Five Essentials of
Effective Performance Management

Research Summary

Brandon Hall
GROUP

September 2018
Brandon Hall Group Research Team

Table of Contents

Brandon Hall
G R O U P

Demographics - 2018 Performance Management Study

363 Total Responses

48 Countries

- **68%** US/Canada
- **22%** EMEA
- **8%** APAC
- **2%** Carribean/South America

47 Industries

Top 5: Technology/Software (12%), Healthcare (9%), Education (8%), Manufacturing (8%), Government (7%)

Small, Mid-Size, and Large Organizations

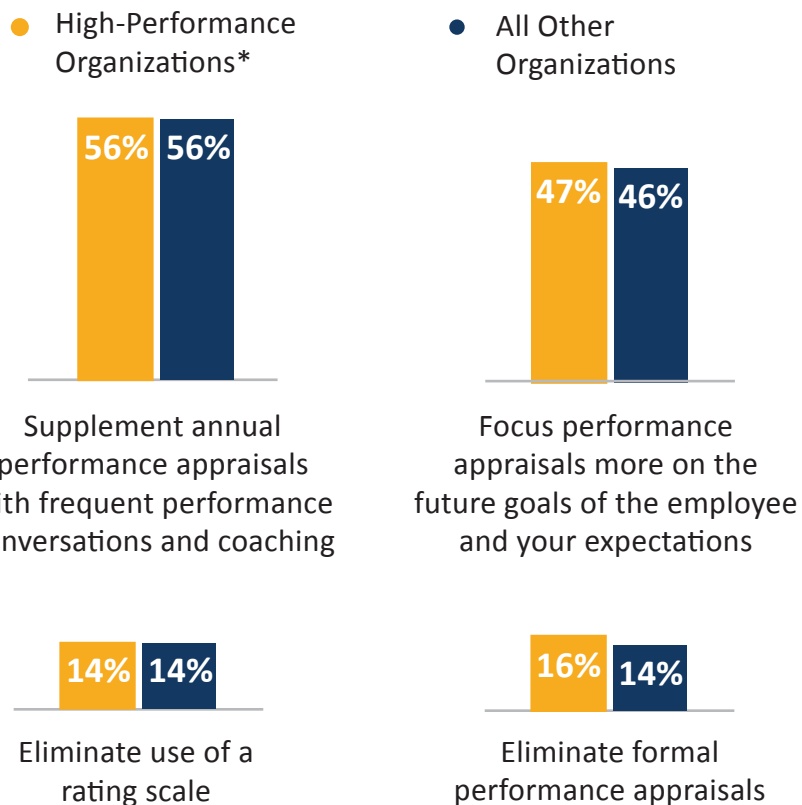| **27%**	**32%**	**41%**
Less than 500 employees	501-4,999 employees	5,000+ employees

- **22%** Learning/Leadership Development Professional
- **17%** Head of Learning/Leadership Development
- **17%** HR/Talent Management Professional
- **12%** HR/Talent Management Head
- **10%** Non-HR/Individual Contributor
- **10%** Executive/Senior Leadership
- **6%** Other
- **5%** Business Unit Operations Management
- **1%** Talent Acquisition Head or Professional
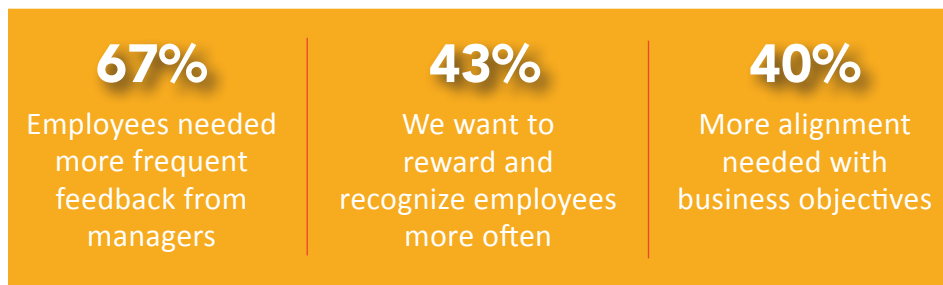
Performance Management By The Numbers

Highlights of the 2018 Brandon Hall Group Performance Management Study

Organizations Planning Changes to Performance Management, Next 12-18 months

● High-Performance Organizations*   ● All Other Organizations

56% **56%**
Supplement annual performance appraisals with frequent performance conversations and coaching

47% **46%**
Focus performance appraisals more on the future goals of the employee and your expectations

14% **14%**
Eliminate use of a rating scale

16% **14%**
Eliminate formal performance appraisals

Top Three Reasons to Change Performance Management

High-Performance Organizations*

67%	**43%**	**40%**
Employees needed more frequent feedback from managers	We want to reward and recognize employees more often	More alignment needed with business objectives

All Other Organizations

70%	**52%**	**40%**
Employees needed more frequent feedback from managers	More alignment needed with business objectives	Performance Management was not delivering a good ROI

*High-performance organizations have experienced year-over-year increases in Key Performance Indicators, including revenue, market share, employee engagement and retention, customer satisfaction and retention, and quality of hire.

