



Lifting the Bar

5 Ways Performance
Management Will Transform

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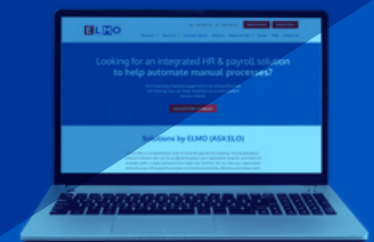
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Introduction

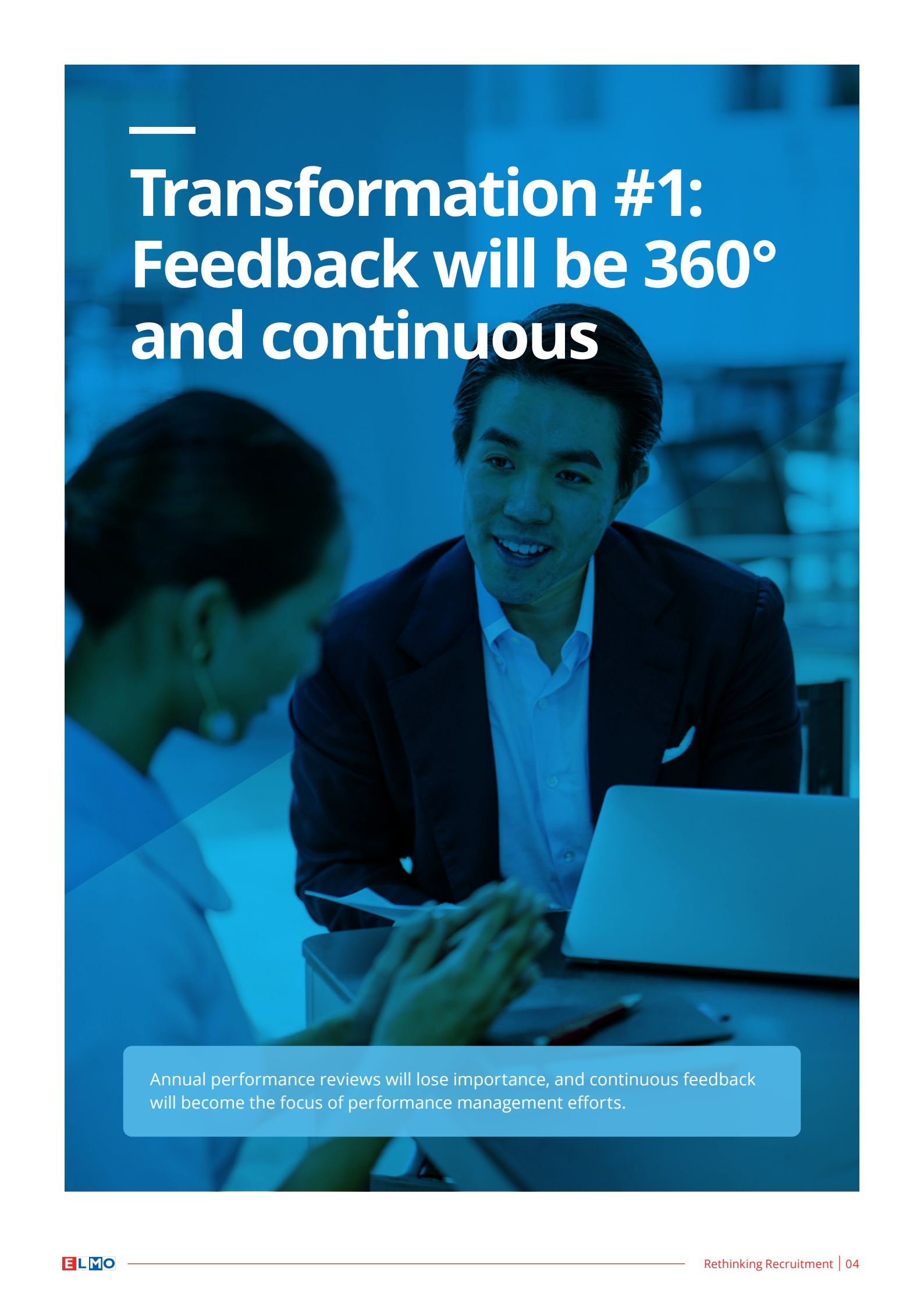
Would you recommend your organisation's existing approach to performance management? For most, it's likely that such a question would result in a shrug of the shoulders and this firm response: "Definitely not!" This much maligned practice has long been overdue for an overhaul. With almost all work practices changing dramatically over the past two years, now is the time to consider the future of this critical component of HR's remit.

