

A FoW REPORT ON TIME AND PERFORMANCE

A report prepared by the Future of Work Research Consortium
MARCH 2016

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Our research at the Future of Work has benefitted from the contributions of our members over the last seven years including:





INTRODUCTION

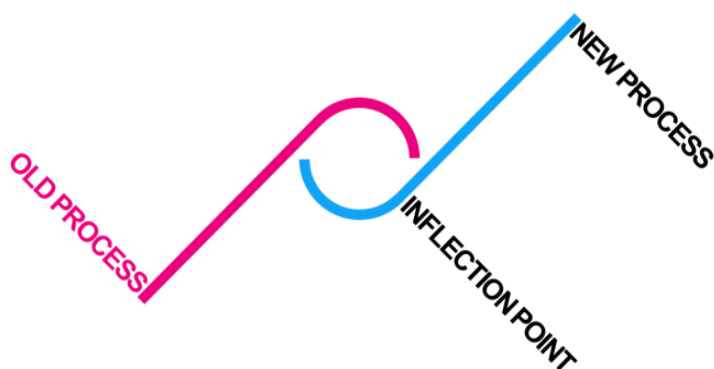
Over the last two years, every Future of Work (FoW) Masterclass, from Engagement 2.0 to Talent Innovation, has included a delegate-initiated discussion on performance management. Add to this the recent trend of large organisations such as Microsoft and Deloitte making dramatic changes to their performance management systems and it is clear that the subject of performance is at the top of the agenda for executives today.

We launched the Time and Performance theme in response to this and have used a combination of Focus Group Calls and in-depth interviews with those currently leading change in their organisation to research this. Combining these insights with those from the current literature, we have established the key reasons why performance management is a point of contention and what organisations can do to move towards a more effective approach.

1. WHY PERFORMANCE MANAGEMENT IS NOT WORKING

Many of the world's leading companies, including members of the Future of Work Research Consortium, are embarking on a dramatic overhaul of performance management. But why now? What has happened to make performance management such a contentious issue in so many organisations?

As we embarked on our research for this theme, two clear messages emerged: that assumptions about the demographic composition of the workforce and how they spend their time are highly out-dated; and that assumptions about what characterises high performance in



organisations no longer hold true. Up to now, organisations have responded by tweaking elements of their approach. However, as organisations find themselves making more and more exceptions to the formal approach, they are becoming increasingly aware that they require a more wholesale revision to their performance management approach.

This will ensure they move from the old S-curve, which is beginning to tail off, to a new S-curve that is fit for purpose for their organisation.

1.1 Challenging Assumptions About Time

Performance management approaches make important assumptions about how employees spend their time and the responsibilities they have outside of the workplace. Indeed, when we analysed performance management systems it soon became apparent that many of their limitations are the result of not keeping pace with societal changes that have dramatically altered the profile of who works for the organisation.

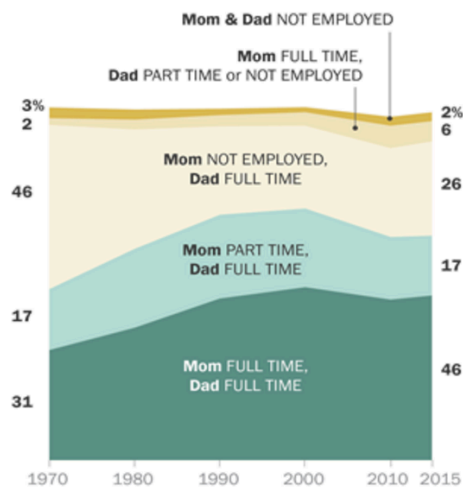
The traditional family: The starting point when identifying how society, and therefore the worker, has changed was to analyse families. Over the last fifty years the transformation of family life in advanced nations has been dramatic. Looking back to the family of the 1950s, depicted right, we can see the clear bread-winner/home-maker model in full effect. In this era, organisations could assume that their workforce was comprised of men much like the one pictured who was both able and expected to focus on providing the tangible assets – that is, the income with which to pay for the house, education and living costs – while his partner took care of the intangible assets – that is, raising the children and creating a home.



The percentage of households with both partners not only working, but working full time, is now

In Nearly Half of Two-Parent Households, Both Mom and Dad Work Full-Time

% of couples, by work arrangement



Source: Pew, 2015

nearer the 50% mark within the US and other advanced nations.¹ This means that on a societal level both partners are taking responsibility for providing tangible assets for the household. In addition to taking on more paid work outside the home, both men and women are spending more time in active parenting, with the sharpest increase seen in those with the highest educational attainment.² Indeed, college educated women from the UK in dual career couples have increased their time spent in active parenting from 10 minutes each day in 1975 to around an hour and a half in 2003.³

What does this mean for HR teams as they assess the effectiveness of current approaches to performance management? It illustrates a shift in how employees organise their lives and divide their time, with implications for how performance needs to be developed and assessed. The most familiar implication is the need for

performance management to provide an equal playing field for those working flexibly or remotely, and those working in the office.

Clear divisions between work and leisure: The second societal factor creating tension in performance management systems is the shift in terms of time spent in work and leisure. For most of human history affluent people had the most leisure, whereas today we are seeing this relationship become inverted. In the 1800s the average English worker laboured for 64 hours a week and it was possible to infer someone’s economic status by how long they worked. So, how has this changed?