Brandon Hall GROUP

Frequency of Performance Discussions

High-Performance Organizations*

- 33% Annually
- 35% Quarterly
- 14% Monthly
- 2% Weekly
- 3% Daily
- 13% As frequently as needed
- 0% Less than annually

All Other Organizations

- 48% Annually
- 22% Quarterly
- 10% Monthly
- 2% Weekly
- 1% Daily
- 12% As frequently as needed
- 5% Less than annually

How Performance-Management Effectiveness is Measured

Measure	High-Performance Organizations*	All Other Organizations
Employee engagement scores	60%	51%
Meeting specific business objectives	54%	54%
Competency and skills progression	52%	40%
Talent pool readiness	44%	21%
Voluntary turnover rate reduction	35%	34%
Promotion rates	14%	13%
Talent mobility	14%	13%

- ● High-Performance Organizations*
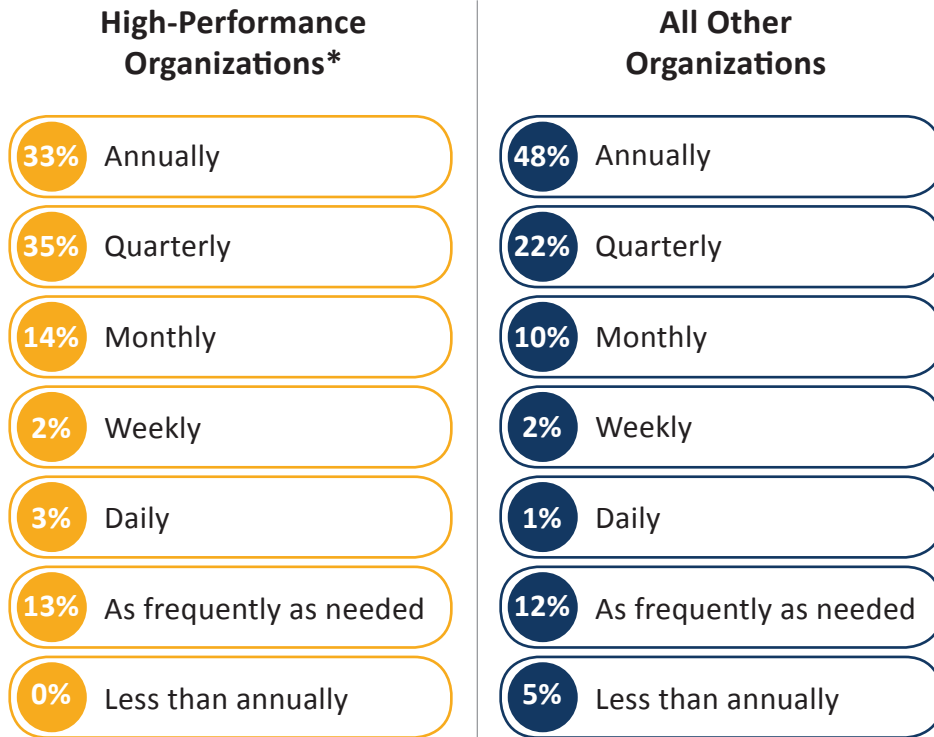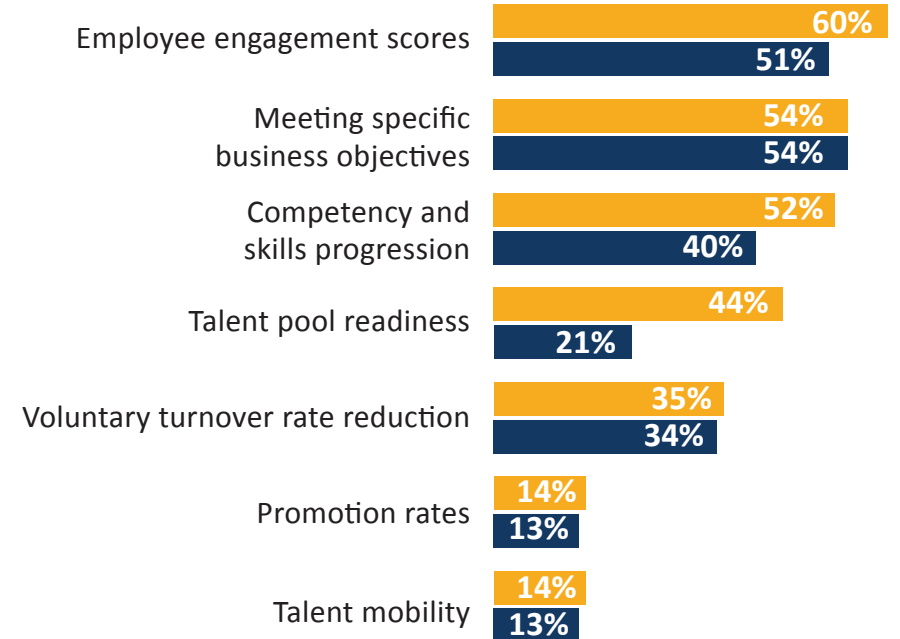- ● All Other Organizations

*High-performance organizations have experienced year-over-year increases in Key Performance Indicators, including revenue, market share, employee engagement and retention, customer satisfaction and retention, and quality of hire.
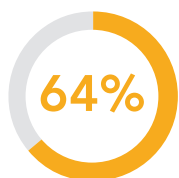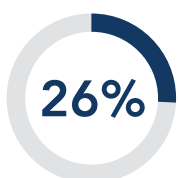
Brandon Hall
GROUP

Performance Management is Aligned/ Highly Aligned with Business Objectives

64%
High-Performance
Organizations*

26%
All Other
Organizations

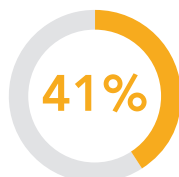## Formally Train Managers to be Coaches and Mentors to Employees

61%
High-Performance
Organizations*

43%
All Other
Organizations

Managers Effectively Discuss Growth Opportunities with Employees Based on their Performance