Performance management isn't as straightforward as it once was. For decades, organisations have been able to supervise employees via a traditional working model steeped in tradition – that is, the expectation that the majority of white-collar workers be onsite, from 9 to 5. Attendance was a key indicator of performance – managers could quantify hard work with hours worked.

Since COVID-19, things have changed. What happens in a hybrid environment where employees are working remotely, teams are geographically dispersed or spread across multiple time zones, and therefore are not under the noses of their managers? The answer has a lot to do with shifting perceptions around performance when workers aren't onsite, and how perhaps managers mistake "busyness" for productivity and high outputs.

Performance management will likely shift focus over the coming years. This eBook will look at 5 ways it will transform:

1. Feedback will be 360° and continuous
2. The focus will be on contribution, not just performance
3. Goal setting will be timely and flexible
4. Performance management will be project-based
5. There will be emphasis on the "whole person"



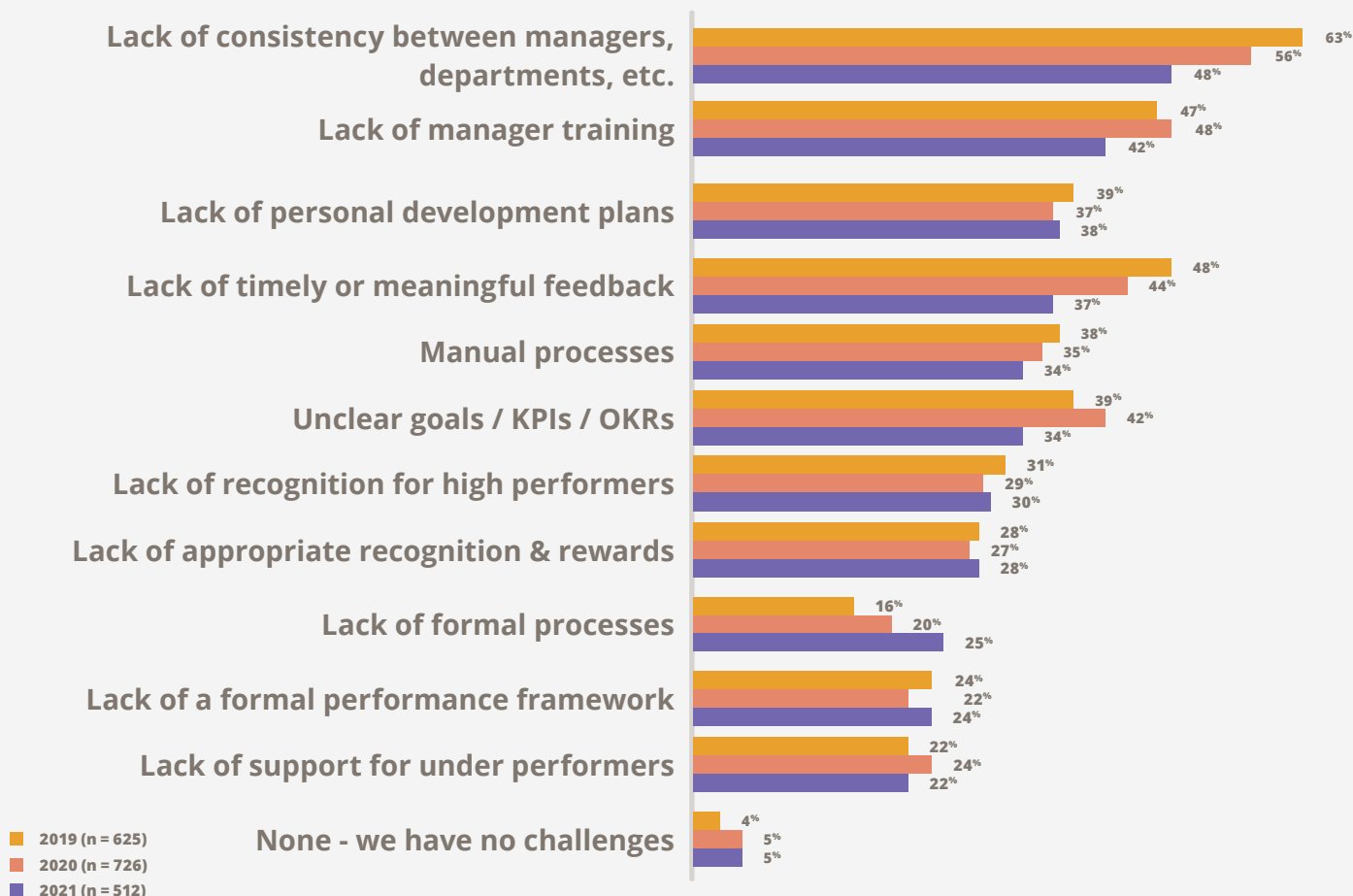
— Transformation #1: Feedback will be 360° and continuous

Annual performance reviews will lose importance, and continuous feedback will become the focus of performance management efforts.