In today’s advanced economies, the affluent and highly skilled are now working longer hours and spending less time in leisure than their less well off peers. Research from the American Time Use Survey in 2013 revealed that Americans with a Bachelor’s degree or above worked two hours more each day than those with a high school diploma.

According to research there are two possible reasons for this phenomenon:

- **The substitution effect:** A simple explanation is that as people's wages rise, the relative cost of leisure rises too. This effect may have been exacerbated by the trend of strong rises in top-level pay since the 1980s, while wages of low- and middle-skill workers have largely stagnated.
- **The changing definition of leisure:** Our perception of leisure has changed significantly in the last hundred years, both in terms of what we consider leisure activities to be and the status we accord to taking leisure. In 1899, American Economist Thorstein Veblen wrote about leisure as the badge of honour for wealthy people who could pay others to do the dull jobs in which they did not want to engage. While the poorer members of society were labouring in these dull jobs, termed 'industry' by Veblen, the rich were engaged in leisure activities, which he termed 'exploit.' These activities included creative writing, philanthropy and debating. As we can observe from the roles of many knowledge workers today, some of the activities previously classed as leisure are now paid employment for highly skilled workers, meaning we have blurred the boundaries between work and leisure. This change in definition has occurred alongside a change in the status of the leisure class who may now be viewed as unproductive or unemployed, rather than successful.



Prof. Alison Wolf, Baroness Wolf of Dulwich: The rise of assortative mating

At the Time and Performance Masterclass, King's College London Professor, Alison Wolf, talked about a new trend: assortative mating.

This term is used to describe how people are increasingly marrying (or forming partnerships with) people of similar educational and income profiles. With women increasingly present in the upper echelons of the workforce, it is now possible for senior men to marry a partner with a similar career profile. This presents new challenges for organisations that must account for dual career couples.

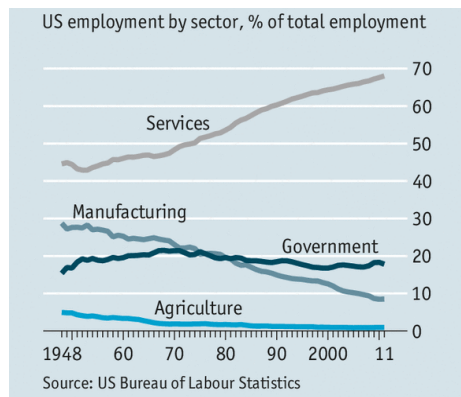
Professor Wolf is the Sir Roy Griffith Professor of Public Sector Management at King's College London, and sits as a cross-bench peer in the House of Lords.

For organisations that are assessing the efficacy of their performance management approaches, it is essential to consider how their highly skilled employees are spending their time.

1.2 Challenging Assumptions About Performance

The erosion of assumptions about how workforces spend their time has occurred alongside a parallel shift in how organisations need to approach performance. Frederick Taylor's *Principles of Scientific Management* was perhaps one of the most influential pieces of research on the link between time and performance and, to this day, many of the messages continue to resonate. For example, Taylor advocated the sharing of responsibility for task completion between a manager and an employee, with the manager taking an active role in developing the skills of the employee. He was also one of the first to highlight that productivity cannot be increased simply by having employees work for longer. Indeed, the move to a five-day working week and an 8-

hour working day was largely the result of Taylor's time and motion studies that highlighted the impact of worker fatigue.



Observable output: However, one key way in which performance has changed since Taylor's study is the shift in advanced nations from work with observable outputs – characteristic of manufacturing and agricultural sectors – to work with predominantly intangible outputs, characteristic of the services sector.

We investigated the impact of this shift as part of our Focus Group Calls for the Time and Performance research and identified an underlying trend: when organisations cannot easily measure outputs, they turn instead to

measuring inputs. When it is no longer possible to count the number of items a person has produced, companies use proxies such as how much time people have spent working, or whether they have been highly visible in team meetings and on client sites. The Focus Group Calls highlighted three adverse effects of this emphasis on inputs in the absence of observable output:

- **Absorbing inefficiency:** Employees are aware of the need to be present as a proxy for high performance and therefore accept that they will be at the office for long hours each day regardless of whether they have completed their work. This means there are few incentives for enhancing efficiency, as this will not result in reduced working hours.
- **The paradox of presenteeism:** Building on the point above, while people are aware that they must be seen to be working long hours, they are also aware that they must be viewed as efficient and effective by management. As such, some employees will under-report their working hours on timesheets in order to appear efficient while also working long hours.
- **Different perceptions of 'long hours':** A particular stress point for employees is the different notions of what constitutes long hours and therefore high levels of input, between different teams. While one team may view working beyond 6pm as long hours, others will set the bar far higher. Negotiating these different expectations may increase the anxiety employees feel as they try to understand how their performance is being perceived by managers.

Insight: What can we learn about performance from Formula 1?




Lynda Gratton led a session on performance at Davos this year and had the opportunity to uncover the secret of high performance for Formula 1 drivers: more sleep. F1 champions Mikka Hakkinen and Sebastian Vettel both sleep for at least 10 hours before a race. Furthermore, the drivers' coach, Dr. Aki Hinsa compared operating while sleep deprived to driving while drunk and lamented the culture of boasting about how few hours sleep one has had.

