C E

Center for
Effective
Organizations

Can Technology Save Performance Management?
CEO Publication
G15-11(658)

Gerald Ledford
Senior Research Scientist
Center for Effective Organizations
Marshall School of Business
University of Southern California

Edward E. Lawler III
Director
Center for Effective Organizations
Marshall School of Business
University of Southern California

April 2015

Executive Summary

Performance management, long the most unpopular HR process, has received increased criticism in recent years. A few organizations have abandoned it while many are looking for ways to improve it. Performance management software offers new ways to address old challenges, including managing the process, cascading goals, gathering 360 feedback, creating a more frequent and dynamic process, improving calibration, and providing expert advice to managers. However, there are also a number of pitfalls associated with this new technology. Whether the technology leads to better performance management systems depends on how it is implemented.

Can Technology Save Performance Management?

Calls to transform or abandon performance management appear almost daily in the business press and the blogosphere. Perhaps the most comprehensive catalogue of the alleged shortcomings of performance management is John Sullivan's (2011) list of its "top 50 problems." Given the many calls to abandon performance management entirely (for example, Culbert and Rout, 2010), one might expect that companies have abandoned performance management on a mass scale. In reality, so far few have done so. Two longitudinal, large-scale studies have found that a very small percentage of companies actually have abandoned performance management (Lawler et al., 2012; i4cp, 2013).

We are struck by how many of the calls to replace performance management with something new are, in fact, calls for using what have long been considered best practices in performance management. Some examples:

- **Reviews should be done on more than an annual basis.** It is true that feedback needs to be given more than once a year, but we are still waiting to find the performance appraisal guide that advises supervisors not to provide feedback outside of the annual review. Indeed, the typical counsel is that a supervisor has done a poor job of keeping an employee informed if the employee is surprised by the review. Also, the annual process is no longer standard. It is commonplace to see programs that include midyear or quarterly updates.
- **Achievement should be goal-based.** Specifically, performance should be assessed against agreed-upon goals rather than arbitrary supervisor ratings, and that goals should cascade down the hierarchy to ensure alignment with organizational

direction. Advocates of these practices seem to be unaware that management by objectives, described by Peter Drucker (1954) more than 60 years ago, is widely practiced today.

- **Reviews should emphasize development as well as performance.** In reality, most reviews that have been used for decades do assess learning needs and call for development plans. Of course, organizations also need to appraise performance if they want to have some basis for differentiating rewards such as raises, bonuses, and promotions based on performance. A standard practice has been to ensure that development gets full emphasis by using "split roles in performance appraisal," which are separate conversations about development and performance that were popularized 50 years ago by Meyer et al. (1965) in their description of GE's process.
- **Performance should be not be assessed only by the immediate supervisor.** Because the supervisor alone may have a limited perspective on the employee's performance, there is much discussion about how to gain a more complete picture by obtaining data from peers, project managers, customers, and others. "Crowd sourced feedback" using social media, which we discuss below, is a new way to accomplish this, but the "360-degree feedback" approach has been widely used for this purpose for over two decades.

We see the recycling, relabeling, and repackaging of old practices as something positive in performance management, since it has focused attention on an important talent management practice that needs to be improved. The biggest challenges, however, are not in design but in the implementation. Maintaining compliance with the process by employees and managers and cost-effective administration are key. Here, there is considerable room for improvement in most organizations.

When it comes to implementation and administration, the current generation of performance management technology is a potential game changer. It increasingly is incorporated into comprehensive Human Capital Management (HCM) suites that integrate performance management with other HR processes such as learning and development and compensation. The list of prominent vendors is long, and includes Workday, Oracle HCM, SAP Success Factors, Cornerstone on Demand, Saba, Halogen, and many more. In fact, a massive upsurge in the purchase of new performance management technology is underway. Bersin by Deloitte (Jones et al, 2015) found that of companies purchasing new talent management software this year, 67% were planning to purchase performance management software, either for the first time or as a replacement for existing solutions.

Caveat: What Technology Can and Cannot Do

Technology can do many things that make performance management more successful. In particular, it can support many important performance management practices. However, it cannot substitute for effective supervisor or executive behavior. Effective management behavior is so important that it is possible, although inefficient, to have excellent performance management processes with good management behavior even in the absence of modern technology. What manager behavior is so important?