41%
High-Performance
Organizations*

10%
All Other
Organizations

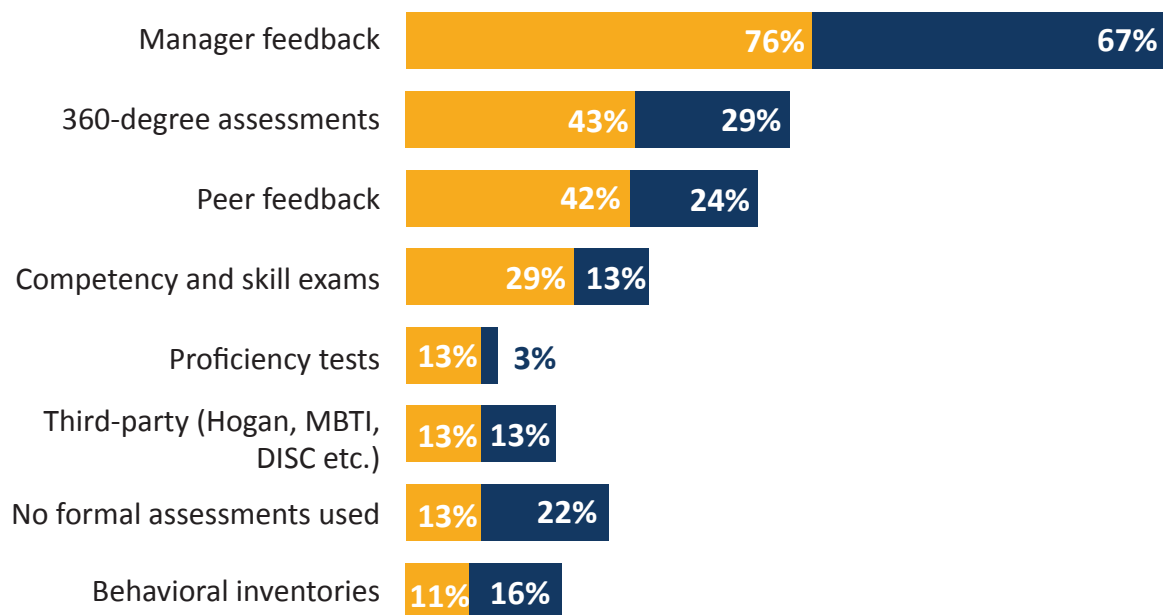## Coaching/Mentoring Program is Effective/ Highly Effective

52%
High-Performance
Organizations*

30%
All Other
Organizations

*High-performance organizations have experienced year-over-year increases in Key Performance Indicators, including revenue, market share, employee engagement and retention, customer satisfaction and retention, and quality of hire.

![Brandon Hall GROUP]

Formal Assessments Used in Performance Management

- Manager feedback: 76% (High-Performance), 67% (All Other)
- 360-degree assessments: 43% (High-Performance), 29% (All Other)
- Peer feedback: 42% (High-Performance), 24% (All Other)
- Competency and skill exams: 29% (High-Performance), 13% (All Other)
- Proficiency tests: 13% (High-Performance), 3% (All Other)
- Third-party (Hogan, MBTI, DISC etc.): 13% (High-Performance), 13% (All Other)
- No formal assessments used: 13% (High-Performance), 22% (All Other)
- Behavioral inventories: 11% (High-Performance), 16% (All Other)

- ● High-Performance Organizations*
- ● All Other Organizations

Performance Management Enabled through Technology

*High-Performance Organizations**
- 78%
- 14%
- 8%

All Other Organizations
- 60%
- 20%
- 20%

- ● Technology in use
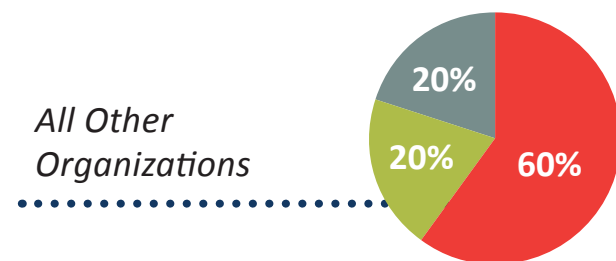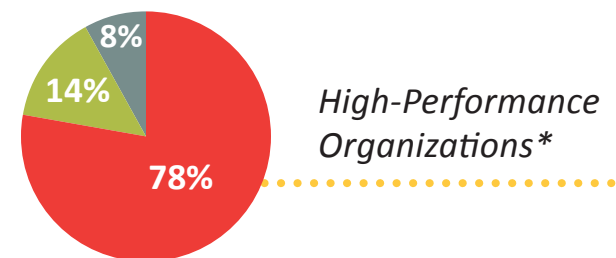- ● No technology, but plan to add soon
- ● No technology, no plan to add

*High-performance organizations have experienced year-over-year increases in Key Performance Indicators, including revenue, market share, employee engagement and retention, customer satisfaction and retention, and quality of hire.
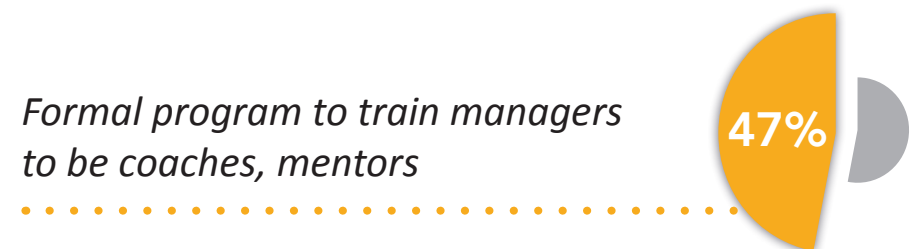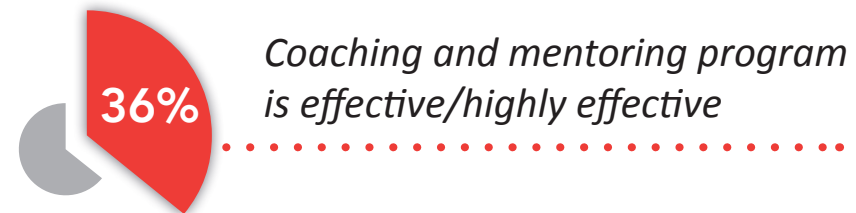
Analysis Overview

The widely predicted revolution in performance management, which was supposed to largely eliminate the use of annual performance appraisals and rating scales, has not materialized. Instead, a majority of organizations are migrating to a culture of frequent performance conversations and coaching to supplement formal appraisals, according to Brandon Hall Group's 2018 Performance Management Study.

