FROM "MEH" TO MAGIC
HOW TO MAKE PERFORMANCE MANAGEMENT WORK FOR EVERYONE

Thought Leadership

Show me a company with a performance management (PM) approach that leaders value and find effective—and where employees also find it easy, fun, and rewarding. Anyone?

This isn't due to a lack of effort or innovation; many companies have tried to improve their PM systems, till now, regretfully, with lackluster results. Transforming PM is challenging for several reasons, but there are also factors that explain why some organizations have been more successful than others.

Our 2021 research determined that traditional approaches to performance management often fail to improve future performance: what does it take to build a feedback culture? The good news is that you do not need a magic wand to build a feedback culture and get more value from your performance management—you just have to go about it in the right way.

We have found these four elements separate the companies that are truly successful:

1. Clarify the purpose of your PM process and align it to deliver on that purpose

2. Focus your PM process on enhancing employee experiences (EX)

3. Avoid the "Do More" or "Perform Better" mentality

4. Be intentional about the behaviors and culture you need from your PM

Clarify the Purpose of Your Performance Management Process

What is the purpose of your approach to performance management? How clear are you on what you need your PM process to accomplish?

Defining a purpose for performance management is not a theoretical exercise; it is often key to unlocking untapped value. For example, Korn Ferry research suggests that shifting a workforce from "moderately" to "highly purpose-driven" can raise EBITDA by 12% to 16%, underscoring the power of purpose.

If you are like most companies, the purpose of your PM process is typically not well defined but often revolves around driving accountability, rewarding past performance to differentiate between high and low performers, and identifying key talent and those whose performance needs improvement.

The problem with this approach is two-fold:

1. **The focus is often not on continuously improving future individual, team and organizational performance.** This lack of focus shows that we have lost sight of what PM should be about— improving future performance. If this isn't the purpose of your performance management approach, then what is your PM process there for?

2. **We tend to overload our PM process with too many, often competing requirements.** For instance, the link between PM and rewards outcomes can lead to an excessive focus on rewards rather than on enabling future performance. Performance appraisals often center around evaluating past performance to determine bonus sizes and pay differentials between high and low performers, rather than focusing on how employees can improve their performance in the future.

Many companies fixate their improvement efforts on making the PM process more agile, simplifying tools and discussing whether a no-rating or 3, 4, or 5-point scale is best. While these may be part of the solution, they often distract from the key problem. Without a clear purpose, we don't know what we need from our performance management system, and as a result, we struggle to design the right solution.

A practical way to define your PM purpose is to ask yourself a few questions:

- What are we trying to accomplish with our PM? It should exist to serve something of value—what is that?

- What unique value must our PM deliver that we cannot get from another process?

- Not all performance is equally important, so where in our organization is the most critical value created, and how do we ensure our PM supports that?

- How do we assess the effectiveness of our PM process? How do we know if it is working well or not so well?

If you have problems answering these questions, it sometimes helps to turn them around; ask yourself what would not happen if we didn't have our PM process? What would we miss or be unable to do in that case? If your answer is "not much" then it is likely that your PM needs an upgrade to deliver more value.

It all comes back to having a clear and shared purpose and then designing and simplifying your PM to deliver on that purpose—nothing else.

Focus Your PM on Enhancing Employee Experiences (EX)

Most PM approaches are not regarded as easy, fun, or rewarding because they often lack that design objective. But imagine if they did. There is value in rethinking PM so that it has a greater focus on employee experiences: How your employees feel and experience their work directly impacts retention and engagement as well as how they treat your customers. If you want a better customer experience, then focus on intentionally creating and developing the employee experiences that support that goal.

The question then becomes: What has the biggest impact on employee experience? Research from Gallup indicates that the key lies in how people interact with their people leader and notably around four specific PM-related instances:

- Setting and aligning expectations

- Providing feedback to enable better performance

- Supporting employee growth and career development

- Rewarding performance

In other words, to improve the employee experience, focus first on improving the quality of conversations surrounding these topics, such as in performance feedback and career development discussions.

Organizations often over-complicate performance management, but there is no need to. One of the key ingredients to getting more value from PM is getting these few conversations right. If your PM process isn't delivering the value you need, it may be worthwhile to first consider whether you have defined what employee experience you need to attract, engage, and retain the right talent. When you have that, aligning your PM to deliver it becomes much easier.

KORN FERRY

BE MORE THAN

Avoid the "Do More" or "Perform Better" Mentality

Korn Ferry's research on employee well-being and burnout rates tell us we have a problem in how we organize work and drive performance within organizations. Our current approach has significant and negative impact on results: In the United States alone, Korn Ferry estimates this number to be close to $300 billion (about $920 per person in the US), when combining health costs and lost revenue due to absenteeism, disengagement, and poor performance.

