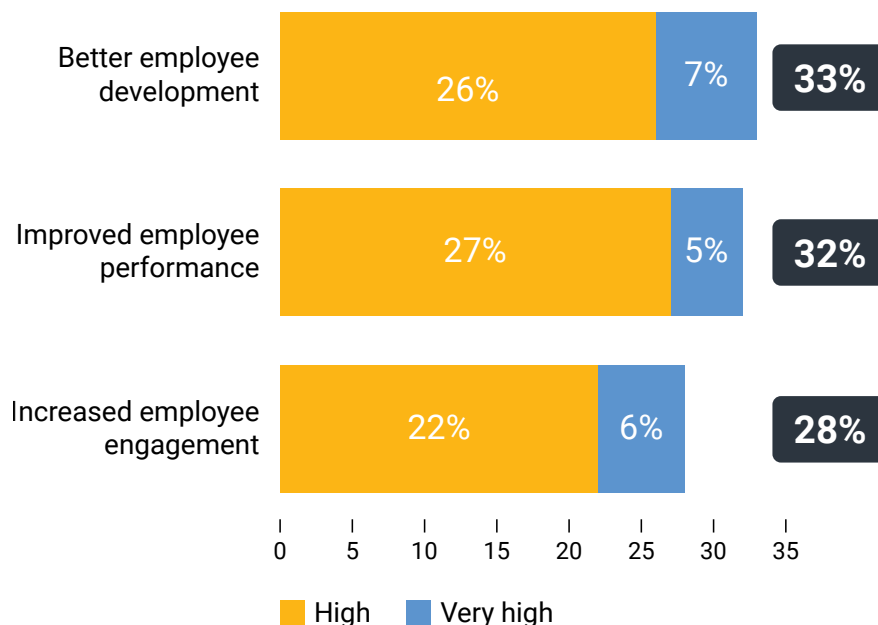
## Finding: Relatively few say their performance management process leads to better engagement, performance or development to a high or very high degree

Only about a third agree to a high or very high degree that their performance management process results in better employee development (33%), improved employee performance (32%), or increased employee engagement (28%). As in the previous finding, this implies that many PM processes fail to do a good job of improving employee performance, which is obviously among the chief goals of performance management.

Performance management processes are least likely to result in high engagement levels. This might be expected, given that performance management was not originally designed with employee engagement in mind. We should note, however, that about two-fifths (38%) of small organizations see increased employee engagement to a high or very high degree as a result of PM, compared with just 20% of large organizations.

**Survey Question:** To what degree does your organization's performance management process result in the following?

Percent responding high or very high degree



Just 28% say employee engagement has increased due to their organization's performance management process

## What Are the Features of Performance Management?

### Finding: There are three widely-cited features of performance management

There are three key features of performance, identified by more than a quarter of respondents. These PM processes generally include the following:

- both positive feedback and constructive critique
- a discussion of work goals
- a conversation about development goals and activities

Collectively, these features focus on communication and transparency. Most widely-cited (81%) is that the process includes both positive and constructive feedback. This is critical because an employee who hears nothing but praise will not be able to develop and grow, and an employee who hears nothing but criticism will most likely have a negative employee experience and may seek employment elsewhere. A good balance of criticism and positive feedback will ideally keep employees engaged as well as continuously developing.

HR professionals say their performance management process also includes discussions of work goals (80%) and conversations about developmental goals and activities (77%). These two topics tend to support one another. When work goals and developmental goals align, it is often a win-win for both the organization and the employee.

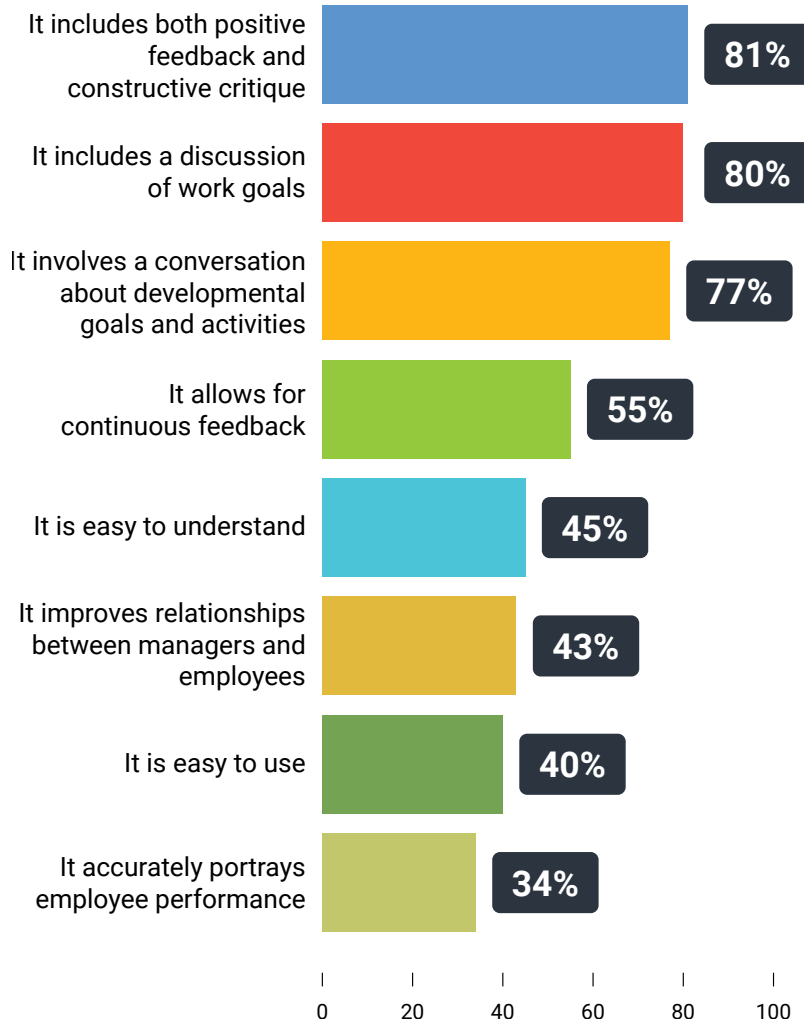
It is disappointing to see that just 34% say their performance management process accurately portrays employee performance. After all, a valid portrayal of performance is at the heart of the rationale for performance management.

Why is there a disconnect here? The other response items may provide clues. After all, only 45% say their system is easy to understand and just 40% say it is easy to use. Only a little over half (55%) say it allows for continuous feedback. These kinds of drawbacks may influence the degree to which performance can be accurately portrayed and communicated.





**Survey Question:** Which of the following statements are features of your organization's performance management process? (select all that apply)



Only 40% say their performance management process is easy to use

## What Is the Frequency of Performance Management?

### Finding: Formal reviews still tend to be a yearly occurrence

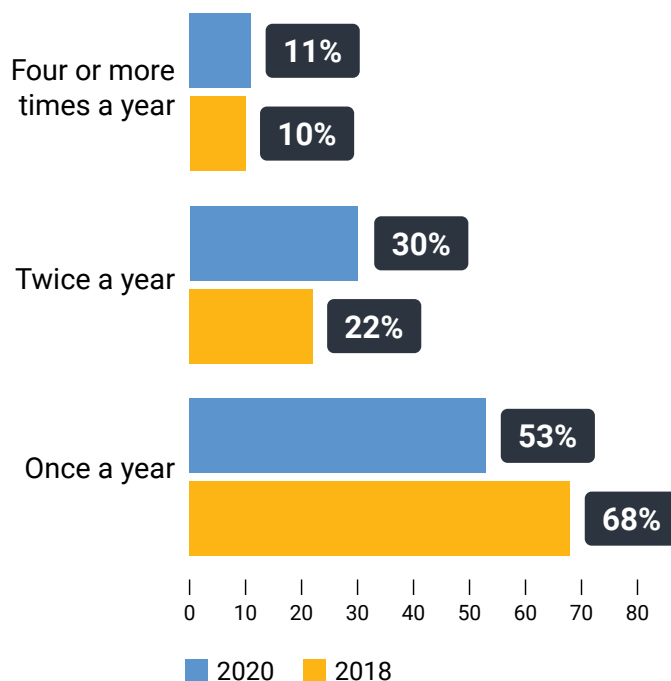
Formal employee performance reviews and appraisals are most commonly being held once a year. The conventional thinking here is that these types of discussion are generally longer term in scope and more formal in nature.

However, there is an increase of eight percentage points from 2018 for those who perform appraisals twice a year or more. Perhaps some organizations have different appraisal schedules dependent on specific employees. For example, managers may conduct formal reviews with low performing employees until they are performing at the level needed.

Large organizations (88%) are more likely than small companies (70%) to hold formal appraisals once or twice a year. However, small companies are far more likely to have formal reviews quarterly (20% vs 7%).



**Survey Question:** On average, how often are formal reviews or appraisals of employee performance conducted in your organization?



## **Finding: The *frequency* of performance management actions largely depends on the *types* of communication**

Organizations are increasingly advocating for more frequent conversations throughout the year. Performance management is an ongoing, constant process. Frequent conversations covering various performance topics can eliminate surprises during formal reviews and make the overall employee experience a more positive one. Forty-five percent have performance conversations quarterly or more often, and 52% say they have feedback between supervisors and employees four times a year or more.

However, conversations about career goals and aspirations happen less often, with only 24% saying these happen quarterly or more often. In many cases, these types of discussions are probably relegated to annual performance review periods.

### ***Differences by company size***

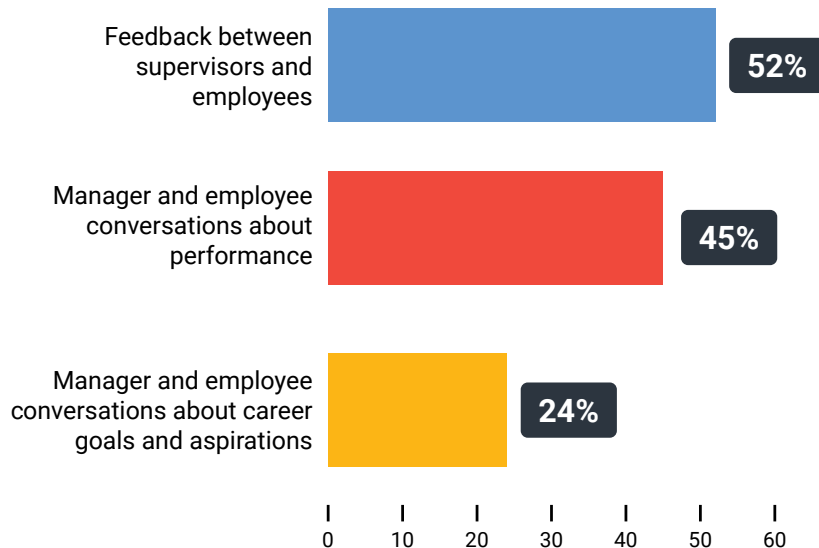
Respondents from small organizations say they have feedback between managers and employees more often than large organizations, with 48% saying discussions occur monthly or more often (34% of respondents from large organizations say this is the case). This could be because some managers at larger companies may have a larger span of control so they have less time to devote to each employee.