The study revealed that only a small fraction of organizations (13%) plan to scrap formal performance appraisals and rating scales, while a majority (54%) plan to supplement annual appraisals with frequent performance conversations and coaching, and 44% are focusing performance appraisals on future expectations rather than reviewing past performance.

The challenge for organizations now is to avoid the same systemic failures in this new era of continuous conversations and coaching that plagued traditional performance management to the point that employees and managers abhorred the entire process. The data shows that almost two-thirds of organizations struggle to coach effectively, and less than half have formal programs that train managers to coach and mentor their employees.

36% *Coaching and mentoring program is effective/highly effective*

Formal program to train managers to be coaches, mentors **47%**

The struggle to coach and provide feedback is ironic considering the overwhelming reason for changing performance management, cited by 70% of respondents overall, is that employees need more frequent feedback and coaching from their managers.

Another critical issue is that only 35% of organizations said their performance management process is aligned with business objectives. About half (48%) cited the need for better alignment as a driver for changing performance management process.

Organizations with performance management-business alignment reported better results in several areas, particularly in having formal coaching/mentoring training for managers and the effectiveness of managers discussing specific growth opportunities with employees.

Reasons for Changing Performance Management

Reason	Percentage
Employees need more frequent feedback	70%
More alignment needed with business objectives	48%
Performance management has bad ROI	37%
Employees need more frequent rewards and recognition	37%
Employees found process unfair or disengaging	36%
Voluntary turnover rates are too high	13%
We rely too much on hiring to meet our needs	13%

	Performance Management and Business Objectives ✓ ALIGNED	Performance Management and Business Objectives ✗ NOT ALIGNED
Effective in coaching and mentoring	64%	37%
Managers are effective in discussing growth opportunities with employees based on their performance	36%	7%

In reviewing and analyzing the data from the research, Brandon Hall Group arrived at five essential strategies to make the performance-management evolution successful and a contributor to business growth. The remainder of this report provides that analysis.

ESSENTIAL #1:
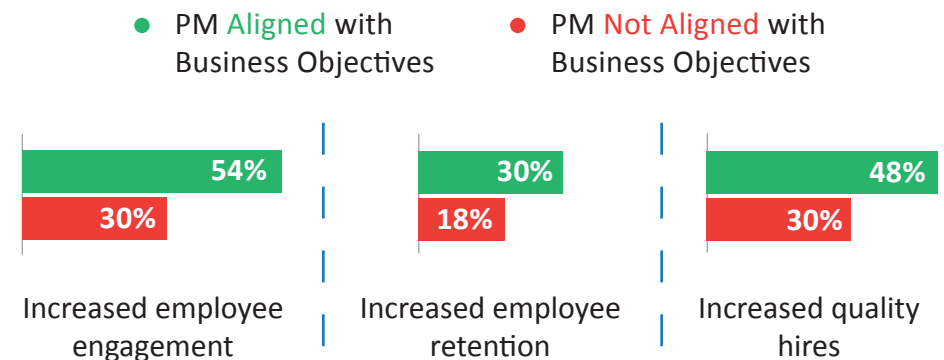# Align Performance Management with Business Objectives

This may seem obvious, but the fact is, only 35% of organizations said their performance management process is aligned with their organization's business objectives.

It is a major problem throughout human capital management. In our HCM Outlook 2018 Study, the top priority for responding organizations in all five areas of HCM — learning, talent management, talent acquisition, leadership development and workforce management/HR — was aligning the strategy of that function with business objectives.

Alignment is far more complex than it sounds. It requires buy-in from leadership, a culture of collaboration, strong governance, enabling technology, plus the ability to effectively manage change across the organization.

But the benefits are significant. In performance management, organizations that reported their process was aligned with business objectives are far more likely to:

- **Experience increased employee engagement, employee retention and quality of hire.**

  ● PM Aligned with Business Objectives   ● PM Not Aligned with Business Objectives

	Aligned	Not Aligned
Increased employee engagement	54%	30%
Increased employee retention	30%	18%
Increased quality hires	48%	30%

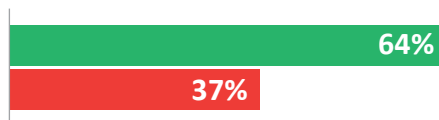● Organizations with PM Aligned with Business Objectives   ● Organizations with PM Not Aligned with Business Objectives
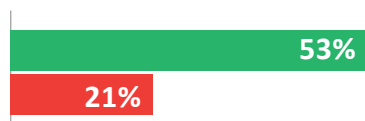
- **Have managers who effectively discuss growth opportunities with employees based on their performance.**

  36%
  7%

- **Formally train managers to be coaches and mentors to improve employee performance.**

  64%
  37%

- **Have effective or highly effective coaching and mentoring programs.**

  53%
  21%

- **Regularly solicit feedback from employees on the performance management process.**

  59%
  35%
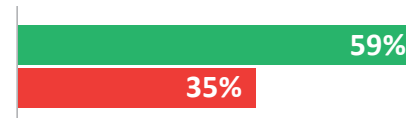
- **Extend the formal performance management to teams and hold individuals accountable for the performance of the teams to which they belong.**

  35%
  20%

- **Leverage technology to drive performance management.**

  77%
  57%

In essence, all the major drivers of strong performance management work better when performance management is consistent throughout the organization and aligned with business goals.