In our pursuit of results, we seem to only have one solution: push for more. However, constantly increasing targets and asking people to be resilient and double their efforts is not sustainable for the employee or the organization. We have clearly reached the limits of what our people can handle, and unless we change our approach, we will see the problem worsen and eventually hamper our future growth.

In response to rising burnout rates, many companies have launched many well-intended initiatives. While these efforts are commendable, their impact on employee well-being has been less than impressive. We believe a more effective approach lies in rethinking PM and enabling managers to improve their team's capacity.

Korn Ferry research indicates that improving people's capacity can improve their performance significantly. Focusing on building your people's capacity is core to improving their performance— and doing so without them burning out in the process.

To conceptualize capacity, think of your employees and the way coaches think about their teams. Coaches constantly assess their players' fitness, injury status, and mental load, and base their demands and weekly lineup on this data. They are focused squarely on winning, but they don't merely push their team to just run faster or jump higher: instead, they recognize the limits of their team's capacity and look for ways to improve it through the right support.

Managing your people's capacity effectively means aligning what you need to get done with what your team can realistically handle and then choosing the right "players" for different kinds of work. A key ingredient for success is creating a psychologically safe environment where employees feel comfortable discussing their capacity.

Unless you are telepathic, there is only one way to determine your people's capacity: talking with them. Encourage them to be open about whether they are below, at, or above their limit, and adapt your requests and expectations accordingly.

We help leaders assess and enhance their team's capacity and to integrate this practice into performance management. When this approach extends across the organization, with leaders and employees collaborating to improve capacity, it drives lasting and meaningful performance improvements.

> Building a performance culture may seem like a complex undertaking, but **it is about getting a few things done right** and in the right order.

KORN FERRY

*BE **MORE** THAN*

Be Intentional About the Behaviors and Culture You Need From Your PM

Many companies aspire to cultivate a performance culture, yet few have a clear and shared understanding of what that means in practice. Even fewer can determine if their PM approach builds the desired culture and behaviors.

The challenge is straightforward: Without a shared, measurable definition of "performance culture," how can companies know if what they do helps to deliver it? Research by Korn Ferry's partner CultureScope shows that few organizations understand if their PM systems promote the right behaviors. Even those with a clear vision of their desired culture often find that their PM approach inadvertently drives unwanted behaviors.

In one client case, for example, CultureScope's analytics showed that employees were 18 times more likely to gain an "Excellent" performance rating in the cases when certain personal behaviors, such asSelf Focus, Empower, Achievement, and Tactical, were present. Of the desired behaviors, two—Empower and Achievement—aligned with the target culture. However, of the four behaviors, two—Self-Focus and Tactical—undermined the desired culture yet were rewarded by the company's PM system.

The real challenge is that this PM approach delivered and rewarded unintended outcomes—a common issue in many companies that often goes unnoticed.

When working with clients to improve their performance management process, a good starting point is to understand the behaviors and culture that the current system promotes. With this data, we can design a new PM system that addresses any existing gaps to the behaviors and culture you are looking for. While this level of detail may seem complex, it's manageable with the right data to guide the process.

A common challenge we often face is confronting deeply held beliefs about the "right" PM approach, such as the type of goal setting process or the necessity of performance ratings. These beliefs are often unsupported by research and can lead to unintended consequences. By relying on data, we can challenge these assumptions and create PM solutions that are practical and effective, providing a clearer understanding of the potential outcomes of each option.

Turning Chaos into Clarity

Building a performance culture may seem like a complex undertaking, but it is about getting a few things done right and in the right order.

Those few things often have little to do with redesigning and enforcing your PM process or (re)training your people and much more to do with how you go about building the performance culture you desire. That is not done by "flipping a switch"—the most renowned PM transformations were started eight years ago and none of them will claim that they are there yet.

In our experience, you can be successful faster if you start by clarifying the purpose of your PM process and focus on creating an employee experience that enables performance, and then, align everything and everyone toward that. By doing so, we are one step closer to unlocking the best of our people and processes.

Authors & Contributors

Marco Mingolla
EMEA Practice Lead
People Strategy & Performance Solutions
Korn Ferry

Tom McMullen
Senior Client Partner
Korn Ferry

Jacquelyn Dekker
Senior Client Partner
Korn Ferry

Roger Philby
Senior Client Partner
Korn Ferry

About Korn Ferry

Korn Ferry is a global organizational consulting firm. We work with our clients to design optimal organizational structures, roles, and responsibilities. We help them hire the right people and advise them on how to reward and motivate their workforce while developing professionals as they navigate and advance their careers.