According to ELMO's [2022 HR Industry Benchmark Report](#), which is based on a survey of over 1500 Australian and New Zealand HR professionals, most organisations conduct performance reviews annually (28%) or bi-annually (26%). However, this traditional once or twice-a-year format is largely ineffective: ELMO's report identified key performance management challenges, one of which was 'lack of timely or meaningful feedback'. See the full results in the graph below.

What are your organisation's key performance management challenges?



A fundamental flaw of traditional performance management approaches is that feedback is rarely given outside the context of an annual review. In a hybrid environment, if an employee works remotely and is geographically distanced from their manager, they may find it difficult to address any concerns or needs they have relating to their role outside of their scheduled performance reviews. As a result, they may only have meaningful conversations with their manager once or twice a year.

This is hugely problematic. According to PwC, 60% of employees (and 72% of millennial employees) want feedback daily or weekly.¹ A study by Adobe revealed that 80% of office workers want immediate, in-the-moment feedback.²

Despite this, findings from Gallup show that only 19% of millennials say they receive routine feedback at work, and only 17% report that they receive meaningful feedback.³ Considering that millennials will make up 75% of the global workforce by 2025, this is an important insight.



Why it's time for change

Two other factors that inhibit the effectiveness of traditional approaches, especially today, are the evolution of organisational structures, and bias-filled processes. See below.

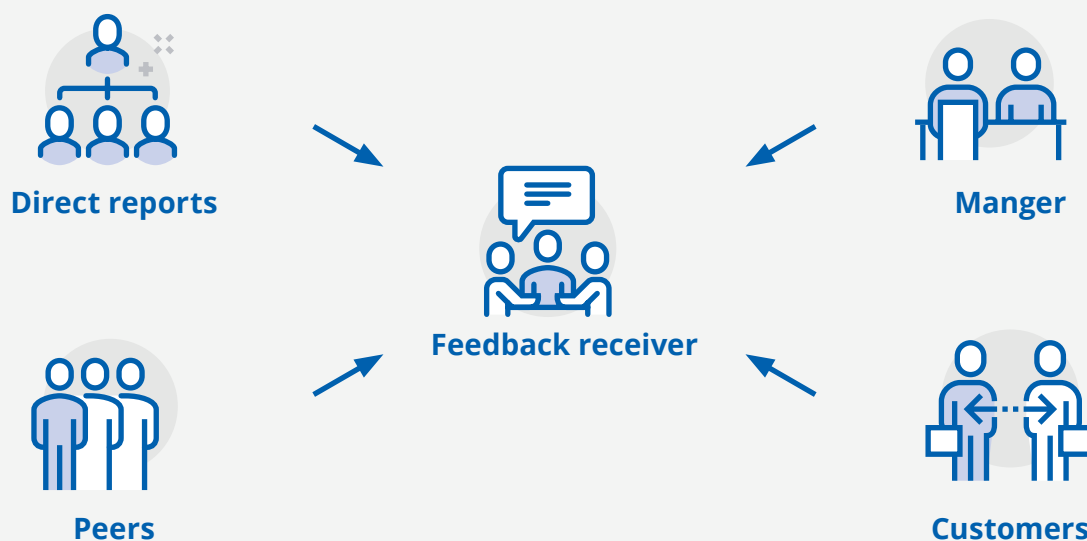
- **Evolving organisational structures:** Organisations no longer operate in vertical structures with clear hierarchies; reporting lines are more complex, and matrixes are interdependent. Employees are working multiple roles, across different teams/departments, with several (project) managers a year. This makes it extremely difficult to track an employee's performance throughout the year and make an accurate assessment of performance at annual review time.
- **Bias-filled processes:** COVID-19 has exacerbated bias in multiple ways. Managers may have proximity bias, where employees in proximity (i.e., in the office) gain prominence and favour from those with influence. Another common bias is recency bias, whereby a manager, though not consciously, only remembers the recent performance of an employee and does not take note of all performance since the last review. And if reviews are just once a year, a lot of hard work goes unnoticed, which damages engagement and hampers retention efforts. If inequity and bias are left unacknowledged and unaddressed, organisations may risk exposing themselves to discrimination claims. The question is: are managers being upskilled and empowered to become aware of and minimise the opportunity for bias?