ESSENTIAL #2:

Ensure Managers Are Equipped to Succeed in the New Era of Continuous Performance Conversations and Coaching

The main driver of change in performance management is providing more feedback to employees so they can continue to develop skills and improve their performance, the research shows. In the traditional system of annual appraisals with scant interim reviews, managers had little incentive to provide that feedback. Managers, cannot be expected to magically become better coaches and mentors or have effective performance conversations simply because the new performance management paradigm requires it.

Organizations must invest in developing managers to meet their responsibilities in the new system to prevent it from taking on the same dysfunctionality of the old one.

Right now, there is a disconnect between the top motivation to change performance management (more feedback to employees) and the end product:

70%
Employees need more feedback from managers

47%
Organizations offering formal training for managers to coach and mentor employees

36%
Effective coaching and mentoring program

17%
Managers are effective/ highly effective in discussing growth opportunities with employees based on their performance
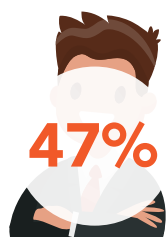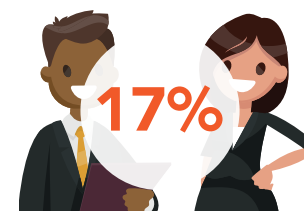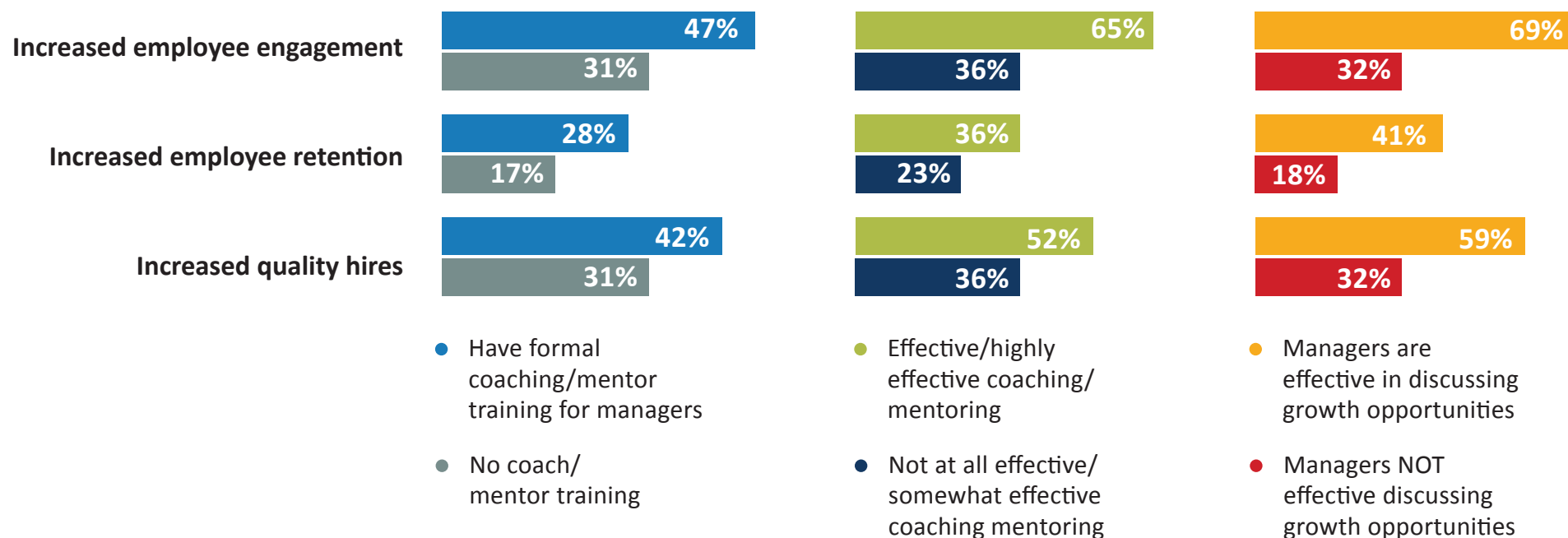
Organizations that train managers and are more effective in coaching, mentoring and discussing growth opportunities with employees also are far more likely to see increases in employee engagement, retention and quality of hires:

Increased employee engagement
- 47%
- 31%
- 65%
- 36%
- 69%
- 32%

Increased employee retention
- 28%
- 17%
- 36%
- 23%
- 41%
- 18%

Increased quality hires
- 42%
- 31%
- 52%
- 36%
- 59%
- 32%

- Have formal coaching/mentor training for managers
- No coach/mentor training
- Effective/highly effective coaching/mentoring
- Not at all effective/somewhat effective coaching mentoring
- Managers are effective in discussing growth opportunities
- Managers NOT effective discussing growth opportunities

There is no right way to train managers to improve their performance-management abilities. Specifically targeted programs or existing high-potential and leadership development programs might be a good choice, or whatever works best within your organization's culture. But we believe there should be a sense of urgency in narrowing the gap between the intention of enhancing performance management and the execution.

When change is introduced in organizations, as has been the case with performance management, employees are both apprehensive and hopeful. Management has a window of opportunity to match reality to intention. If the advent of more employee feedback and better performance development is to be successful, organizations must act decisively to make it happen.