Small organizations also seem to place more importance on having conversations about career goals and aspirations. Thirty-nine percent of HR professionals say these discussions happen quarterly or more often in contrast with just 18% of those from large organizations.



**Survey Question:** On average, how often are the following actions conducted in your organization?

Percent doing this four times a year or more



More than half say feedback between supervisors and employers happens four times a year or more



## To What Degree Has Performance Management Changed in Recent Years?

**Finding: About a quarter of organizations have changed their performance management systems over the past two years to a high degree**

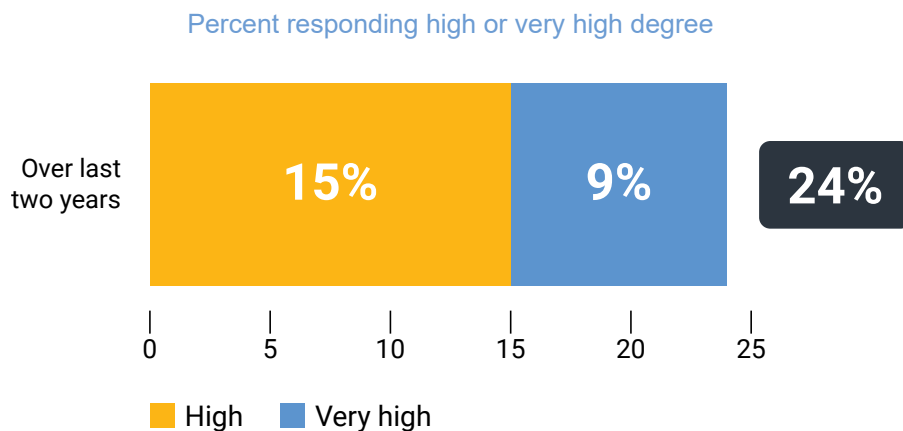
Just 24% say their performance management system has changed to a high or very high degree, which is a four percentage-point drop from 2019. However, about half have changed their systems to at least a moderate degree, indicating a considerable amount of change in a short period of time.

Given the perceived ineffectiveness of many systems, this may still represent less change than is needed. There can be a range of factors inhibiting needed changes, such as a lack of top leadership support, insufficient management skills, lack of budget, and poor technology.

Large companies are more likely than average to say there has been change to a high or very high degree (29%). As noted previously, these large organizations are also more likely to view their PM processes as meeting all organizational performance management goals. It may be that these changes have reaped benefits in recent years.



**Survey Question:** To what degree has your performance management system changed?



## The Objectives of Performance Management

**Finding: Employee growth is the most widely-cited reason for performance reviews, but it is far from the only one**

Traditionally, a good performance process ideally served two complementary purposes: improving both organizational and employee performance. Although this is still true, performance management has evolved into a process that focuses on employee development as a means of improving employee performance. This helps explain why the two most widely-cited rationales for performance reviews are now aimed at helping:

- individual employees to learn and grow (71%)
- the organization to improve overall performance (70%)

The third most commonly cited reason (chosen by 60%) for performance reviews is good communication between employees and managers. In the current Covid-19 pandemic, keeping communication flowing is especially critical because so many are working remotely and do not see their managers face-to-face.

When performed properly, performance reviews can be an effective tool for both employee and organizational development. A review can help pinpoint an area that an employee may be struggling with and then steps can be implemented to properly upskill in that area, which can help the employee perform better and, in turn, maximize organizational performance.

But other more traditional goals of performance reviews remain in many organizations. For example, nearly half (45%) conduct reviews to meet organizational requirements, and almost as many want to facilitate performance-related changes in pay (42%). About one-third (35%) say performance reviews are used to force a conversation about poor performance. This may also be related to justifying dismissing low-performing employees (22%) and to having a legal record of interactions with employees (29%). A dismissed employee may retaliate if all their past performance reviews were positive, so having proper, honest and well-

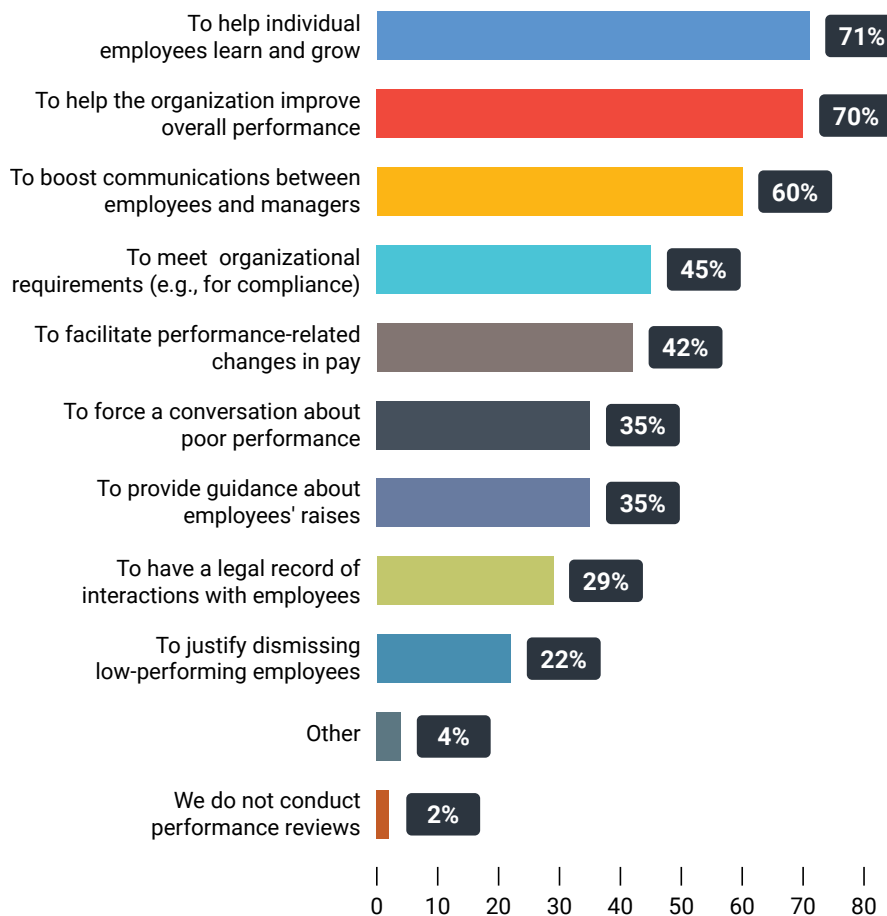




documented interactions can be crucial. While not easy, dealing with poor performance can be critical for the sake of the individual, the team and the entire organization.

This study suggests large organizations are slightly more focused on the organization-focused objective whereas small and mid-sized organizations are focused more on both organization and employee development. Respondents at large organizations cite helping improve their organization's overall performance as the top choice for performance reviews (73%), and those at mid-sized organization say helping individual employees learn and grow (69%) is their top choice. At small organizations, it is a tie between helping employees learn and grow (78%) and improving the organization's overall performance (78%).

**Survey Question:** Which of the following describes your organization's objective for conducting performance reviews? (select all that apply)



Just 22% say they conduct performance reviews to dismiss low-performing employees

## Managerial Skills and Accountability

### Finding: Many managers fall short in multiple performance management areas

Only 40% agree or strongly agree that their managers have received sufficient performance management training. Perhaps this helps explain why only 28% say their managers are skilled at performance management. Effective performance management is a skill that needs to be learned. If a manager has not received the proper training in the difficult art of performance management, then naturally, their PM capabilities will fall short.

Moreover, just 32% say their managers are good at helping employees set goals, and only 26% say their managers are good at having conversations about performance management. This highlights an important point: even if managers increase the frequency of performance conversations, those conversations will not be beneficial if the manager lacks the proper skills to begin with. In fact, they could even have a negative impact.

### *Differences by company size*

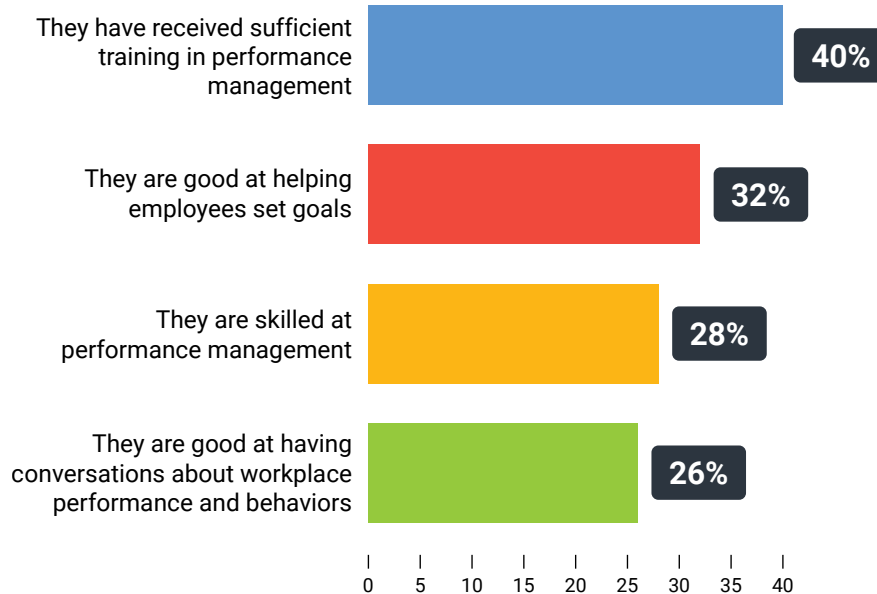
Respondents at small organizations are nearly twice as likely as those from mid-sized and large organizations to say their managers are good at having conversations about workplace performance (44% vs. 24% in mid-sized and 22% in large firms). Respondents from small organizations are also most likely to say that their managers are good at helping employees set goals (49%) as opposed to just 27% in mid-sized and 30% in large organizations. However, when it comes to performance management skills overall, there is no notable difference.

Why do managers in smaller organizations tend to be better at having conversations and helping to set goals? Perhaps this is because smaller organizations lend themselves to smaller spans of managerial control and therefore have closer relationships with direct reports. Yet, despite these advantages, they are not viewed being more skilled at PM.