Dr. Hinsa reiterated that this is not particularly new advice, however, it is surprising how few of us follow it. Perhaps when looking to unleash performance in companies, we would be well served to ensure employees are getting a good night's sleep.

Listen to the full Keynote at www.fowlab.com/library

The change in the nature of work from producing observable to unobservable outputs is perhaps the greatest challenge for performance management systems. The challenge of



objectively assessing this kind of work creates more risk in terms of inconsistency and, as a result, the possibility of unfairness in the process.

A normal distribution of performance: In the general population, height, weight and strength follow a normal (or Gaussian) distribution. It is our inclination, therefore, to assume that other aspects of life, such as job performance, should also follow this trend. Indeed, this has been the scaffolding behind many performance management approaches that require teams, divisions and eventually the entire company, to conform to a curve with a small number of high performers, a majority of average performers and a small number of low performers. However, this is just one hypothesis when it comes to understanding how the performance of a group is distributed and it is coming under increasing scrutiny.

The normal distribution approach to managing performance also has psychological drawbacks according to our research with Consortium members. During in-depth interviews with the KPMG UK leadership team responsible for removing stack ranking in the firm, 'using the normal distribution means having to tell the majority of your workforce that they are merely average.'⁴ This can be demotivating to highly skilled employees who are accustomed to outperforming in academia and in previous roles.

The new technology companies of Silicon Valley are some of the notable organisations in terms of abandoning the normal distribution hypothesis of performance. In these organisations, it is becoming the received wisdom that a small number of top performers create a disproportionately large amount of value, with the remaining population of workers falling below the average. This hypothesis of performance reflects a Paretian distribution, allowing for more superstar performers than a normal distribution, but also revealing a large part of the workforce to be below average.

A relatively homogenous workforce: The final way in which assumptions about performance are being challenged is around the diversity of workers, both in terms of their demography and the way in which they contract with the organisation.

Earlier in this section we identified how increased gender balance in paid work, and to a lesser extent in the home, was altering the composition of the workforce. In addition to this, we are also seeing increased participation of older workers as longer lives and inadequate pensions translate into elongated careers. This is another deviation from the typical worker upon which performance management systems are based.

Add to this the erosion of permanent, full-time employment as the norm and we begin to see conventional performance management systems breaking under the strain. Indeed, one of the notable trends of the last decade has been the rise of the contingent worker - that is, a person who works for an organisation or for multiple organisations on a non-permanent basis. In the US, contingent workers accounted for 30% of the workforce in 2006 and are expected to rise to 40% by 2020.⁵

For HR teams evaluating the efficacy of their performance management systems, the question is therefore: to what extent does our approach enable accurate and fair performance evaluation for people working on different contracts and at dramatically different career stages? For many organisations, this answer is 'not well.'



2. WHERE ORGANISATIONS ARE NOW

So, where does this leave us? The assumptions upon which organisations have built performance management systems are now facing tension. The work people do and the nature of their employment have both changed dramatically and present a strong force for change. During the Time and Performance Focus Group Calls, several members reported that a clear sign of the inadequacy of their performance management systems was the fact that the CEO does not use it as a reference point in decision-making.

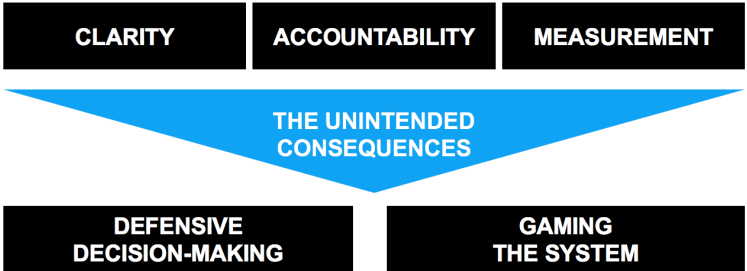
However, there are several reasons why organisations are finding it challenging to let go of current approaches. Primarily, because current approaches are perceived to deliver three business imperatives: clarity, accountability and measurement.

- **Clarity:** Despite its limitations, the normal distribution approach enables companies to neatly classify each individual, often on a rating scale of 1 – 5. This clarity enables people to speak a common language when describing the performance of others: “Jonny is a 4, whereas Chris is a 5” for example. Moving away from this system means a culture shift for the organisation and an acceptance of some ambiguity. Indeed, during our research with Professional Services firm, KPMG UK, they noted this change in language and mindset as one of the biggest shifts for the organisation as they moved away from stack ranking.
- **Accountability:** An additional force against change is the perceived accountability that the current approach provides. Often, performance management systems will be based around individual objectives that hold a person accountable for a particular set of deliverables. While this may not accurately reflect the reality of the work, which is likely characterised by team inputs and building on the success of others, it does enable a crude mapping of who does what in the organisation. This becomes a force against change as, once again, moving away from this structure brings with it greater ambiguity.
- **Measurement:** The ability of many current approaches to enable measurement also presents a force against change. Systems based on rating scales, or other neat categorisations of performance, enable the organisation to say that X% of people rated a ‘4’ have resigned in a given year. Or that Y% of people categorised as ‘high potential’ were promoted in this round. Moving away from this approach creates new challenges for HR teams, particularly in a climate of increased emphasis on data-driven insights.

These perceived strengths of performance management approaches - clarity, accountability and measurement - have, however, brought about unintended consequences in terms of their influence on people’s behaviour in organisations. The pursuit of clarity, accountability and measurement has led in many organisations, to the creation of rigid structures and rules, sending out strong signals about which behaviours will help people get ahead.