The most important predictor of effective performance management has always been, and will always be, whether there is honest, open, two-way conversations between managers and subordinates. Good performance discussions provide the employee with clear answers to the questions, how did I do? What do I do next time? How do I do it? There may well be differences of opinion on these questions that the supervisor and subordinate need to discuss and resolve.

Conducting a good performance conversation is easy to prescribe and hard to do. It involves specific supervisory skills as well as the will to use them. Technology can help build the skills. Will is hard to create and sustain and technology cannot build it. It depends primarily on the organizational context. Are supervisors rewarded for conducting good performance conversations and punished for failure to have them? Is the management culture supportive of this kind of behavior and intolerant of supervisors who refuse to do it? Do executives model this behavior up and down the chain of command? Having good performance conversations takes time and energy, and supervisors will find other things to do unless the organization demands that the display this behavior.

Potential Advantages of New Performance Management Technology

The new technology can affect nearly every facet of the performance management process.

Better Process Management. The most direct, yet potentially the most profound, advantage of the new technology is that it makes it possible for an organization to manage the performance management process much more effectively. First, the level of compliance, with requirements for the frequency of reviews, use of a specific review form, and distribution of ratings are much more obvious using the new technology.

Recently, a large financial institution found that only 57% of its supervisors conducted mandatory mid-year reviews, a finding that was shocking to executives. This pattern changed as soon as performance management technology was fully deployed. Supervisors could no longer hide noncompliance, because the reviews were completed electronically and cumulative data on review completions were available instantly to managers up and down the chain of command. No one needed to rely on the assurances of supervisors about whether reviews had taken place, and supervisors did not want their failure to meet commitments to be visible to executives.

Similarly, if an organization has requirements for the distribution of ratings or rewards (limits on the percentage of employee in top categories, the differentiation of pay increases within a group, overall budget for increases, and so on) it is very easy to determine if supervisors' decisions for the group are consistent with the guidelines. Finally, performance management software typically includes built-in reminders to ensure that both supervisors and subordinates perform the steps in the process according to the organization's timetable.

Fully realizing these advantages easily requires that the entire organization use a common performance management platform. The 2015 Bersin study found that 25% of companies use multiple systems. Consolidating the data across platforms is typically requires so much effort that it is not done.

Cascading Goals. A core aspect of goal-based performance management is the cascading of goals from executives to the lowest hierarchical levels of organizations. Cascading goals promotes strategic goal alignment throughout the organization and makes it possible for the organization to pivot in new directions quickly.

Cascading goals in performance management has been conducted manually for decades, but electronic systems are far faster, practical, and efficient. Rather than consulting a small book-sized list of corporate, business unit, departmental, and individual goals, executives and managers can publish their goals online and keep them current. This permits employees to set personal goals that are aligned with those of their managers and executives, as well as to see models of good goals and objectives. Second, managers can examine goals set throughout their organization to monitor goal difficulty and alignment, and take corrective action if necessary to adjust goals in their units. Finally, software can automatically populate the review form with the goals that were agreed upon in the prior review period, saving time and effort as well as eliminating debates about what goals were set previously.

More frequent, dynamic reviews. One of the most common criticisms of performance management is that an annual process is too infrequent and leads to a lack at corporate agility. Goals may need to change frequently in dynamic industries such as high tech. Employees need to hear how they are doing during the year, not just annually. This has led companies such as Adobe Systems and Microsoft to use more frequently (quarterly or semiannual) reviews that are less intensive than the traditional annual review.

Technology can facilitate frequent, dynamic reviews. An electronic system is faster for creation, search, and storage than a paper system. These systems typically facilitate frequent reviews by providing automated reminders that reviews are due and compiling analytic data that facilitate compliance. In addition, further updating goals is easy in an electronic system.