**Survey Question:** To what extent do you agree with the following statements about most managers in your organization?

Percent responding agree or strongly agree



Only a quarter say their organization's managers are good at having performance conversations



## Finding: About two-thirds of managers are held accountable by tracking their formal appraisals

The majority say their managers are held accountable for performance management tasks by tracking their appraisals (67%). However, as we mentioned earlier, many say their managers are not competent enough when it comes to performance management. Therefore, holding them accountable for quantity rather than quality may not be good enough.

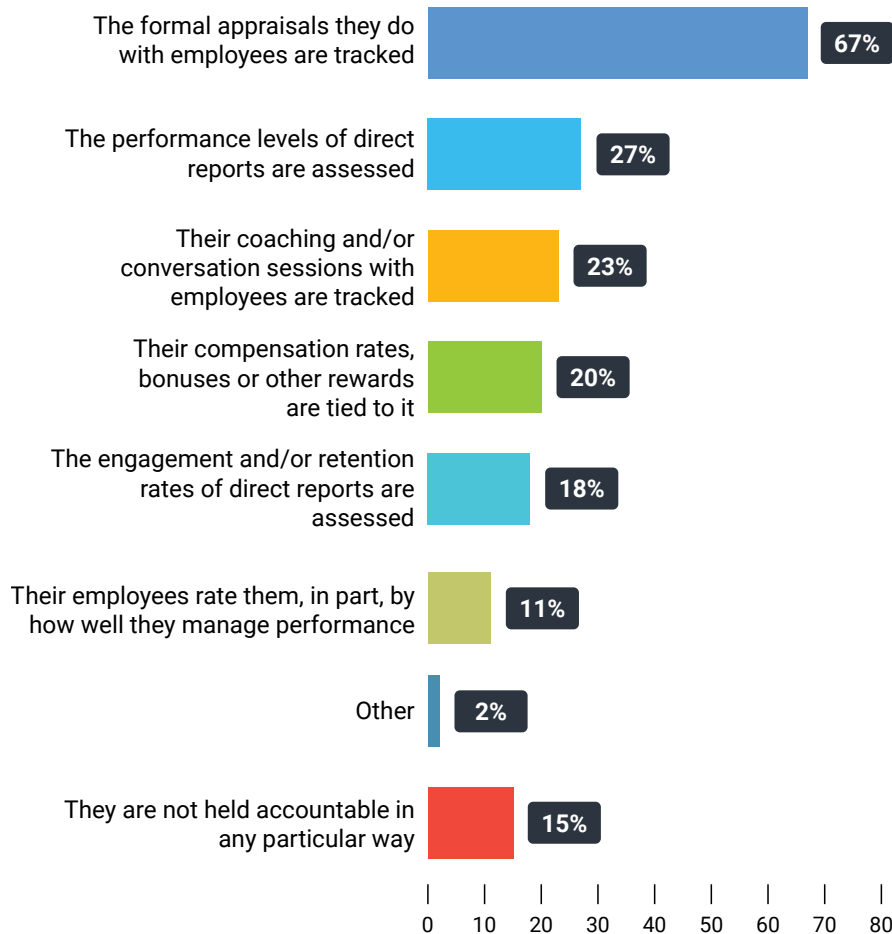
Accountability for quality is much less common. For example, fewer say their managers are held accountable by assessing performance levels of their employees (27%), by tracking coaching and/or conversations with employees (23%), by looking at employee engagement and retention rates (18%), or by having employees rate their managers in terms of performance management capabilities (11%).

We should note that small organizations are, however, almost twice as likely as large organizations to assess the performance levels of direct reports (40% vs. 22%), and 28% respondents at mid-sized organizations say this is the case.

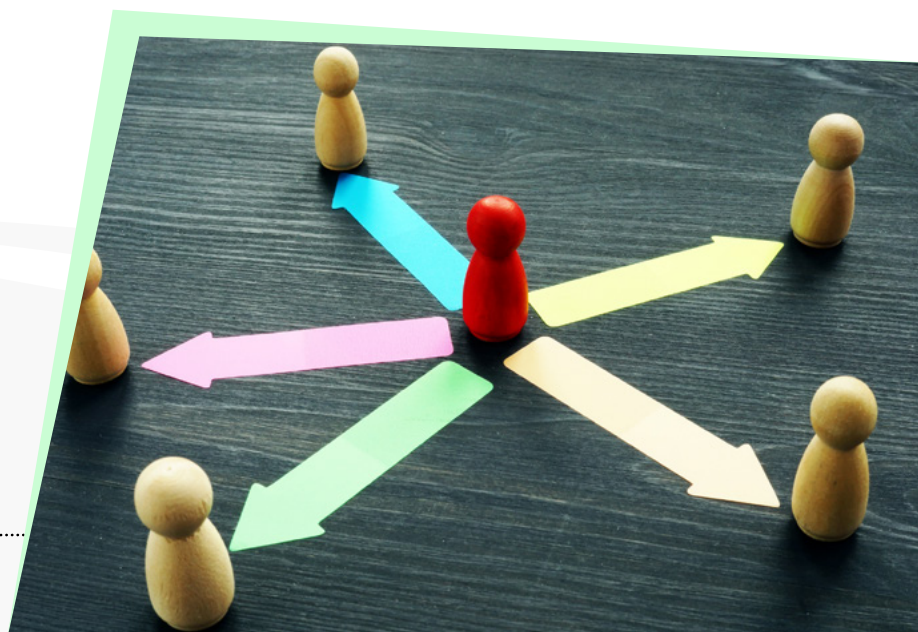
Fully 15% say their managers are not held accountable for completing their performance management activities, which is roughly the same as 2019. Few link managerial success in PM to bonuses, compensation, or other rewards (20%).



**Survey Question:** How do you hold managers accountable for completing performance management activities? (select all that apply)



Fifteen percent say their managers aren't held accountable at all





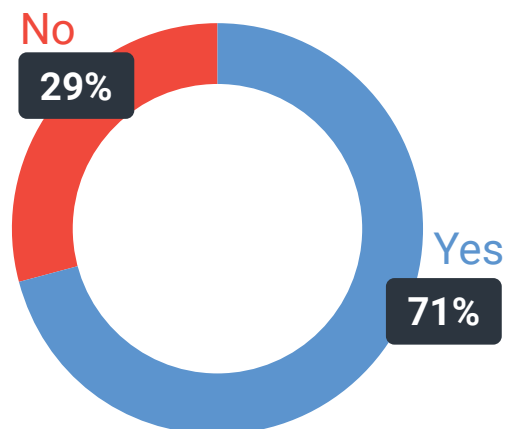
## Performance Management Through Technology

**Finding:** Performance management technologies are used by most organizations with a PM process

Most (71%) organizations with a performance management process also use some form of technology for PM purposes. This represents an increase of nine percentage points from 2019.

Large organizations are far more likely to use performance management technology (89%) than small organizations (56%). This could of course be due to budget issues, but we also suspect that such technologies are increasingly advantageous as organizations grow and need to manage the performance of more and, often, geographically dispersed employees.

**Survey Question:** Does your organization use technology for the purpose of performance management?





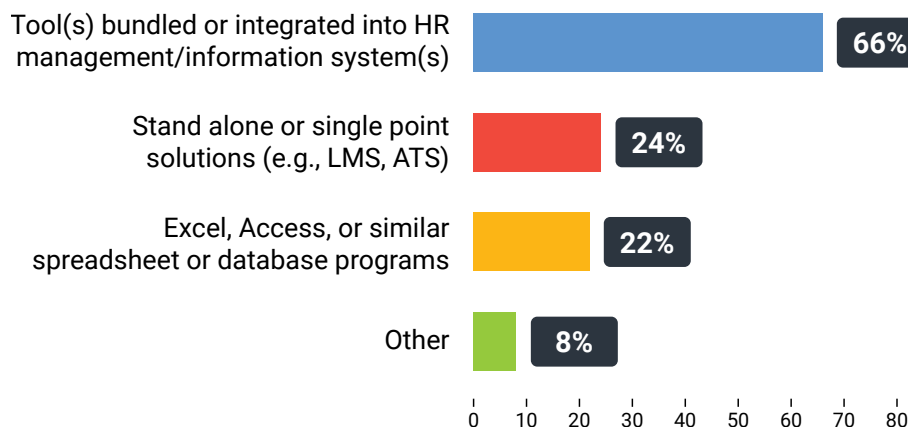
### Finding: Among those that use PM technologies, a majority use at least one integrated or bundled solution

Of the respondents who say their firms use technology for performance management, most say that they use a tool or tools bundled or integrated into HR management/information systems (66%). Integrated solutions are not, however, the only way to go. About a quarter say their organizations use at least one stand-alone solution. We should note that a single organization may use both. That is, they may use a bundled or integrated system for certain strategic business units (SBUs) but use a stand-alone system elsewhere for a variety of reasons.

About a fifth (22%) of responding organizations use programs like Excel or Access. These organizations are much more likely to be small. In fact, about half of such organizations (48%) use Excel, Access, or a similar spreadsheet or database program compared to just 30% of mid-sized companies and 10% of large organizations.

When it comes to bundled or integrated tools, the difference between small and large organizations is massive. Just 33% of small organizations have bundled or integrated technologies while 74% of large organizations say they do—a 41 percentage-point difference! Mid-sized organizations are also more likely to have bundled or integrated technologies (67%).

**Survey Question:** Which technologies does your organization use to support performance management? (select all that apply)



The majority use bundled or integrated performance management technologies

## Finding: Most performance management technologies facilitate the review process

Of the respondents who say their organizations use technology for performance management, more than half refer to four capabilities:

- facilitating the employee performance review or appraisal process (70%)
- allowing users to evaluate performance in relation to goals (64%)
- allowing workflow approvals (54%)
- tracking performance review meetings (51%)

These four represent the most conventional usage of performance management tools, and they have typically been features of PM technologies for years. The features that represent newer ways of viewing the performance management paradigm are, however, less common.

It is important to note that a performance management process really is just an enabler. The managers are the ones who need the skills to hold effective conversations, make sound judgment calls, and properly engage employees. In fact, few say their technology aids communication (34%), training and development (33%), or enabling one-on-ones between managers and employees (45%). Many performance management systems can not currently do these things, but overall they should make it easier for managers to do so.

### *Differences by company size*

Large companies are more likely to say they allow workflow approvals (62%). Some larger organizations may have more complex or involved workflows with many steps. Automating this process to streamline the workflow would improve efficiency in organizations that have struggled with this.

Conversely, small organizations are more likely to include the unconventional but important capabilities. In small organizations, performance management technologies aid communication (48%) and training and development (43%) in contrast with large organizations (32% and 28% respectively).