These signals are not always the ones intended by HR teams and performance managers when they devise the system and, according to Peter Scott-Morgan⁶, become the unwritten rules that govern behaviour with great impact:

- **Defensive decision-making:** According to psychologist, Daniel Kahneman, 'we are driven more strongly to avoid losses than to achieve gains.'⁷ This tendency is exacerbated by rigid performance management systems that do not accommodate failure of any kind. Indeed, when faced with comparative performance assessments and Gaussian distributions, employees are compelled to make decisions whereby they come off least bad in the worst case scenario. This means they are incentivised to choose the 'play it safe' option over the innovative option. This becomes a stumbling block for organisations looking to progress through innovation.

The diagram consists of three black boxes at the top labeled 'CLARITY', 'ACCOUNTABILITY', and 'MEASUREMENT'. A blue downward-pointing arrow labeled 'THE UNINTENDED CONSEQUENCES' points from these three boxes to two black boxes at the bottom labeled 'DEFENSIVE DECISION-MAKING' and 'GAMING THE SYSTEM'.
- **Gaming the system:** During the keynote presentation, Lynda reminded Masterclass delegates that humans have an inordinate ability to 'game' the system. This means that wherever there are rules, there are people trying to get around them or looking for loopholes in their logic. This is particularly the case for performance management systems in organisations with intangible outputs.

Research by Erin Reid, Assistant Professor of Organizational Behaviour at Boston University, illustrates the benefits of gaming the system, based on a study of employees of a US-based consultancy. Reid's research showed that employees were faced with two options when they tried to spend more time with their families. Some employees, mostly women, talked openly to their managers about the long working-hours culture and took formal accommodations to reduce the number of hours they worked. As a result, they tended to be marginalised within the firm and viewed as non-ideal workers by their colleagues. However, another group consisting mostly of men who were afraid of marginalisation, decided to 'go under-the-radar' and altered the structure of their work so that they still appeared to devote 60-80 hours to their job every week, while actually diverting some of their time to childcare. For example, one senior manager decided to focus on local clients, use virtual working and limit how much information he gave to colleagues about his whereabouts. This enabled him to travel and work less and go on holiday with his family more often without anyone questioning his commitment to the firm. Despite his fewer working hours, colleagues viewed him as a devoted and dedicated super-employee. By gaming the system and finding ways around the formal process, this group of employees were able to achieve positive outcomes without conforming to the written and unwritten rules of the process.

During the Masterclass, delegates analysed the forces for and against change for their own performance management processes. Forces for change included people's frustration with the current approach, the arrival of a new leader in the company or division and the increasing influence of the millennial cohort who crave regular feedback and fast progression. Forces against change included the complexity of adapting approaches for different geographies, the impact of changes on other and related HR processes such as succession planning.



3. REINVENTING PERFORMANCE MANAGEMENT

3.1 Going Back to First Principles

So, how can organisations craft an effective and engaging performance management approach? The starting point is to go back to first principles and articulate exactly what it is that performance management is meant to achieve. During the Masterclass, delegates took a moment to describe the objectives of their ideal performance management systems, reflecting on the following key questions:

Q: What is our context? Q: What is our culture? Q: What are our values?

From this starting point, organisations can begin to set out the objectives of the ideal performance management approach. During the Masterclass, delegates devised a set of objectives for their ideal approach. The five most cited objectives were:

- To achieve alignment:** between individual and team performance
- To foster continuous improvement:** amplifying future skills and capabilities
- To differentiate performance:** identify high performers and those in need of development, potentially moving to an absolute scale of performance rather than relative to peers
- To reinforce the company culture:** encourage behaviours that are consistent with the organisation's values
- To generate insights:** collect data on skills and performance to drive decision-making

These objectives then guide the design of each component of the performance management approach.


3.2 Crafting the Components of an Effective Performance Management System

During the FoW research process and Masterclass, we devised the key components of a performance management system along with what organisations must consider as they strive to achieve excellence in each one:

Time orientation	Feedback
Process	Enactment
Goals and objectives	Fairness

Time orientation

One of the most compelling reasons to change current approaches to performance management is the tendency for them to focus too heavily on past performance rather than look to the future, a point raised by Masterclass delegates when devising the components of the idea performance management approach. In addition, according to some of our Focus Group participants, this means that the performance conversation becomes more of a debate about what really happened in the past six or 12 months, rather than about an individual's potential and development areas. This point was addressed by the Deloitte team when reinventing their performance management approach. Indeed, according to Ashley Goodall, Director of



Leadership Development at Deloitte Services LP, the former retrospective approach was more open to rater bias as it required the performance manager to reflect on what they thought about the person, rather than their objective skills and potential. Goodall addressed this as part of the redesign of performance management at Deloitte, which now asks team leaders to answer the following future-focused questions at the end of each project rather than devise a rating based on past performance:⁸

Q: Given what I know of this person's performance, and if it were my money, I would award this person the highest possible compensation increase and bonus [*measures overall performance and unique value to the organization on a five-point scale from "strongly agree" to "strongly disagree"*].

Q: Given what I know of this person's performance, I would always want him or her on my team [*measures ability to work well with others on the same five-point scale*].