ESSENTIAL #3:

Fully Leverage Performance-Management Technology

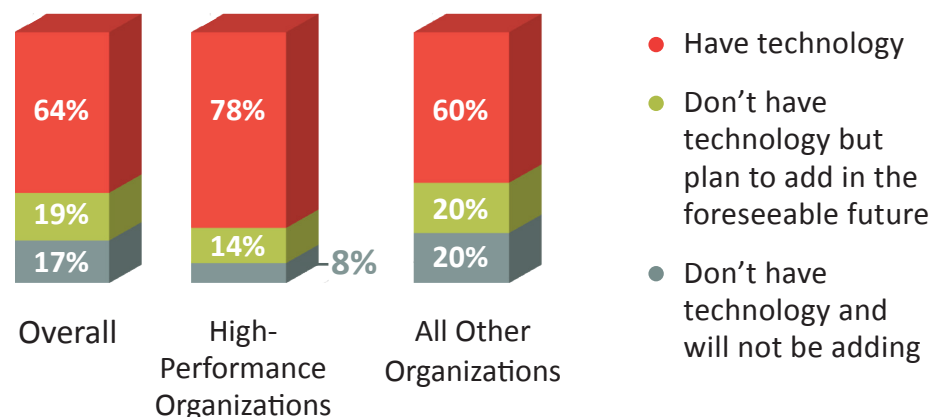As performance management evolves, it is almost impossible to do it well without technology.

There are many pieces to coordinate, including:

- Performance appraisals and self-appraisals for employees. This includes the 42% of organizations whose process varies by employee type or level (upper management vs. lower management, individuals vs. teams etc.)
- A variety of proficiency and behavioral assessments, used by 78% of organizations overall and 87% of high-performance organizations in some form.
- Goal setting.
- Tracking performance discussions, which two-thirds of organizations conduct more than once a year and 62% hold at least monthly or as frequently as needed.
- Integrating and aligning performance management with competencies, career paths and learning plans.

The amount of data, analysis and instantaneous communication required to connect employees with each other and their managers simply cannot be done manually. All talent-management platforms either have a performance-management module or the ability to integrate with dedicated PM software.

Therefore, it is disturbing that 17% of organizations overall not only lack performance-management technology, but don't plan to add it in the foreseeable future. Note that high-performance organizations — those that experience year-over-year increases in Key Performance Indicators such as employee engagement and retention, customer satisfaction and retention, revenue and market share, plus quality of hire — are significantly more likely to use performance management technology.

Use of Technology to Support Performance Management

Overall: 64% / 19% / 17%
High-Performance Organizations: 78% / 14% / 8%
All Other Organizations: 60% / 20% / 20%

- Have technology
- Don't have technology but plan to add in the foreseeable future
- Don't have technology and will not be adding

Brandon Hall GROUP

Organizations that use performance-management technology are much more likely to have their performance management aligned with business goals, which makes sense because alignment requires communication, transparency and regular updating, all of which are facilitated by technology. As with most organizational issues, technology alone will not fix any problems, but it is a vital component of organizational improvement.

Correlation Between Technology Use and Performance-Management Maturity

42% / 22%	**54%** / 33%	**43%** / 17%
Performance-management process and business objectives are aligned/ highly aligned	Formal goal-setting processes in place	Have formal coach/ mentoring training

● Use Performance-Management Technology   ● Don't Use Performance-Management Technology
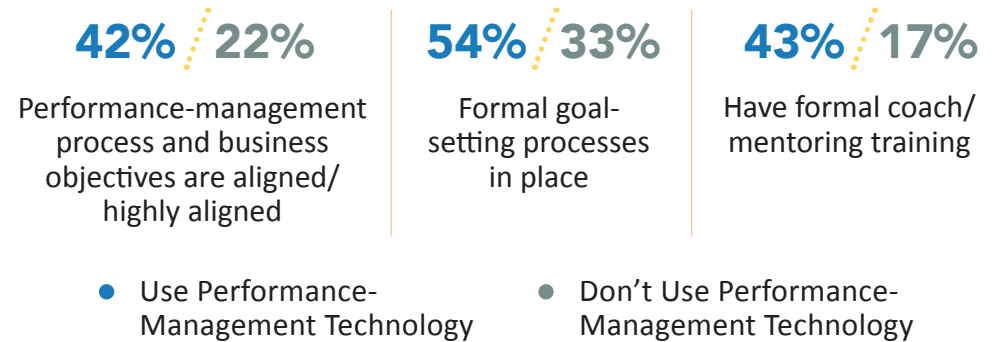
ESSENTIAL #4:

Expand Performance Management to Teams and Hold Individuals Accountable for their Performance in Teams

Team-focused performance management is the next plateau in the evolution of performance management.

As organizations become flatter, more dispersed and more collaborative, cross-functional teams are increasingly used to complete projects and initiatives that transcend department or geographic boundaries. Team performance must be evaluated along with individual contributions within those teams. Furthermore, team members should be accountable as individuals for their performance within teams. This is not a new concept, but due to the complexity of hierarchies, processes, goals and technologies needed, it has been more theory than practice. But it is beginning to change.

Overall, about one in four organizations have a formal performance-management process in place for teams. That increases among high-performance organizations and those where performance management is aligned with business goals.

Percentage of Organizations with Formal Performance Management Process for Teams
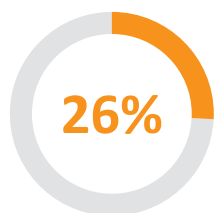
26%

Overall

42%

High-Performance
Organizations

35%
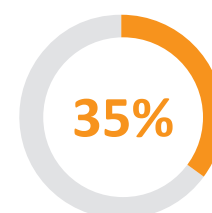
Organizations where
performance management is
aligned with business goals

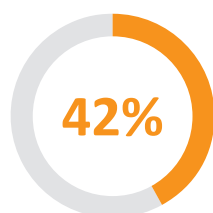The data does not yet show any specific benefit to formal performance management for teams, such as increased KPIs. But our work with clients indicates that many organizations are aware they need to do a better job of understanding the quality of work in teams and that team members must be evaluated and developed.