**Survey Question:** Which of the following capabilities does your performance management technology system(s) include?  
(select all that apply)



Just 33% say their performance management technology aids training and development

## **Finding: Note-taking and recognition features are most common among the minority of organizations whose PM technologies facilitate communication and/or training and development**

Only 42% of organizations with PM tools say those technologies facilitate training and development (T&D) and/or communication. Among this minority of companies, 81% say their PM systems allow managers to add performance-related notes at any time. Nearly as many (72%) have systems that allow for the recognition of achievements, and 69% permit employees to add performance-related notes.

Things are even worse when it comes to training and development. Only 56% say their systems track T&D developments, and even fewer say their systems can make T&D suggestions (42%).

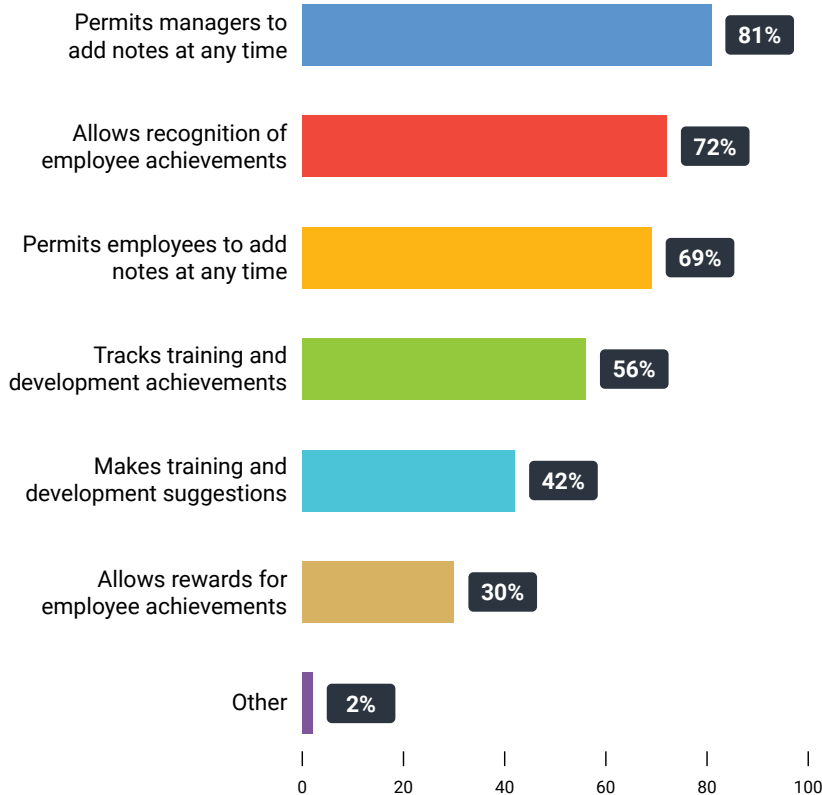
Why is this important? Because, as we noted earlier, employee development is among the two primary objectives associated with performance management. If PM technologies do not support and facilitate employee development, then it behooves HR professionals to look for ways of making such connections more explicit.

For example, if a PM system does not contain features that help managers track T&D achievements, then at least managers (or HR) should be able to make verbal or written recommendations to employees who come to them seeking help with establishing and achieving career goals. Sometimes this issue is not about technologies but about astute performance management and coaching skills among direct supervisors and/or their HR partners.

Even if PM technologies do support T&D, recognition and communication, such tools are only as good as the managers using those tools. These PM applications will probably not do much to help a manager with poor coaching and career development skills.



**Survey Question:** Which of the following features do your performance-related technologies include? (select all that apply)



Note-taking is the most common feature among this subset of PM technology users



## Tracking Performance Management Through Metrics

### Finding: Nearly three-quarters use manager ratings as part of their PM processes

About three-quarters (73%) say manager ratings are the most common metric used in their performance management process. Indeed, these ratings or appraisals are the most conventional of all PM features.

Only about half as many (38%) PM processes include behavior-related scores. However, a manager may not always be the best or most accurate person to evaluate employee performance, especially if they have a large span of control. In this instance, a manager who oversees 25 employees spends far less time focusing on a specific employee's goals or progress than a manager who oversees just four people. A manager may complete these ratings, but that means little if the quality is poor. This is especially problematic since so few HR professionals rate managers in their organizations as highly competent PM practitioners.

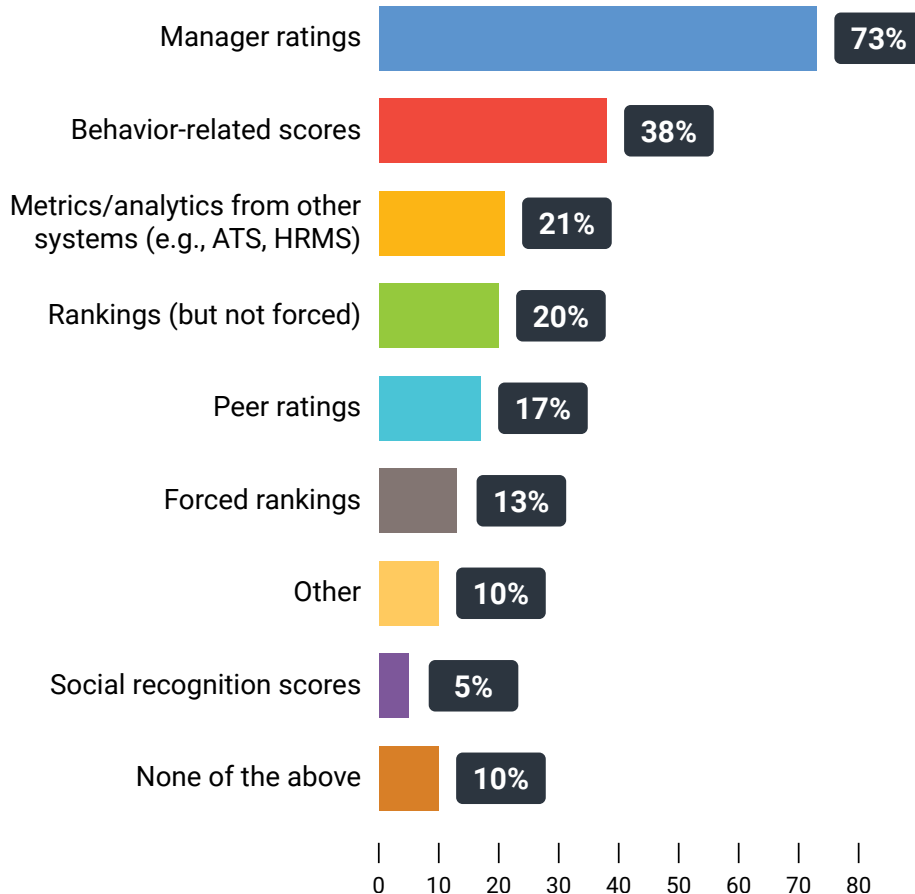
Just 20% say they incorporate non-forced rankings, which is a four percentage-point drop from 2019. Only 17% of organizations embrace some sort of peer feedback. In some situations, however, peers may be in the best position to provide feedback and recognition.

We find it interesting that small companies are more likely than average to use peer ratings (27%). Perhaps employees are more comfortable sharing feedback with one another in smaller and less corporate environments.

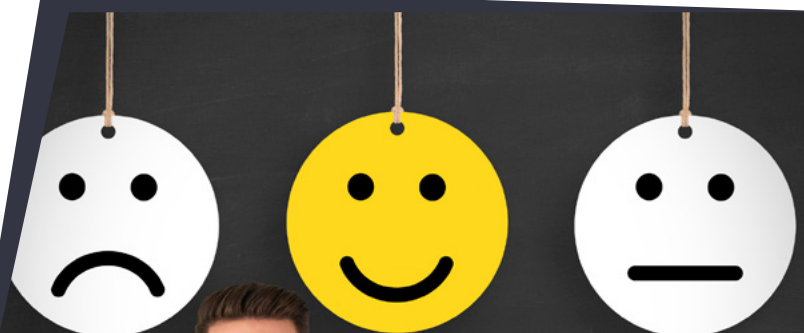




**Survey Question:** What types of metrics are incorporated into your performance management process? (select all that apply)



Only 17% use peer ratings



## Finding: SMART goals are the most common method to set objectives and track results

There are a variety of methods for establishing and tracking performance goals. Although these methods are all similar in nature, they vary in terms of implied processes and generalizability.

SMART goals or criteria represent the most popular method, used by 68% of HR professionals. The letters in the acronym SMART typically stands for specific, measurable, achievable, relevant, and time bound.<sup>3</sup> The term appears to be first used by George T. Doran in the November 1981 issue of *Management Review*.<sup>4</sup> It is primarily a way, or set of criteria, used to write managerial objectives. Although “measurable” is associated with the acronym, not every objective necessarily needs to be quantified.

The second most widely-cited method, at 60%, is examining KPIs, or key performance indicators. This tends to be a more generalized strategy that applies to ways of evaluating the success of objectives. Indicators are often quantifiable, but are sometimes qualitative as well.

The third most widely-cited method is assessing OKRs, which stands for objectives and key results. This method is more structured and specific than analyzing KPIs. The origins of OKRs are typically associated with Andy Grove,<sup>5</sup> the former CEO of Intel, who documented it in his 1983 book, *High Output Management*. OKRs tend to include a clearly defined objective and several different results that are measurable and used to track performance. Key results can be measured along a numerical range, such as 0-100%.