360 Feedback. Increasingly, contemporary ways of working make a performance management process based only on supervisor-subordinate conversations incomplete. For example, much work is performed in cross-functional groups and project teams. An employee may belong to many different teams in a given year, and the employee's immediate supervisor may belong to none of them. In addition, those who work in matrix organizations may have multiple managers, usually with a dotted line relationship to one or more of them. Finally, in team-based settings, the assessments of peers are important counterbalance to any tendency for employees to sacrifice teamwork in the interests of individual gain. Without collecting data from those with the most relevant information about the employee's performance, the supervisor has limited and biased data upon which to assess performance.

360-degree feedback has emerged as a way for the appraisers to collect systematic data from others with relevant performance information up, down, and laterally in the organization as appropriate. Raters may include project team leaders, dotted-line managers, peers, subordinates, and customers; as the term implies, performance feedback is collected from every direction. There are many different ways that such systems work in practice, but a common approach is for supervisors to be responsible for compiling, synthesizing, and summarizing feedback from all relevant sources.

This type of feedback process has been used for over 25 years, but it is far easier to conduct electronically than on paper. Automated systems make it possible to quickly define an appropriate sample of people to provide feedback, collect feedback in a common format where appropriate, and track completion of 360 reviews. If the rating system uses a combination of ratings for the employee's overall grade, the software can easily and automatically calculate composite scores.

360 Feedback on Social Media. A completely new type of 360 feedback has emerged in recent years, made possible by new technology: peer recognition using social media. The "crowd-sourced feedback" approach is fundamentally different than conventional appraisals

(Mosely, 2015). The new social media peer recognition systems permit anyone to recognize anyone else in the organization, at any time, over any computing device (including a smart phone), usually in free-form text. The recognition is for specific behaviors that the observer has witnessed. Software-as-a-service vendors such as Globoforce and Achievers offer impressive prepackaged recognition systems, and a number of large companies including Google, Microsoft, and Pfizer have developed their own systems internally.

A tremendous advantage of the social media-based recognition systems is that they offer an on-going record and commentary on the accomplishments of employees. Research has established that the recency effect is a problem for accurate ratings. Like Academy Award voters, supervisors remember recent events much more clearly and vividly than they remember more distant events. Proven solutions to this problem, such as having supervisors maintain a diary on each employee to record observations throughout the year, are not very practical in a world in which supervisors and employees constantly feel overloaded. Reviewing peer feedback on social media prior to the review can help the supervisor remember the employee's contributions throughout the review period, and can provide data about how others perceive the employee's performance.

We know of no formal research on the use of recognition on social media as a tool in performance appraisal, so this approach is not yet proven. There has been no attempt to assess the effectiveness of event-based recognition compared to conventional appraisal. Indeed, in many cases the behaviors being recognized are not about performance directly. The Globoforce system, for example, typically is based on behaviors that are consistent with the organization's values and philosophy – which are important in setting culture but only indirectly related to performance. Finally, what happens if there are significant discrepancies between ratings form supervisors and from peers? How does the employee make sense of the discrepancy, and which set of feedback is taken more seriously? We do not know at this point.

Better Calibration. Calibration meetings have become an important part of many organizations' performance management systems during the past 20 years. They help solve a serious problem in conventional appraisal. The supervisor, who may be familiar with the performance of only a small number of subordinates, may have little or no idea how the performance of those in the supervisor's group compares to the performance of others in the organization.

Calibration meetings are attended by multiple supervisors and managers and assess a large rating pool (say, 50-75 people). This permits managers collectively to determine the underlying performance distribution and to provide appropriate differentiation of rewards (bonuses, raises, and development opportunities) in the unit. Higher-level managers also gain insight into the strength of the talent pool, and supervisors assimilate organizational standards for performance ratings. In organizations that use the calibration meetings approach, the employee usually receives some performance feedback before the calibration session, and the supervisor notifies the employee after the calibration meeting about a final performance rating (if ratings numbers are used) and the specific rewards that the employee will receive.

Technology can save an enormous amount of time, energy, and paper in the calibration process. Electronic records are much easier to display, search, and sort than paper reviews. The software can provide immediate data on the level of differentiation and the consequences of a set of ratings for rewards, budget implications of a proposed distribution of ratings and consequences, and data on how one calibrated group compares to another. Decisions can be transformed into compensation and other consequences easily, and the results can be analyzed so that managers can make adjustments on the spot.