Q: This person is at risk for low performance [*identifies problems that might harm the customer or the team on a yes-or-no basis*].

Q: This person is ready for promotion today [*measures potential on a yes-or-no basis*].

These questions ask the performance manager not what they think of the person, but what they would do in future based on their experience of that person's performance. As other organisations reinvent their performance management system, they may take inspiration from the approach, but, as recommended by Goodall, would need to adapt the questions to reflect their context, culture and values.

Process

One of the drivers for change for Deloitte in revising its performance management approach was the realisation that it was consuming close to two million hours of employee time each year.⁹ This concern is corroborated by many other organisations seeking to reinvent their approach, including Accenture and Microsoft.¹⁰ This is a topic we explored in detail as part of the FoW theme on the Future of HR, during which we analysed the negative impact on productivity and engagement of increasing complexity within organisations. One of the points raised in this theme was the need to ensure that people actually transition to the new approach, as the tendency is for people to slip back into old habits.¹¹

Goals and objectives

One of the most common components detailed by Masterclass delegates was around goals and objectives. Many people advocated the use of the SMART approach: Specific, Measurable, Attainable, Relevant and Time-bound. However, others highlighted the need for goals and objectives to be more fluid in the context of ever-changing business priorities. In addition, goal setting and objectives can become a bureaucratic process that consumes a great deal of employees' time. This was a focal point for Accenture as they set about revising their approach. According to CEO, Pierre Nanterme: "Like many companies, we wanted to set the right objectives for our people, but very rapidly we got to a list of 5, 10, 15, 20 objectives, which started to be extraordinarily conflicting, confusing and difficult to evaluate. They created a maximum bureaucracy and, at the end of the day, blocked people. Instead of motivating or evaluating people, it just became piling tons of metrics and objectives on them."¹² Instead, Mr. Nanterme advocates a combination of trust and autonomy to enable people to get on with what they are trying to deliver, without devoting time and energy to the pursuit of measurement. This

approach may also help organisations achieve outcome-based performance management that focuses more on the value added by an individual than on the measurable factors such as hours spent completing the task, or the amount of face-time with the client.

Shared Knowledge: The FoW Market Place



During the Time and Performance Masterclass, delegates had the opportunity to visit 'stalls' run by Accenture, KPMG UK, PepsiCo and Microsoft. Each company spoke about the good practices and signature processes that they have embedded as part of a revamped performance management system.

Accenture's CEO, Pierre Nanterme, has vowed to 'get rid of... 90% of what [they] did in the past,' including removing forced rankings along a distribution curve. Read more about Accenture's new approach here: www.accenture.com/gb-en/company-accenture-ceo-performance-review.aspx

KPMG have created a new approach to developing performance as part of their new people strategy named, 'Our Deal.' This includes replacing ratings with 'honest conversations' and creating a one-firm profit share in place of the traditional reward structure. Read more about KPMG's approach in the FoW Case Study, here: www.fowlab.com

PepsiCo have created a Performance Management Process consisting of four phases: align, explore, refine and reflect. To find out more about their approach, contact the FoW Research Team: info@fowlab.com

Microsoft's old model of performance management had been focused on individual performance and rewards, and promoted a competitive environment. It is in the process of replacing this with a new model that focuses on 'impact' and 'building a sharing culture.' Read more about Microsoft's approach in the FoW Case Study, here: www.fowlab.com

Feedback

The majority of delegates identified feedback as one of the most important components of the ideal performance management system and during the Masterclass, we had a dedicated session on how to deliver effective feedback, drawing inspiration from our guest speaker, Farooq Chaudhry, Producer at the English National Ballet. The key points that emerged from the research and Masterclass session include:

Deciphering the link with reward: According to delegate comments and our FoW research, there is a growing awareness of the need for regular feedback that is not explicitly linked to reward. When feedback is delivered alongside a rating or remuneration discussion, then the meeting can become more of a negotiation that does not provide the right environment.¹³ This was one of the considerations in KPMG UK's new approach that is structured around a series of four honest conversations, each addressing a different aspect of the performance development process, with just one conversation dedicated to allocating reward.

Conducting honest, two-way conversations: The impetus behind many revisions to performance management systems is in part to create a more adult-to-adult relationship between line manager and employee, in place of the adult-to-child relationship implied by top down only approaches to feedback. This point was captured by delegates in their description of



the ideal components and was also addressed by our Masterclass guest speaker. Farooq cautioned that managing performance can easily turn into a power struggle with both sides feeling that they have something to prove. Part of the feedback process is allowing yourself – whether you are the performance manager or the appraisee - to be vulnerable. The best performers, in business and in dance, are both incredibly skilled and incredibly vulnerable. Letting go of control as the person delivering the feedback enables the kind of connection that is imperative when talking honestly to someone about an area in which they need to improve.

Engaging multiple stakeholders: In many organisations, project based working creates a clear need for multiple people to be involved in a performance discussion as an individual may be working for several teams at one time. This requirement has been acknowledged by companies such as Salesforce.com that provide platforms to enable people to request and receive feedback from anyone else in the organisation at any point in time. It is also the cornerstone of the Team and Stakeholder Diagnostic, developed by Lynda Gratton, to establish the performance of teams. This Diagnostic compares perceptions of team performance from the point of view of the team leader, team members, suppliers and customers to give a holistic depiction. Finally, calling on multiple stakeholders to provide feedback ensures that the person in question is able to select someone they trust in the organisation, whether it is their line manager or another colleague in the business.