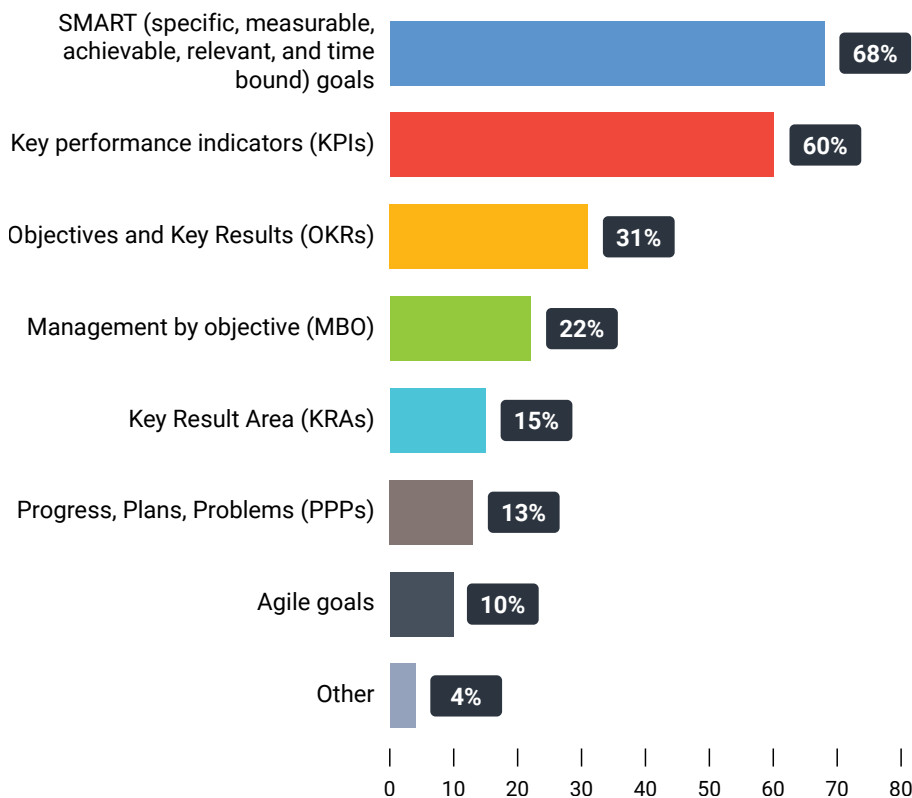
<sup>3</sup> Doran, G.T. (1981, November). There's a S.M.A.R.T. way to write management's goals and objectives. *Management Review*. Retrieved from <https://community.mis.temple.edu/mis0855002fall2015/files/2015/10/S.M.A.R.T-Way-Management-Review.pdf>

<sup>4</sup> Haughey, B. (2014, December 13). A brief history of SMART goals. *Project Smart*. Retrieved from <https://www.projectsmart.co.uk/brief-history-of-smart-goals.php>

<sup>5</sup> Panchadsaram, R & Prince, S. (2020). What is an OKR? Definition and examples. *What Matters*. Retrieved from <https://www.whatmatters.com/faqs/okr-meaning-definition-example/>

There are a variety of other methods as well, though they are less commonly cited by the study respondents. Some of these concepts are related to others. For example, management by objectives, or MBOs, is a process first outlined by Peter Drucker in his book *The Practice of Management*.<sup>6</sup> SMART can be seen as a set of criteria for attaining the objectives set out by the MBO process, typically relating to an evaluation of an employee's performance based on established standards and objectives.

**Survey Question:** What methods does your organization use to set goals and track results for the purpose of increasing performance? (select all that apply)



<sup>6</sup> Drucker, P. F. (1954). *The Practice of Management: A Study of the Most Important Function in American Society*. New York: Harper.

## The Future of Performance Management

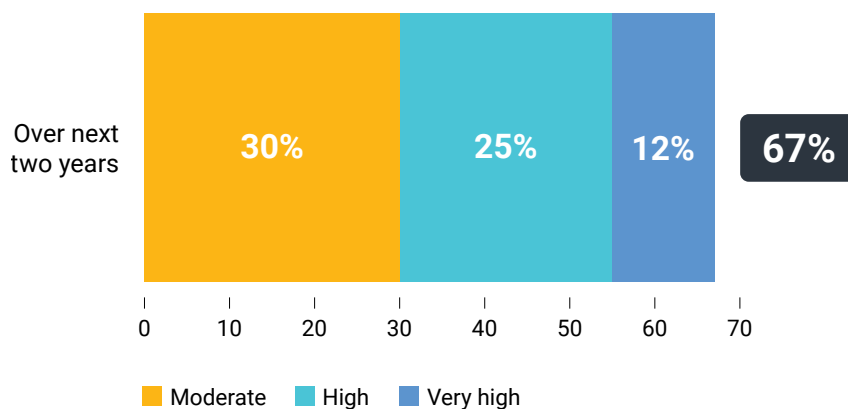
**Finding: More than a third say their performance management system will change to a high or very high degree over the next two years**

Well over a third (37%) say their performance management system will change to a high or very high degree over the next two years. This represents considerably more change than organizations have seen over the previous two years. Moreover, a full two-thirds (67%) expect their performance management systems to change to at least a moderate extent over the next two years. In short, considerable change is expected by many and at least moderate change is expected by most.

For organizations that resist change (sometimes due to leaders' cynicism about the efficacy of PM itself), this era could turn out to be a time when they fall further behind competitors in terms of performance management best practices and technologies. We believe that, at the very least, HR professionals should carefully watch the developments in this area over the next several years.



**Survey Question:** To what degree will your performance management system change?



## Finding: Over the next three to five years, a majority of HR professionals expect PM to become better integrated with employment engagement and development

Most (62%) HR professionals say performance management will be more integrated with employee engagement and satisfaction data over the next three to five years. This follows a trend the HR Research Institute has seen over the last several years as organizations have focused more on the overall employee experience as well as engagement levels. Perhaps this integration could help move performance management away from being seen as a necessary evil or a waste of time by many leaders.

Just over half say there will be more focus on development activities (58%). As we have seen, employee growth and development has been a recurring trend in this report. Whereas development is a major objective of performance management, only 33% say that their PM processes improve employee development to a high or very high extent. We also found that few PM technology systems are well integrated with L&D activities. Therefore, much more progress in this area must be made in coming years.

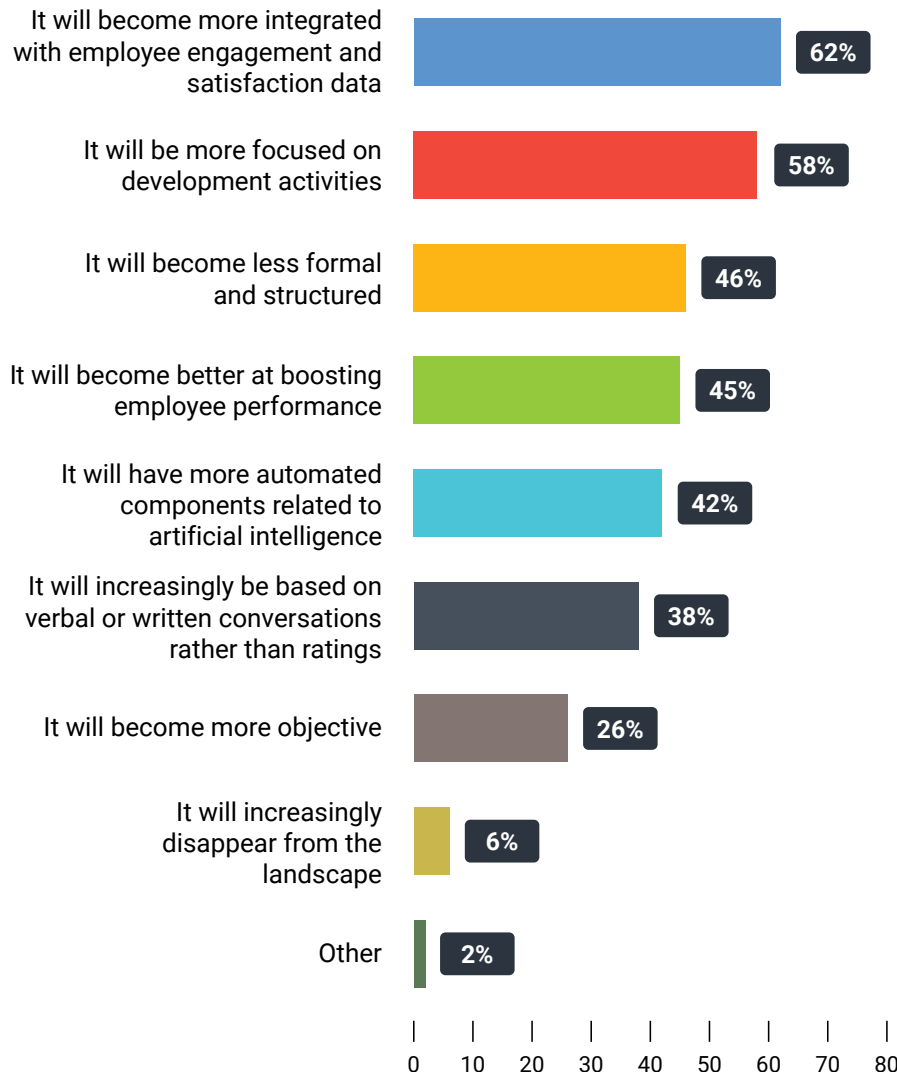
Such integrations might, in fact, help PM become better at what it was originally designed to do (and yet which it often does poorly), namely become better at boosting employee performance. Nearly half (45%) say PM will get better at this.

About two-fifths (42%) predict performance management will become a more automated process related to artificial intelligence. This would allow some performance management systems to become less administration-focused, thereby potentially reducing bias and making performance feedback more valuable.<sup>7</sup>

<sup>7</sup> BasuMallick, C. (2019, October 22). How AI-driven performance feedback can make you a better manager. *HR Technologist*. Retrieved from <https://www.hrtechnologist.com/articles/performance-management-hcm/ai-driven-performance-feedback/>



**Survey Question:** Where do you think the future of performance management is headed over the next three to five years? (select all that apply)



Almost two-thirds say performance management will link with employee engagement and satisfaction



## How Do PM Leaders Differ from PM Laggards?

We wanted to take a closer look at what differentiates organizations with successful performance management processes from those with less successful processes. To do this, we separated our sample into two groups:

**PM Leaders:** respondents who say that their organization's performance management processes result in them achieving all performance management goals to a high or very high degree

**PM Laggards:** respondents who feel their organization's performance management processes result in them achieving all performance management goals to a very low, low, or moderate degree