Expert Advice to Supervisors. One of the most important changes in automated performance management is the increasing intelligence of the software. Nearly all automated packages are moving toward providing extensive advice to managers on different steps. Many programs analyze the compensation market position of individual employees and warn supervisors if a particular subordinate is at risk of turnover because he or she is too low in the range. Most programs automatically project the effects of distributions of performance ratings on compensation and promotion budgets. A newer type of advice uses keywords to help the manager translate developmental needs into training and development programs that tap the organization's specific learning opportunities. Because the learning programs of large organizations can be quite complex and diverse, individual supervisors are unlikely to be personally familiar with all of the opportunities available, and the software helps them to efficiently match needs and available programs. Many systems also encourage follow-up by tracking learning activities and results.

The expert advice built into the software can help supervisors better coach employees and even help write performance reviews. Many systems offer suggestions and sample phrases for common situations covered in a performance review. They help supervisors learn how to write more effective reviews. This skill may become increasingly important as more organizations adopt "ratingless" appraisals, in which the employee's performance is never evaluated on a specific scale. In ratingless appraisal, the employee is simply given feedback and a set of consequences without ever receiving a rating number or label.

By facilitating management of the process, cascading goals, more frequent and dynamic reviews, 360 feedback, and calibration, technology can help address many concerns about whether performance management is a fair and effective HR system. As the technology becomes more intelligent, this may be even more true in the future.

Potential Pitfalls of the New Technology

Despite the advantages of performance management technology, it has a number of pitfalls as well. Most of the problems come from using technological capabilities in ways that are not effective.

Too little face-to-face interaction. Technology makes it possible to complete performance reviews electronically, with little or no face-to-face discussion. In one global technology company, a middle manager complained to one of the authors that he was being asked to complete performance reviews in video meetings over the Internet for people he had never met. Company executives saw no problem with this situation. The lack of face-to-face discussion probably makes the discussion of sensitive issues more difficult. It is not clear whether it is possible to conduct an effective remote review in difficult cases, such as for an underperforming employee who is put on a performance improvement plan.

The compliance monitoring capabilities of the software are based only on whether electronic forms have been completed, not whether performance conversations occurred (even electronic ones). Prior research at the Center for Effective Organizations has shown (Mohrman et al., 1989) that supervisors and subordinates often disagree about whether the review ever happened. Attempts by supervisors to game the system aside, this often happens because supervisors make the performance discussion so cursory and informal that the employee does not realize that the meeting was a performance review. To overcome this problem, it is important that the system record statements from both supervisors and subordinates that the review meeting has been conducted.

360 Feedback Overkill. Technology can make it too easy to overdo 360 feedback. One health insurance executive complained to us that he was asked to provide performance feedback on 35 people, many of whom he did not know very well. It takes very little effort to develop a long list of people who are asked to provide 360 feedback. This creates many problems. Reviewers resent the imposition on their time and may give no feedback or only perfunctory ratings that are not helpful to the employee. 360 feedback may be discounted completely because it is seen as not detailed or meaningful, and coming from reviewers who are not knowledgeable, an organizational culture can develop in which the process is not taken seriously.

Technology can help overcome the tendency to commit 360 overkill, not just foster it. Asking too many people for feedback can trigger notifications that the number is excessive. Raters can be asked to provide feedback on only parts of the appraisal form that are relevant, because each person in a 360 review may be unable to comment on the performance, competencies, goal attainment, and developmental needs of the employee, and asking for a complete review is burdensome and leads to poor data. Finally, the ability of the software to calculate composite scores should not replace the judgment of the supervisor, who is in the best position to weight different types of feedback appropriately and to resolve discrepancies more aptly. Replacing judgment with simple averages makes review scores easier but less valid.

Ratings Over-Engineering. Organizations, especially those whose leadership comes from engineering or other analytical backgrounds, tend to make performance appraisal ratings too complex. We know of one aerospace firm in which the appraisal is on a 150-point scale (15 attributes, each on a 10 point scale). Managers insist that someone with a score of 125 is superior to someone with a score of 124, even though the difference could never be defended in court in the case of adverse impact on protected classes of employees.