The good news, as this trend develops, is that of the relatively few organizations that do formally evaluate team performance, almost two-thirds (65%) address team performance in individual team members' performance appraisals. This is a strong indication that, while organizations are still growing into team performance management, they understand the importance of holding individuals accountable.

Brandon Hall
GROUP

ESSENTIAL #5:

Continue to Evolve Your Performance-Management Approach Through Employee Feedback and Measurement

Many organizations clearly perceive a need to revamp their PM processes, otherwise we would not see such large-scale changes taking place. However, less than half of these organizations overall are gathering opinions and ideas from their employees on exactly what needs more improvement.

The percentages are significantly better, however, among high-performance organizations and those in which performance-management and business objectives are aligned. These organizations understand the importance of feedback as a driver of continuous improvement and found a way to make it happen.

The good news is that 80% or more of organizations that do get employee feedback on performance management share it with their managers.

Organizations Soliciting Feedback from Employees on Performance-Management Process

● Yes   ● Share the feedback with managers

Overall: 44%, 80%

High-Performance Organizations: 67%, 86%

Organizations where performance management is aligned with business goals: 59%, 83%
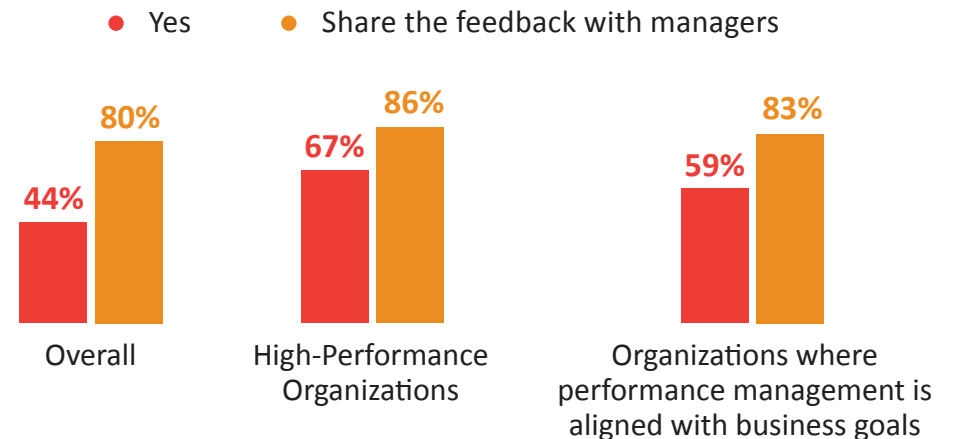
Without getting feedback from employees and sharing it with managers, organizations leave themselves without a vital source of data and are relying on more indirect measures — not that those measures are worthless. As performance management evolves, organizations must collect as much data as possible to see if the changes they made are working or whether further adjustment or training is needed.

Metrics Used to Evaluate Effectiveness of Performance Management

	High-Performance Organizations	Organizations where performance management is aligned with business goals
Meeting specific business objectives	54%	56%
Employee engagement scores	60%	71%
Competency and skills progression	52%	46%
Voluntary turnover rate reduction	35%	37%
Talent-pool readiness	44%	34%
Talent mobility	14%	14%
Promotion rates	15%	15%

Take-Aways

This report provides key data points related to the evolution of performance management plus five essential strategies to move forward. The next step is to evaluate whether several specific actions can be beneficial. This table lists the leading practices identified in our research over the past two years, some of which you may already be using. Examine the list and determine whether it can be a useful practice and the priority level you believe it should have as you move forward.

Priority List for Performance-Management Leading Practices

Action	Already done	No need to change	Low priority	Medium priority	High priority
Replace or supplement annual performance appraisal and discussion with periodic formal performance discussions.					
Managers deliver frequent and in-the-moment feedback to each direct report.					
Replace annual performance goal-setting with near-term goal-setting.					
Update performance goals of employees whenever the need arises.					
Separate performance discussions from merit pay discussions.					
Eliminate the use of a forced distribution.					

Brandon Hall GROUP

Priority List for Performance-Management Leading Practices

Action	Already done	No need to change	Low priority	Medium priority	High priority
Create a free-form self-assessment for employees that gives them freedom to express themselves as they see fit, including personal and professional goals, and items that should be considered that may not be part of the formal performance-appraisal process.					
Use a 360-degree assessment to get feedback from many people who work with the employee.					
Use a 360-degree assessment and allow the employee to choose some of the colleagues who will participate.					
Recognize employees for meaningful contributions, especially those tied to their performance goals. In other words, give recognition for good work other than just blockbuster achievements.					
Establish a formal rewards and recognition program. Provide training for managers on effective performance management and development.					
Provide training for managers on coaching and mentoring.					

Priority List for Performance-Management Leading Practices

Action	Already done	No need to change	Low priority	Medium priority	High priority
Enable performance management through technology, either through the current technology system, mobile apps or both.					
Vary the performance-assessment process based on criteria such as employee level, business unit, geographic region, or employees working in a team or project environment where both individual and group performance is measured.					
Ensure the performance-management process embodies diversity and inclusion/gender parity.					
Solicit feedback from employees about the performance-management process on a regular basis.					
Provide feedback to managers after soliciting feedback from employees on the performance-management process.					
Align the performance-management process with the organization's business objectives.					

Brandon Hall
GROUP

Priority List for Performance-Management Leading Practices

Action	Already done	No need to change	Low priority	Medium priority	High priority
Use of formal assessments (skills, behavioral, work styles, etc.) in the performance-management approach.					
Managers discuss specific career growth opportunities with employees based on their performance.					
Create a formal performance-management process for teams.					
An individual's performance in teams impacts that individual's personal performance appraisal.					
Link performance-management process to competencies. Link discussions on career growth opportunities to appropriate career paths established by the organization.					