¹. "6 ways to reinvent your company's performance management", Forbes, 2020 ². "Performance reviews get a failing grade", Adobe, 2017 ³. "What 'meaningful feedback' means to millennials", Gallup, 202

With a clear correlation between higher level of motivation and timely, accurate feedback, more managers will seek ways to give effective feedback. As such, many organisations are realising they need to close the gaps in performance management and are swapping out traditional annual reviews for frequent check-ins or continuous 360° feedback.

360° feedback stems from Agile Methodology and is unlike traditional feedback formats whereby feedback flows from the top-down only. It is feedback collected from multiple sources: from managers, subordinates, and peers and sometimes even customers and suppliers. Conducting feedback in this manner has several benefits: increasing self-awareness, re-affirming important messages, and increasing the likelihood of change in the case of negative performance feedback.

Gaining a holistic view of employee performance:



The 360° approach has many benefits:

- It provides a well-balanced view of the employee's skills and behaviours
- It increases self-awareness, shining a light on any blind spots the employee or their direct manager may have
- It reduces the chance for managerial biases to occur
- It improves working relationships, since it creates more of a dialogue between manager and subordinate, rather than the feedback flowing one way
- It creates an open culture in which everyone feels their opinion is valued – which is never more important than in an rapidly changing environment

Further information

For more insights on Agile Methodology and the role of 360° feedback, download ELMO's eBook on [performance management in an Agile world](#).

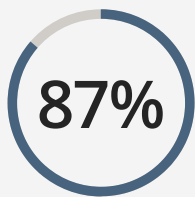


— Transformation #2: The focus will be on contribution, not just performance

'Normal' is a moving target for organisations, which presents challenges for managers looking to balance business outcomes and expected behaviour.

COVID-19 – and indeed hybrid work – has moved the dial on the ‘input vs. output’ dilemma that many leaders have struggled with. It’s that persistent mindset of, “if I can’t see you, you’re not working”. Gartner talks about this, predicting that performance management will become less about outcomes and more about enabling/empowering employees to do a better job. This means the role of managers will change from being the “productivity police” to mentors/guides/career enhancers.

Changes may involve piloting new approaches that focus on employee contributions and team performance and reducing opportunities to hide poor performance, while clarifying opportunities for performance improvements. It’s important to remember that quantitative key performance indicators (KPIs) such as hitting sales targets only tell part of the story. Perhaps an employee has helped onboard or



87%
of HR leaders were considering changes to performance reviews in the coming 12 months³