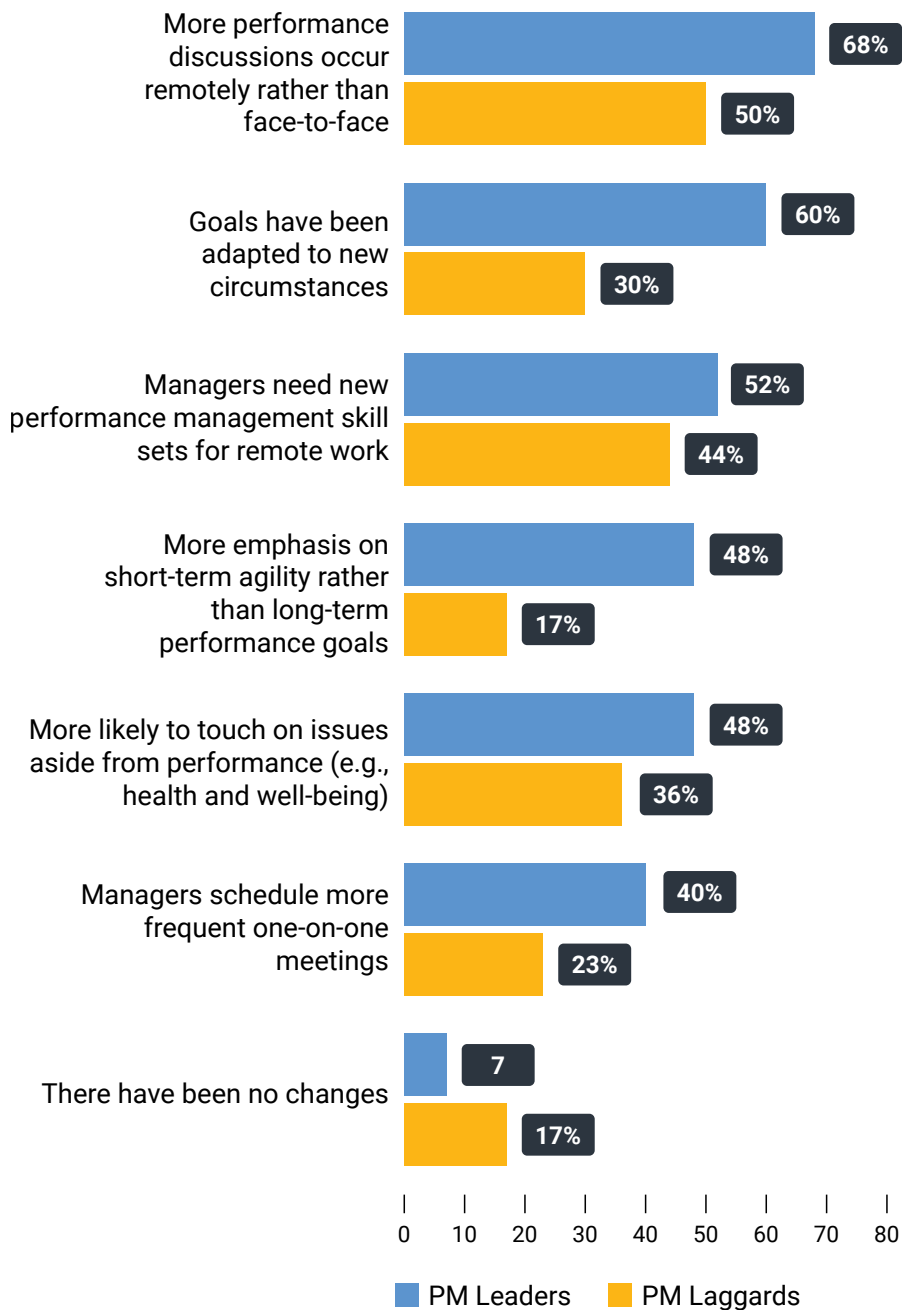
Correlation does not necessarily indicate causation, of course, but these relationships may provide clues about possible best practices for better performance management.

### Finding: PM Leaders are better at adapting performance management to pandemic challenges

PM Leaders are more successful at moving performance discussions to virtual processes (68% vs. 50% respectively), adopting goals to new circumstances (60% vs. 30%), placing an emphasis on short-term agility (48% vs. 17%), and scheduling more frequent one-on-one meetings (40% vs. 23%). In essence, they are better at flexing this key talent management system in the face of recent changes.



**Survey Question:** How has the coronavirus era changed performance management?



## Finding: PM Leaders achieve a range of better outcomes

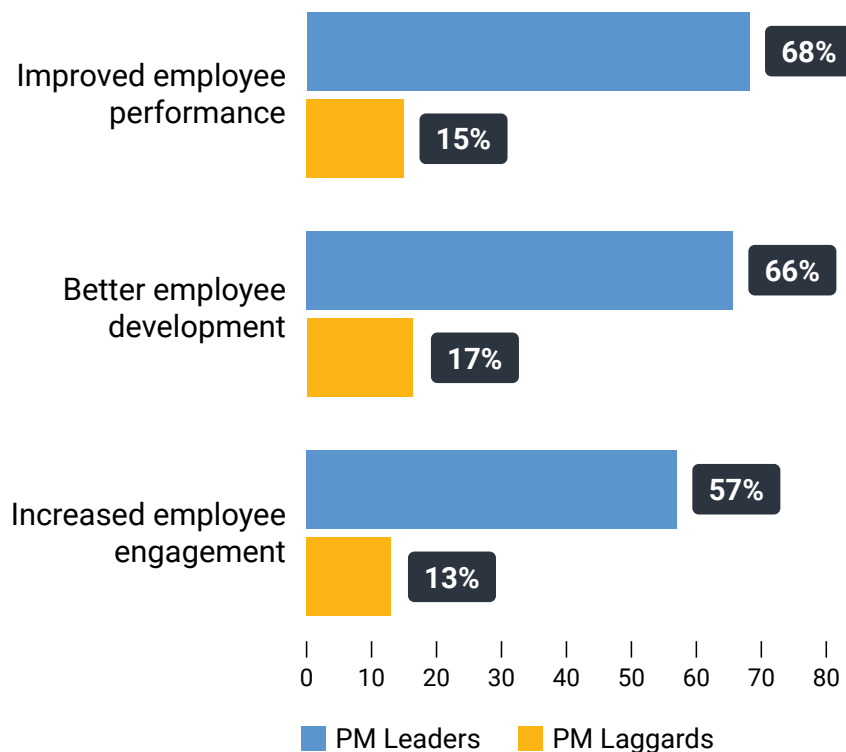
PM Leaders attribute more positive performance management system outcomes in the areas of improved employee performance, employee engagement and employee development, all essential outcome measures of an effective process.

Of course, because employee performance conceptually connects to our outcome variable of meeting all organizational performance management goals, we would also expect to see PM Leaders say employee performance has improved to a high or very high degree. The associations with employment development and engagement are the more important findings here.



**Survey Question:** To what degree does your organization's performance management process result in the following?

Percent responding high or very high degree

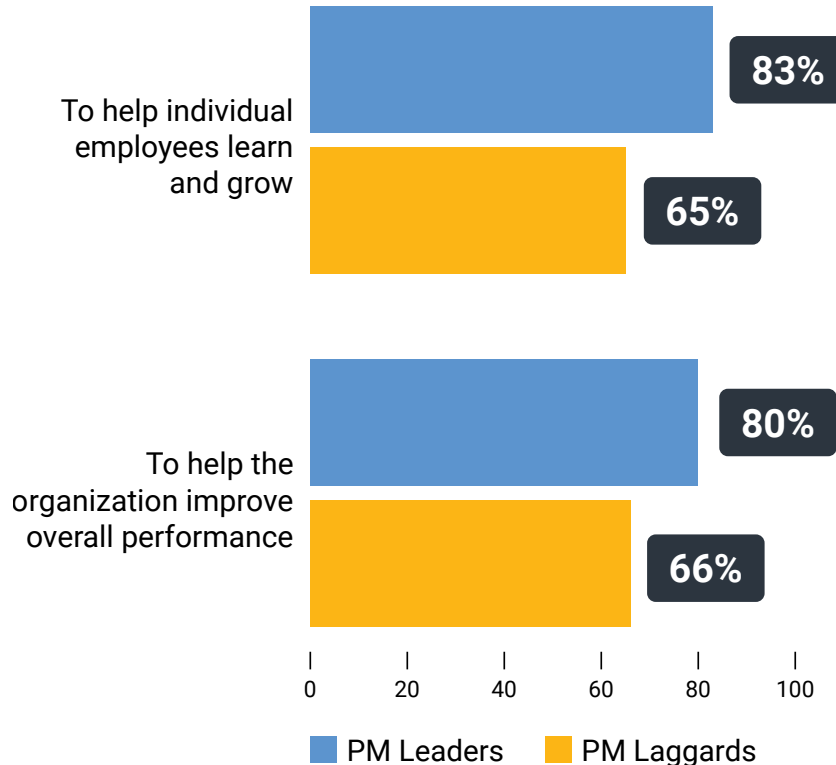


## Finding: Objectives for performance management are more closely aligned with business and workforce needs

In the last several decades, the reasons for performance management systems began to shift, with less emphasis on “evaluation” and more on employee development. Still, the purpose of performance management must serve two masters: driving business performance and developing best-in class talent.

PM Leaders are better positioned to meet both these needs. The figure below shows the top five objectives for conducting performance reviews. Eighty-three percent of PM Leaders say a key objective for performance management is to help individuals learn and grow, with helping the organization improve overall performance, a close second, at 80%. This compared to 65% and 66% respectively for PM Laggards.

**Survey Question:** Which of the following describes your organization's objective for conducting performance reviews? (select all that apply)



## Finding: Performance conversations are more frequent and informal

More organizations are deciding that performance management is not just a once or twice a year process. Rather, it often involves a series of conversations about a range of topics occurring on a more frequent basis.

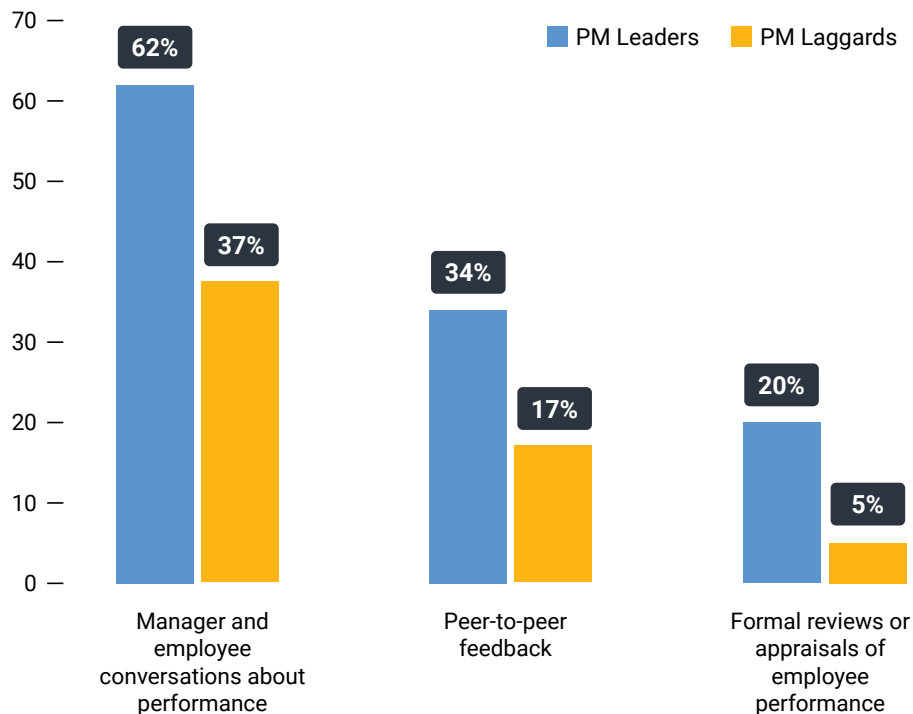
The differences between PM Leaders and Laggards are substantial in three of the categories. For example, 62% of PM Leaders reports their managers have quarterly or even more frequent conversations about performance, compared to 37% of PM Laggards.