Brandon Hall Group Research Methodology

PHASE 01

Evaluation of Business and Talent Landscape

We study current trends to hypothesize about how they might influence future events and what effect those events is likely to have on your business. We then prepare a project outline and circulate to executives and practitioners in the particular field for feedback and insights before our research survey is developed.

PHASE 02

Quantitative Surveys and Qualitative Interviews

To test our hypothesis, we gather empirical insights through formal and informal surveys. To check assumptions generated from surveys and to add context to the empirical survey data, we talk to Executives, Chief Human Resources Officers, VPs of Talent and other business leaders as well as HR, Learning and Talent Leaders and employees.

PHASE 03

Scholarly Reviews and Expert Resident Knowledge

We study and analyze renowned academic research comparing and contrasting their findings to our own and again engage in rapid debate to ensure our findings and analysis stand the tests of business usability. New perspectives are shaped and added as appropriate. Our quantitative and qualitative findings are also shared within our internal research community and rapidly debated in peer review sessions to test validity and practicality.

PHASE 04

Market Testing and Emergent Trends

We fortify and validate our initial findings, leading practices and high impact processes within the analyst environment, our own Advisory Board and select other clients and prospects that offer fair assessment of the practicality and usability of our findings, practices, and processes. After studying and analyzing all collected data, we see and document patterns emerging within high-performing companies.

PHASE 05

Analytics-Based Reports and Tools Publication

After verifying our position internally, in alignment with scholarly research, and the market and completing rigorous peer reviews, our findings, leading practices and high impact processes are documented and published, made available to our members, in the form of reports, tools and online searchable databases.

Client-Centered Business Goals

| Employer Brand | Business Performance | Client Loyalty | Market Leadership |

About Brandon Hall Group

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

With more than 10,000 clients globally and almost 25 years of delivering world-class research and advisory services, Brandon Hall Group is focused on developing research that drives performance in emerging and large organizations, and provides strategic insights for executives and practitioners responsible for growth and business results.

Authors and Contributors

Claude Werder (claude.werder@brandonhall.com) co-wrote this report. He is the Vice President of Research Operations and Principal HCM Analyst at Brandon Hall Group. His responsibilities include overseeing Brandon Hall Group's team of analysts, directing research priorities, content quality assurance, and producing the annual HCM Excellence Conference. He also leads the Talent Management practice and specializes in competency and career development, performance management and leadership development.

Cliff Stevenson (cliff.stevenson@brandonhall.com) co-wrote this report. He is Principal Analyst, Workforce Management Practice. His expertise includes data and analytics, performance management, recruitment, acquisition, retention, and attrition. He also served as the HR leader for a Boston consulting firm.

Richard Pachter (richard.pachter@brandonhall.com) edited this report. He is the Content Manager at Brandon Hall Group and is responsible for editing all types of content related to research. He has experience as a journalist, copywriter, editor, marketer, blogger, and social media marketing manager. He also served as the business books columnist for the Miami Herald for more than a decade.

Emma Bui (emma.bui@brandonhall.com) is the Graphic Design Associate at Brandon Hall Group and created the graphics and layout for this report.

Subscribe To Our Interactive Data-Benchmarking Tool: Data*Now*®

All the data from our studies is available by subscription to ＿＿＿＿＿＿. DataNow® is Brandon Hall Group's interactive data-benchmarking tool. Organizations use it to make data-based decisions, find leading practices, benchmark, and more. You can also filter the data by company size, revenues, and industry segments to give you a fully customized view.

Our Services

GET HELP TO DRIVE RESULTS FOR YOUR TALENT

In today's volatile and global business climate, managing talent for high-performance plays an increasingly crucial role in an organization's growth and future success. Effective talent management is a top priority in organizations everywhere because, while organizations recognize the need to obtain and retain people with the very best skills, they continue to struggle to implement effective strategies to do so. HR and Learning professionals need to be able to successfully define organizational talents needs and skills, identify talent strengths and career goals, and align organizational needs to individual needs. Rethink your strategy, validate your assumptions, transform your business, and optimize your time with the use of reliable data, tools, and guidance.

PLAN   ATTRACT   DEVELOP   PERFORM   RETAIN   OPTIMIZE

GET HELP WITH YOUR HR SERVICES MANAGEMENT & DELIVERY

As described in the employee lifecycle, processes are linked to employee transactional processes (e.g., compensation, benefits, compliance, contingent workforce management, etc.) via workforce planning and analytics.

- Policies/Process/Procedure
- Payroll
- Expense Management
- Benefits & Compensation

- Contingent Workforce Management
- Compliance
- Time & Labor Management

Our Services (Continued)

GET CONSULTING HELP WITH…

- Strategy and Planning
- Governance & Business Alignment
- Executive Management
- Team Development

- Measurement & Analytics
- Program Design & Deployment
- Technology Selection, Management & Integration

- Organizational Structure
- Measurement & Analytics
- Change Management
- Budgeting & Forecasting

Membership Offers Tailored Support

At the core of our offerings is a Membership Program that combines research, benchmarking and unlimited access to data and analysts. The Membership Program offers insights and best practices to enable executives and practitioners to make the right decisions about people, processes, and systems, coalesced with analyst advisory services which aim to put the research into action in a way that is practical and efficient. Membership also provides you direct access to our seasoned team of thought leaders dedicated to your success, backed by a rich member community, and proactive support from our client services team.

RESEARCH ACCESS & EVENTS
- Reports
- Case Studies, Frameworks & Tools
- DataNow® & TotalTech®
- Webinars and Research Spotlights
- Annual HCM Conference

ADVISORY SUPPORT
- Ask the Expert
- 1 on 1 Consultations
- Research Briefings
- Benchmarking

CLIENT SUCCESS PLAN
- Your Priorities
- Executive Sponsor
- Client Associate
- Monthly Meetings

CLICK HERE TO LEARN MORE