Delivering the tough messages: In recent years, advice has tended to focus on strengths-based feedback. This positive psychology approach first rose to prominence with Dale Carnegie's 1936 book *How to Win Friends and Influence People*, which has sold more than 15 million copies worldwide. In this book, Carnegie recommends regular, positive feedback. During the Masterclass, however, we debated whether this strengths-based approach really works and if we have gone too far and are now avoiding difficult, but important, performance conversations. Our guest speaker, Farooq Chaudhry, shared how he provides feedback to professional dancers. Farooq recently stepped down from Dance UK, the industry association, over concerns that standards were slipping due to dancers being 'mollycoddled'.

Within the dance world, regular, tough feedback has traditionally been the norm. However, its effectiveness depends on the timing and tailoring the style of delivery to the person receiving the feedback. Farooq shared the example of football coach, Graham Taylor, who adapted his approach for each player, observing that with some footballers you need to talk about it when they failed; others just needed a pat on the back. The challenge for any performance manager is to understand what approach works best for each person in their team and to avoid projecting their own working styles and preferences onto others.

Asking beautiful questions: The concept of the line manager as coach has been popular within recent management literature and is a topic that we asked Farooq to comment on during the Masterclass. When asked what his advice would be for HR professionals who must train hundreds of line managers in their organisations to deliver effective feedback, Farooq said simply "Tell them to go away and create a set of beautiful questions that will unlock that person to improve." This approach allows the conversation to open up rather than narrow down and helps avoid the power struggle that can divert attention away from performance.



Enactment

The success of any new performance management process relies not only on a sound strategy and framework, but on the will and skill of line managers enacting it and the culture they create. When KPMG UK revised their approach, they took this into serious consideration. With over 13,000 partners and staff, ensuring all Performance Managers were formally retrained would have proved costly and time consuming. At the time, KPMG UK had 450 Performance Managers controlling 75% of the workforce, which was far too large a group to train and influence quickly, cost effectively and with a consistency of approach. Instead, they chose to create and focus on a much smaller group of just 150 people who they recruited and named 'People Leaders' and made into a supportive community of skilled change agents and role models.

The People Leader role is filled by high potential and respected colleagues, signalling to the Firm that this is an important and career-advancing move. It is generally arranged as a two-year secondment, with clear objectives to be achieved during that time. People Leaders lead groups of Performance Managers and are accountable for ensuring that the new people strategy is enacted and experienced as intended. While many of them are still involved in the commercial side of the business, they must devote at least 50% of their time to people leadership. People Leaders are measured on a series of Key Performance Indicators (KPIs) that link directly into the People Strategy, one of which was chosen by People Leaders themselves: the number of staff they save from resignation. The community of People Leaders meets once a month and receives training on a range of topics including high performance coaching and wellbeing.

To ensure that People Leaders are the go-to resource within their teams, they receive advance access to information on the Firm's performance and any other changes taking place in the organisation. Their responsibilities range from the transactional, to coaching and inducting new performance managers in how to have difficult but developmental conversations.

Fairness

According to Professors Elaine Farndale and Clare Kelliher,¹⁴ the following factors influence a person's perception of the fairness of the performance management approach:

The first two factors describe the enactment of the process itself, relying heavily on a line manager's will and skill. The third factor, organisational climate, highlights that the manager-employee relationship does not occur in isolation. Indeed, the level of trust an individual has in their leadership team becomes a mediating factor: 'The organisational climate... moderates the relationship between perceived performance appraisal justice (that is, procedural justice and interactional justice) and levels of organisational commitment.'¹⁵ This means that the design of any new performance management approach should focus not only on ensuring that line managers are sufficiently trained to carry out the process and communicate the result in a just way, but that the perception of the leadership team is positive and thus reinforces perceptions of fairness and organisational commitment.

3.3 Designing Signature Processes

“Many companies adopt industry best practices to stay competitive. But high-performing companies do more: They also embrace unique ‘signature processes’ that reflect their values.”

~ Lynda Gratton and Sumantra Ghoshal, 2005

While organisations can learn a great deal from good practices taking place in other companies, Gratton and Ghoshal highlight the importance of making performance management a ‘signature process’. That is, a process that embodies a company’s character and arises from passions and interests within a company.¹⁶ Designing a signature process involves reflecting on a company’s history and the values of the executives that lead it. During the keynote presentation, Lynda highlighted two recent examples of signature processes:

- **Unlimited Vacation at Virgin:**



Virgin’s latest signature process reflects an increasing awareness of shifts in how employees use their time. On the understanding that people often work outside of office hours, responding to emails and urgent client requests, Virgin began to question whether tracking time spent in and out of work still made sense. They created a signature process, allowing all salaried members

of staff to take time off when they want, for however long they choose, without needing approval from managers. Further, managers are not required to track the extent to which their employees are utilising the available time off. In fact, the employee can take time off ranging from anywhere between a few hours to a whole month. This policy was described by CEO, Richard Branson, as ‘a very Virgin thing to do.’ Highlighting the strong link between the approach and the values of the organisation that promote agility and autonomy.