In fact, there is nearly a three times difference between the two groups for monthly performance conversations. One interesting difference is the use of peer-to-peer feedback, which occurs far more frequently in the PM Leader group.



**Survey Question:** On average, how often are the following actions conducted in your organization?

Percent responding quarterly or more frequently

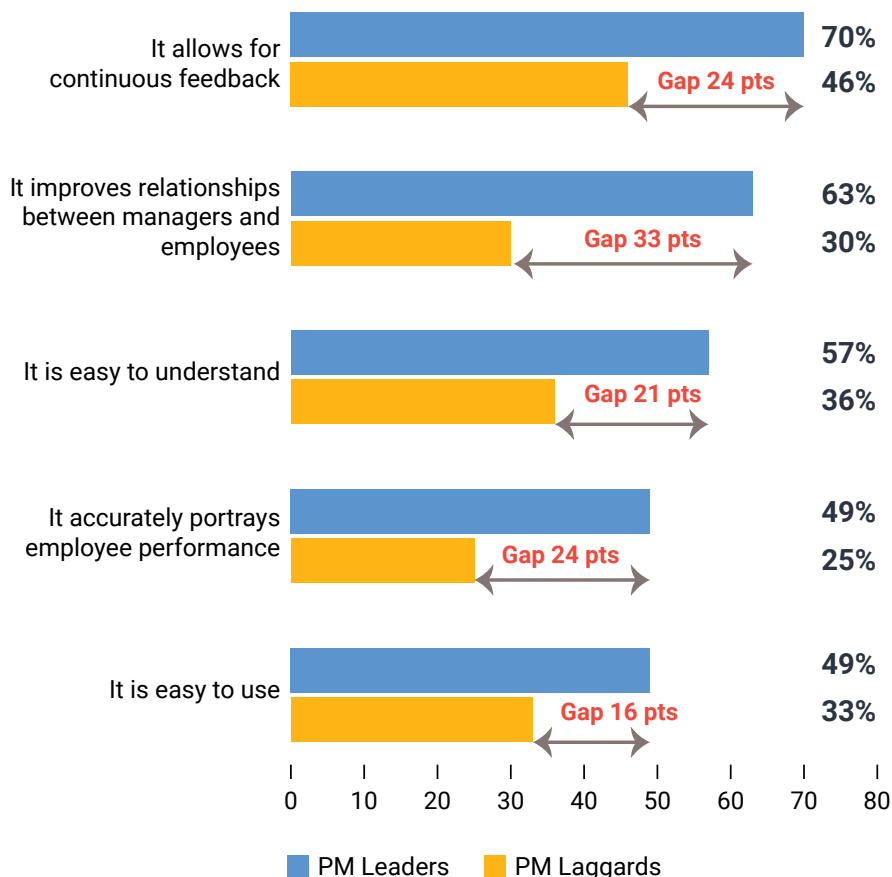


## Finding: Key performance management processes are more prevalent in PM Leader organizations

In this study, we explored the prevalence of various performance process features, the top five of which are shown below. In all cases, PM Leaders are more likely than Laggards to have these features as part of their system.

The single largest percentage-point gap is in the area of “improving relationships between managers and employees.” This is a telling difference because too often performance appraisals are associated worsening employee-manager relationships.

**Survey Question:** Which of the following statements are features of your organization’s performance management process? (select all that apply)





## Finding: Managers at PM Leader organizations tend to be better prepared to drive effective performance management

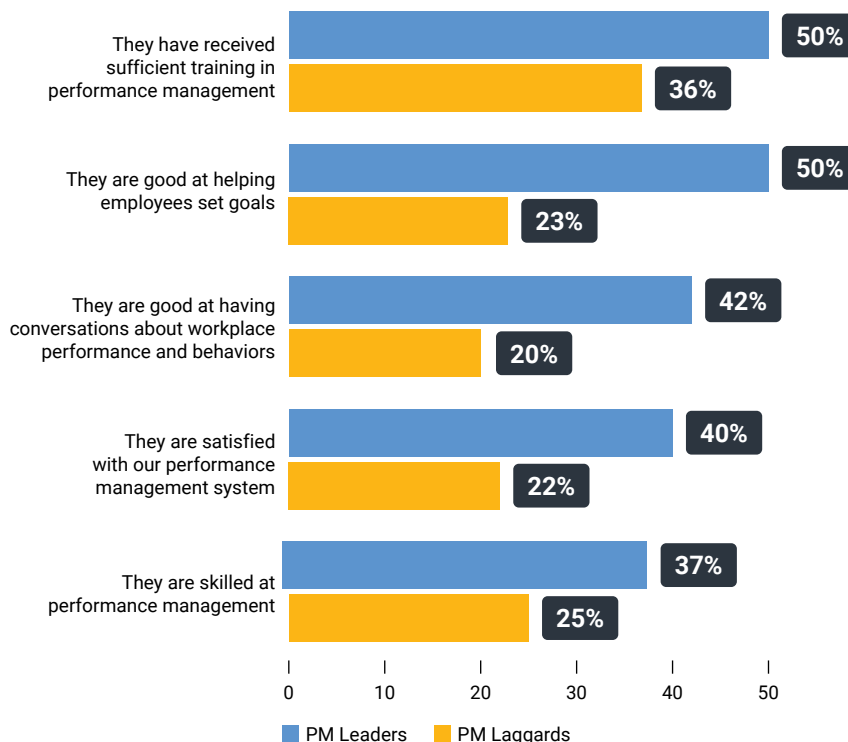
HR professionals at PM Leaders organizations are much more likely to say their managers are skilled at performance management. These managers are also better at important PM subtasks such as having conversations about workplace performance and helping employees set goals.

One possible reason for these differences? Half of PM Leaders agree or strongly agree that their managers have received sufficient training in performance management, compared to just 35% of PM Laggards.

Despite such differences, however, we should note that even many PM Leaders indicate that there is much room for improvement when it comes to managerial PM skills.

**Survey Question:** To what extent do you agree with the following statements about most managers in your organization?

Percent responding agree or strongly agree



## Further Analysis

To discover more about the statistical relationships between the organizational ability to achieve overall performance management goals and other factors, we conducted a two-tailed correlation test. We found statistically significant relationships with managers':

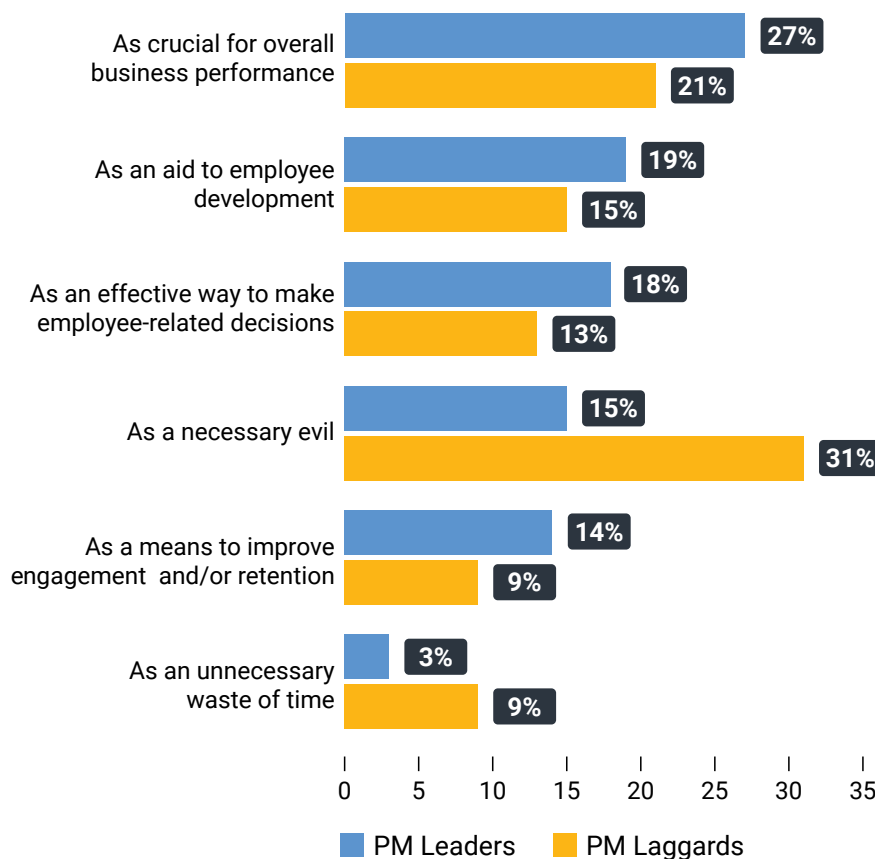
- ability to have conversations about workplace performance and behaviors
- satisfaction with the PM system
- skills at performance management
- ability to help employees set goals

## Finding: Leaders at PM Leader organizations are more likely to see performance management as crucial

Compared with PM Laggards, PM Leaders report that top leaders are more supportive of their performance management processes. They are also marginally more likely to consider their performance management system as crucial to business performance, as an enabler of employee performance, as a way to make better employee related decisions, and as a driver of engagement.

However, there is one big difference. Only 15% of PM Leaders feel their top leaders consider performance management as a necessary evil. This number is double, at 31%, for PM Laggards.

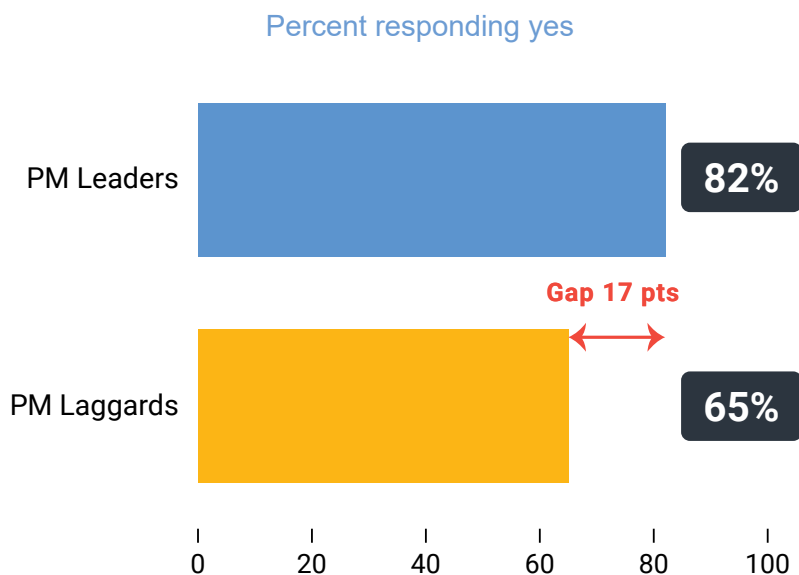
**Survey Question:** In your organization, how do most top leaders tend to view performance management? (select the one that best applies)



## Finding: PM Leaders are more likely to use technology to support their performance management process

PM Leaders are considerably more likely than PM Laggards to deploy technologies for the purpose of performance management (82% vs. 65%). These days, organizations have a wide choice of technology solutions to drive both the effectiveness and efficiency of their performance management systems.