The point: just because it is possible to create very complex appraisal ratings and scoring systems does not mean that this is the best approach. In most cases, supervisors need to make a single rating that takes into account many diverse pieces of information and produces a two or three point rating (e.g. Needs Improvement/Successful/Outstanding). In the increasingly popular ratingless appraisal systems used by companies including Adobe Systems, REI, and Patagonia, even that rating score is not used. In an era in which pay raises are averaging 3% annually, there is no need for a hugely complex rating system with many points of differentiation that cannot be translated into meaningful consequences.

Loss of confidentiality? A problem that concerns us for the future, but is not yet evident, is the potential for the loss of confidentiality in the appraisal process. This could have a chilling effect on frank and open dialogue, at least to the extent that the dialogue is captured electronically. The experience of recent years gives us little hope that companies will be able to maintain the confidentiality of the review process indefinitely, because companies have not been able to keep any other type of data secure. There has been rampant theft of corporate trade secrets by hackers from China and Russia, hacking of millions of customer credit card numbers in some of the largest corporations in the U.S., and the whole-scale disclosure of the executives' emails from Sony Pictures by North Korea. Internet sites like Vault.com already post proprietary information such as employee opinion survey results and salary data. Although there have been no major breaches of performance management data that we know about, it would appear to be only a matter of time before performance review data hit the Internet as well.

Our advice to managers and employees is to be vigilant about what they write in performance reviews. They should act as though whatever they write may appear online someday, because it may. This does not mean that reviews should be sugar coated. A favorite tactic of attorneys representing employees is to argue that an employee was unfairly treated if fired or denied promotions or pay increases because they had received years of reviews showing good performance. Thus, the accuracy and clarity of messages matter as much as tone.

Conclusion

Can technology save performance management? We see many advantages to new performance management software, and on balance the advantages strongly outweigh the disadvantages. However, software cannot replace the need for honest, open, two-way performance conversations. There is no way to avoid the emotions that are part of the process, and some performance assessments will always be contentious as long as people are involved. Yet, the current generation of software can address many important concerns about the performance management process.

The way in which new performance management technology is implemented and used ultimately will determine whether the advantages outweigh the drawbacks in any organization. When implemented well, it can help foster a more efficient, timely, user-friendly data-based process that removes much of the drudgery of performance management, while encouraging better performance conversations. When implemented poorly, it will reinforce the negative patterns that make performance management a despised HR process. The technology can enable highly mechanical ratings, appraisal language, and calibration, leading to a highly efficient but empty and meaningless process that is not worth the investment. Supervisors can also find increasingly sophisticated ways to display phony compliance, staying ahead of the new monitoring tools in the software. As always, executives set the tone and organizational culture and it will determine the path that organizations travel with the new generation of performance management technology.

References

Culbert, S. and L. Rout. 2010. *Get rid of the performance review: How companies can stop intimidating, start managing - and focus on what really matters*. New York: Business Plus.

Drucker, P.F. 1954. *The Practice of Management*. New York: Harper & Row.

Institute for Corporate Productivity (i4cp). 2013. *Performance Management 2013: Still Waiting for Real Change*. Seattle, WA: i4cp.

Jones, K., S.S. Garr, and S-A. Cooke. 2015. *The Guide to Performance Management Software 2015*. Oakland, CA: Bersin by Deloitte.

Lawler E.E., G.S. Benson, and M. McDermott. 2012. "Performance management and reward systems." *WorldatWork Journal*, 20(4):19-28.

Meyer, H.H., E. Kay, and J.R.P. French, Jr. 1965. "Split roles in performance appraisal." *Harvard Business Review*, 43(1):123-129.

Mosely, E. 2013. *The Crowd-Sourced Performance Review*. New York: McGraw Hill.

Mohrman, A.M., S.M. Resnick-West, and E.E. Lawler. 1989. *Designing Performance Appraisal Systems: Aligning Appraisals and Organizational Realities*. San Francisco: Jossey-Bass.

Sullivan, J. 2011, Jan. 31. The top 50 problems with performance appraisals. *TLNT*. http://www.tlnt.com/2011/01/31/the-top-50-problems-with-performance-appraisals/.