- **Addressing work life balance at Hyundai Capital:**



On the same theme, Hyundai Capital noted that a presenteeism culture could be hampering performance, with employees working extended hours to demonstrate their commitment to the firm and to conform to long standing work cultures. In response, the company developed a set of signature processes including cutting bonuses for bosses whose teams do not take enough holiday and listing departments whose staff work latest into the evening on the firms’ intranet, not as models of hard work, but to sanction them for not working efficiently enough. These are bold steps for one of the country’s most culturally conservative conglomerates, operating in a business environment characterised by traditional, hierarchical structures and persistent presenteeism. However, it has become a signature process by embedding the organisation’s values and aspirations.

These signature processes have helped Hyundai Capital and Virgin differentiate themselves from other organisations. During the Masterclass, delegates reflected on the signature processes that would define their performance management systems, including being colleague-led to reflect the adult-to-adult relationship that the firm encourages, adapting the terminology used to refer to contribution and impact to better reflect the values of the organisation.



KEY MESSAGES AND CONCLUDING REMARKS

There is no one best practice approach to advocate when it comes to performance management. Instead, organisations are tasked with crafting an approach that fits their particular context, culture and values, drawing on the good practices of others, but more importantly, developing signature processes of their own. Our research on this theme has drawn together the experiences of executives from a range of industries, from technology to professional services. Through the Focus Group Calls and extensive secondary research, we have identified three next steps in transforming performance management systems:

i. Challenge assumptions

It is clear from the research that the assumptions underlying many current approaches to performance management no longer hold. Traditional families have given way to dual career couples, particularly among the high skill, high income groups. The amount of leisure time people have and the way in which they spend it has become more complex. Those in the most affluent sections of the workforce are now spending more time working and in active parenting, resulting in a greater diversity of working styles and preferences. These societal shifts mean that organisations can no longer assume that their workers are sole bread-winner, full-time employees. Instead, they must develop performance management systems that are agile enough to meet the needs of each individual and develop their performance.

ii. Go back to first principles

One of the greatest concerns we heard during our research for this theme was that in many organisations, the CEO and leadership team did not use the outcomes of performance management in decision-making. Despite the number of hours and amount of energy dedicated to performance management, it is not viewed as critical information by those at the top. This requires organisations to go back to first principles and articulate exactly what it is that performance management in their organisation should achieve and how it can meet the needs of many stakeholders. What is its purpose and how can this guide its reinvention?

iii. Develop signature processes

A company's performance management approach is an important opportunity to achieve differentiation and to communicate the values of the organisation. While emulating good practices can help an organisation keep pace with others in the industry, looking to its history and values can lead to the development of unique processes that advance its competitive position. This reinforces the importance of the performance management process as a signal to people within the organisation of the behaviours that are expected and rewarded.

The next two to three years will be an important time for many of the organisations that are in the process of transforming or embedding a new performance management approach. Significant changes such as the removal of ratings and an increased focus on future-oriented approaches will likely impact the working cultures in many organisations. We look forward to analysing the results of these changes and sharing them as part of the Future of Work Research Consortium.



Emma Birchall, Head of Research – Future of Work

CASE STUDIES



Case study: Performance Management and Reward at KPMG UK

In 2013, KPMG UK undertook a review of their people agenda to address low engagement scores and dissatisfaction with existing performance development processes and reward strategy. As part of the wider shift in the people strategy (under the headline, 'Our Deal'), the UK firm made a substantial change to the way they assess, develop and reward performance, removing annual performance ratings and redesigning their reward approach.

The Business Case for Change

Like many Professional Services firms, KPMG UK had traditionally relied on a guided distribution approach to rating the performance of colleagues. This approach involved assessing a person's performance relative to their peers and setting the expectation that the distribution of ratings would broadly fit a bell curve. The result was several hours of rating calibration meetings twice a year, the distillation of an individual's performance into a single and simplistic rating (1 to 5), and a conversation between the line manager and employee that focused more on the rating assigned than on their actual performance and the feedback that would help them improve and develop. The bell curve approach to distribution also meant that, by definition, the majority of colleagues would be told at the end of the process that they were 'average' – by no means a positive message to a workforce of highly skilled professionals accustomed to outperforming.

By 2013, this system was showing signs of tension. Colleagues were reporting dissatisfaction with performance management when responding to engagement surveys. In particular, they were unhappy with the quality and fairness of the feedback they were getting. They did not all feel that the ratings accurately reflected their performance against the expectations set and were therefore concerned about the fairness of bonus distribution, which was based largely on the ratings. This concern was particularly apparent among the vocal millennial segment of KPMG UK's workforce who were increasingly challenging an approach that, according to former UK People Director, Colm Coffey, they did not buy into.

Reinventing the Colleague Experience: KPMG's 'Our Deal'

These changes to the performance management and reward processes were part of a wider restatement of 'Our Deal,' a complete overhaul of the firm's relationship with colleagues intended to bring about a more transparent, empowered and adult-to-adult affiliation. They centred on three key changes:

- Replacing performance ratings with 'Honest Conversations'
- Creating a one firm profit share and using salary as the primary lever for reward
- Maintaining discretionary bonuses for top grades only

KPMG UK ensured that the new approach would be experienced as intended by creating a team of 'People Leaders.' This group of high potential staff were responsible for coaching people in the implementation of the new approach and ensuring the rhetoric matched the reality.