**Survey Question:** Does your organization use technology for the purpose of performance management?



## Finding: PM Leaders are more likely to continuously improve their process

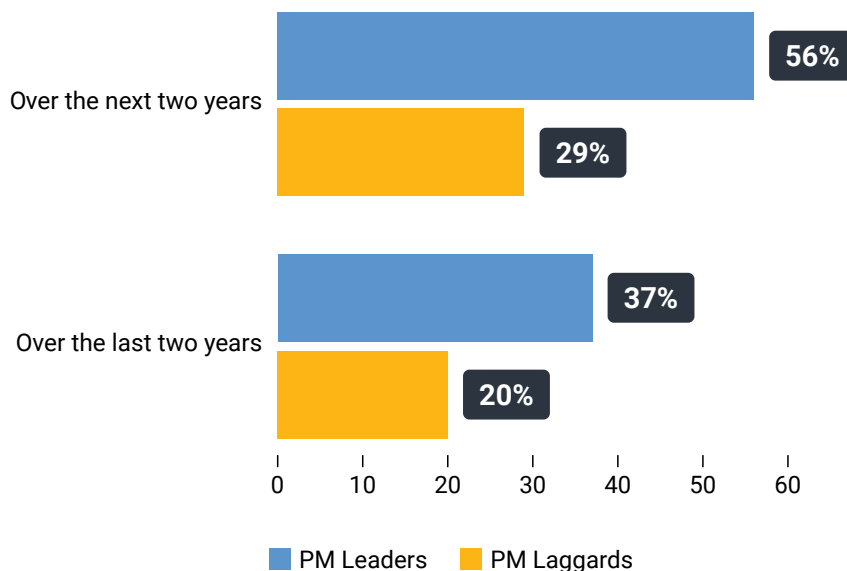
Many PM Leaders refuse to rest on their laurels and are constantly striving for improvement.

Thirty-seven percent of PM Leaders indicate that their performance management processes have already changed to a high or very high degree over the past two years, compared to just 20% of PM Laggards (which, of course, have far more to improve).

Moreover, more than half (56%) of PM Leaders agree that their processes will change to a high or very high degree over the next two years, compared to 29% of PM Laggards.

**Survey Question:** To what degree has your performance management system changed and to what degree will it change?

Percent responding high or very high degree



## Further Analysis

To discover more about the statistical relationships between the organizational ability to achieve overall performance management goals and other factors, we conducted a two-tailed correlation test. We found statistically significant relationships with the degree to which:

- organizations changed their PM system over the last two years
- organizations anticipate changing their PM systems over the next two years

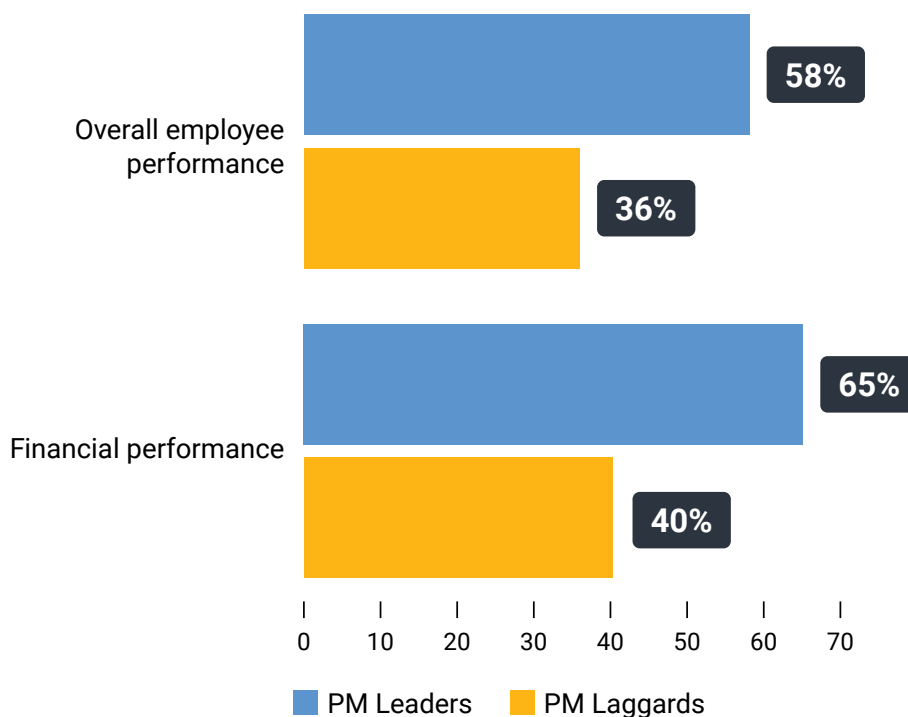
## Finding: PM Leaders see better employee performance as well as better financial performance

PM Leaders are more likely than PM Laggards to beat their competitors on both financial and overall employee performance. Sixty-five percent of PM Leaders say their financial performance was "somewhat" or "far above" the financial performance of their competitors, compared to just 40% of PM Laggards.

Similarly, 58% feel that the overall performance of their workforce was "somewhat" or "far above" that of their competitors, compared to 36% of PM Laggards.

**Survey Question:** Please rate your organization's performance in the most recent fiscal year compared to competitors in your industry

Percent responding somewhat above average and far above average





## Key Takeaways

What follows are some ideas and tips for improving performance management at your organization.

1

**Build performance management skills.** Most of the value of a performance management system comes from conversations between managers and employees, not from overly complex systems that place inordinate administrative burden on the entire workforce. Yet, our survey respondents indicate that a large percentage of managers are poor at these types of conversations. Why? Perhaps one of the primary reasons is that most organizations do not provide performance management training for their managers. PM-related discussions do not come naturally and require a wide range of skills such as setting goals, developmental planning, coaching, fair and objective evaluations, future career strategies and constructively confronting poor performance. Every manager conducting these discussions can be formally trained with frequent refreshers.

2

**Encourage agile performance objectives and conversations.** With increasing workplace challenges due to Covid-19, it would be easy to place performance management on the back burner. That might be exactly the wrong thing to do. During any crisis, employees need to know what is expected of them and to keep in more frequent touch with their leaders. With many working from home, being out of sight can lead to being out of touch.

We believe that the availability of various virtual communications platforms can make it easier rather than harder to hold these conversations. Given the high degree of current economic and other uncertainties, it makes sense to build in the flexibility to change goals and expectations as circumstances change. A lack of “in-person” contact can also lead to feelings of isolation. Ensure leaders take the time to check in with employees frequently and with a healthy dose of encouragement.

3

**Put your efforts into behaviors as well as objectives.** Objectives are only a portion of performance management. SMART objectives, for example, are at the heart of many performance management systems, but competencies and behaviors are required to meet those objectives. Take the example of a salesperson who misses their target. For feedback to be meaningful, their supervisor needs to look at behaviors. Does that salesperson need help with things such as negotiation or working with partners across the organization? The right behaviors often lead to the accomplishment of objectives, not vice versa.



4

**Develop more robust performance management metrics.** Measuring completion rates and the frequency of performance conversations are the most common means of measuring performance management, but we do not view them as sufficient. Most organizations should have more metrics that look at PM quality rather than just quantity. Quality metrics can take many forms, depending on the needs and culture of the organization.

They could include, for example, factors such as employee engagement data, the number of people trained in performance management skills, the impact of that training on PM success, net promoter scores, “ease of use” measures, employee retention rates, the degree to which quality objectives have been met, and the presence of well-crafted development and career plans.

5

**Expand PM feedback and conversations.** Organizations often stick to performance management processes that involve managers appraising their direct reports. But there are other PM models. In fact, spans of control have increased, making it difficult for leaders to have all the relevant performance data and development/career aspirations of every employee.

In many cases, peers and customers will have a better understanding of an employee’s day-day performance than managers will. Moreover, today’s employees often have greater access to information and data than was previously the case. Therefore, employees are often in a better position than managers to gauge the performance of colleagues. This is one reason that 360-degree feedback systems have been adopted in many organizations.

We believe that it often makes sense for employees to take an active role in establishing their own objectives, gathering data on their own performance, and thinking through their development plans and career trajectories. It is becoming more common for organizations to offer some sort of training and orientation on their performance management systems to employees, not only their supervisors.



6

**Use better technologies.** About three out of ten organizations are not using performance management technologies and so may be losing the benefits technology can bring them. And, of those that are using technology, many do not leverage the more robust applications a system can bring them. In fact, 22% of the technology users are using simple spreadsheet software while others are limiting their applications to highly administrative functions (e.g., tracking, automated reminders, and workflow approvals).

Many of today's applications allow organizations to align senior team goals with the rest of the organization and detect gaps. They may offer just-in-time training for both employees and managers. Some incorporate objectives, measurement methods, and even competencies by level/position. Embedded 360s and self-assessments are also common features.

Systems can even be integrated with learning management systems (LMS), allowing a tight connection between development goals and available training activities. There are also virtual coaching platforms that enable employees to take greater charge of their own development and new applications of AI geared toward predicting performance.

7

**Build active senior level support.** About a quarter of respondents say their leaders think performance management is a “necessary evil.” Without active senior-level support from the top ranks, performance management will continue to be viewed as a “check off the box” administrative function. HR should be working with leaders to create better, more relevant systems. Senior leaders should be demanding performance data from HR to help guide their business and feel that this data is accurate. This data is a key element of people analytics. With HR's help, leaders should lead the way in ensuring that performance discussions happen and that these discussions are frequent and meaningful. Leaders should model the process with their subordinate leaders. Leadership should also provide the resources to make certain that anyone who leads performance discussions gets trained. The challenge for HR professionals is to bring in leaders as partners and then design their PM systems to convert the skeptics!

8

**Consider adding more verifiable data to the performance management process.** Some subjectivity may be inevitable, but balance it with more objective criteria. Managers, even highly skilled and well-trained managers, are susceptible to a range of unconscious biases creeping into their employee evaluations. For example, recent events tend to overshadow accomplishments from months before. Manager reviews can also be one-sided. So, look for behavior-based and verifiable ways to evaluate employee and manager performance. For instance, use measurable goals as a performance success guide. Consider leveraging methods such as objectives and key results in certain areas.

9

**Leverage and aid career development aspirations.** Most employees have career goals, and their managers should have an idea of what these are. Managers can work with their direct reports to help guide them toward long-term success. This often requires the creation of IDPs and formal career development plans. Managers and employees require the proper training and technologies to get the most benefit out of such plans.



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