Source: On-site interviews

Read the full case study at www.fowlab.com/library



Case Study: Reinventing Performance Management at Microsoft

Microsoft is changing the way it does business, and with a new CEO, Satya Nadella, seeking to facilitate a culture change, a new approach to managing performance and development was needed. Where the old model had been focused on individual performance and rewards and promoted a competitive environment, the new model would focus on 'impact' and build a sharing culture.

The new model was a move away from the bell curve and forced distribution approach commonly used by large organisations and towards a system that recognises and rewards collaborative, team-based ways of working. Microsoft hopes that the new system not only enhances skills and output, but also creates a more collegiate environment whereby individuals are motivated to share ideas and practice in an open, transparent culture.

Microsoft has set three major new goals for the performance management system:

- Delivering results through teamwork
- Continuous and effective feedback that helps employees to learn, develop and deliver results
- Rewarding contributions to business impact

The new model of performance and development is driving Microsoft's transformation from an internally competitive to a collegiate, collaborative environment. Based on employee engagement survey feedback, employee dissatisfaction has dropped from 40% to 17% and managers have reported a drop from 45% to 16%.

Currently, high satisfaction with the new model has been compounded by optimism for continued improvement. According to results from the employee engagement survey, people appreciate the new approach and feel that the new model aligns them more closely with the strategic direction and aspirational culture of the company. Finally, employees are motivated to work on how their actions will help the team and are aware that supporting and leveraging the skills and capabilities of others will boost their own business impact. However, it has been noted that there remains room to highlight and recognise contributions, leverage others and fully realise levels of 'impact'.

Both employees and managers noted improved levels of collaboration and a fall in negative scores for innovation and risk-taking.

By establishing an open, sharing culture and attempting to reward contributions to team deliverables, Microsoft have reinvigorated their culture and sent an important symbolic message about what is important. With rewards centered around better collaborative practice, individuals can adopt collegial behaviours and improve upon information and feedback from others, where honest discussions can help employees learn, grow and develop.

Communicating throughout the reward approvals process has been key in boosting employee engagement and output. Open and frequent discussions on development allow managers to remain sensitive to shifts in strategic practice or team goals and build incremental learning steps.

Read the full case study at www.fowlab.com



Case Study: Reinventing Performance Management with Rypple

While the context of work has changed dramatically, with globally dispersed project teams, real-time communication and complex matrix management structures, performance management processes have failed to keep pace. Annual and half-year appraisals continue to be the norm for many organisations, with employees reflecting on past performance in a one-to-one conversation with their line manager. The result is, according to HR Magazine's Jenny Hill, a painful, angst-provoking process that fails to motivate employees. The new challenge is for organisations to reinvent their performance management processes, and social tools like Rypple may form part of the solution.

Employees are increasingly exposed to advanced technology in their personal lives that enable them to communicate, collaborate and develop skills in real-time. However, workplace processes and technologies tend to build on ineffective processes when managing employees. Online social media approaches to performance management can help organisations meet the increasing demands of tech-savvy employees, particularly the digital natives of generation Y.

The Rypple platform brings performance management online. Employees set up their own profile and connect with peers from across the business on a regular basis. Rather than waiting for annual reviews, employees can request feedback immediately after an event – for example after a presentation at a meeting – and from a range of colleagues at various levels.

This allows organisations to:

- Turn performance management into a collaborative process: by replacing the one-to-one performance conversation, whereby a line manager provides feedback to a direct report, with a request for feedback that can be sent to multiple stakeholders, Rypple enables people to benefit from a range of opinions and advice.
- Make performance feedback real-time: Rather than waiting months to receive feedback on a particular piece of work or one's working style, social media approaches to performance enable an employee to receive valuable advice immediately after the event has taken place. This means they can act on it immediately and begin developing their performance.
- Empower employees to take control of their performance: online social media approaches to performance management enable employees to request feedback from whom ever they choose and at the frequency they would like. This allows them to customise their performance management experience rather than be subject to the one size-fits-all processes of their organisation.

Social media approaches to performance management provide an essential degree of flexibility. With up to four generations working together, across many cultures, organisations must become adept at building customisable processes that successfully engage and motivate employees.

This example shows us how platforms that have become an ingrained part of our personal lives can also be used to enhance our experience at work. New collaboration technologies are providing opportunities for us to challenge conventional ways of working and revolutionise processes, such as performance management, to make them more engaging and effective for all parties.

Read the full case study at www.fowlab.com



ABOUT THE FUTURE OF WORK RESEARCH CONSORTIUM

Over the coming decades, the world will be transformed by the host of emerging technologies that are shaping our interactions with work and connecting us with each other in ever more sophisticated ways and across ever more parts of the globe. These technological developments will play a continuous role in linking the regions of the world together as the force of globalisation brings goods, services, and indeed jobs to ever more areas of the world.

- Lynda Gratton, Professor at London Business School and founder of the Hot Spots Movement

Over the last seven years, the Future of Work Research Consortium (FoW) has brought together a global community of 90 of the world's most influential companies. By combining energetic live events with cutting-edge collaborative technology, we have connected more than 500 executives, all of whom are leading their organisations in preparing for the future.

FoW is widely acknowledged as one of the most innovative and collaborative forums for exchanging insights, models and concerns about the future of work. Led by Professor Lynda Gratton, FoW unites academic research and organisational practice to deliver a unique multidisciplinary experience. Members of the Consortium benefit from access to the very latest academic research and practical insights and have the ability to learn and develop in a way that is customised to their needs.

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