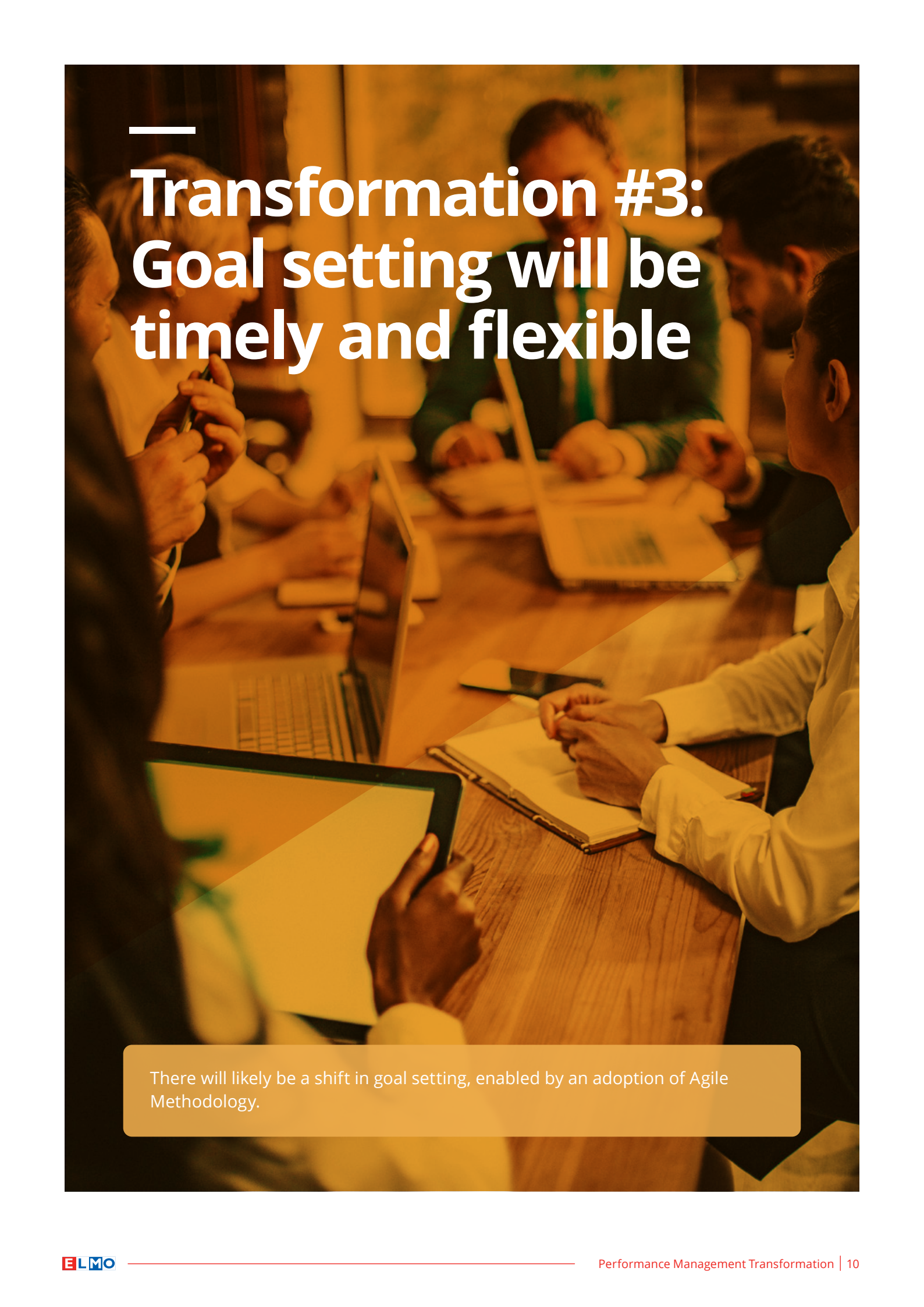


22%
of surveyed organisations asked managers to focus more on behaviours than outcomes when assessing performance in 2020/21⁴

mentor a new employee; perhaps they’ve documented workflows and processes; perhaps they’ve organised team social events. There are multiple ways to judge “performance” beyond hitting targets.

It's important that managers be equipped for various types of conversations regarding employee performance and be able to recognise the contributions made by employees outside of rigid quantitative KPIs.

4. Gartner coronavirus polling on performance management (1 June 2020)

A group of business professionals are gathered around a wooden conference table. Some are looking at laptops, others at tablets. The scene is dimly lit with a warm, orange-toned light. A semi-transparent orange triangle is overlaid on the right side of the image.

— Transformation #3: Goal setting will be timely and flexible

There will likely be a shift in goal setting, enabled by an adoption of Agile Methodology.

Another challenge pertaining to the ineffectiveness of performance management (as discussed on page 5) is that goals and feedback are not reflective of today's expectations. Managers may be assessing employees against objectives that don't consider the impact of COVID-19 on productivity, employee morale, and resourcing.

Leaders need new ways to track and encourage high performance that considers the pressures employees are facing, and perhaps measure different perspectives of performance. It is therefore important that goals are agile, feedback is ongoing, and metrics and incentives are flexible. This will be especially important for organisations that have adopted – or are adopting – Agile practices.

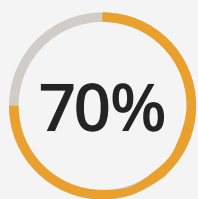
A word on Agile Methodology

Agile is a philosophy, a culture, and a set of management practices. Put simply, the Agile approach is a collaborative way of working that responds quickly to changes in the marketplace or environment.

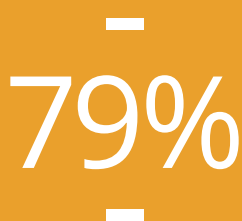
In practice, Agile principles grant teams more flexibility to make decisions about how best to work to achieve their goals, which is especially important in today's rapidly changing business environment.

With Agile performance management, goals are flexible and transparent. Flexible goal setting means being able to adjust goals at any time based on feedback from others or changing business requirements. Having transparent goals also allows employees to align their goals with those of their peers.

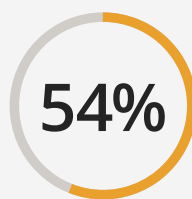
According to research by IBM⁵ – goal transparency and flexibility is welcomed:



of employees agreed that seeing other people's goals helped them align their goals with those in their group



of employees said the flexibility to change their goals helped them to set more relevant goals



of employees agreed that flexible goal setting has improved their work performance



of employees agreed flexible goal setting has contributed to their professional growth

5. "Implementing Agile performance management", IBM, 2015

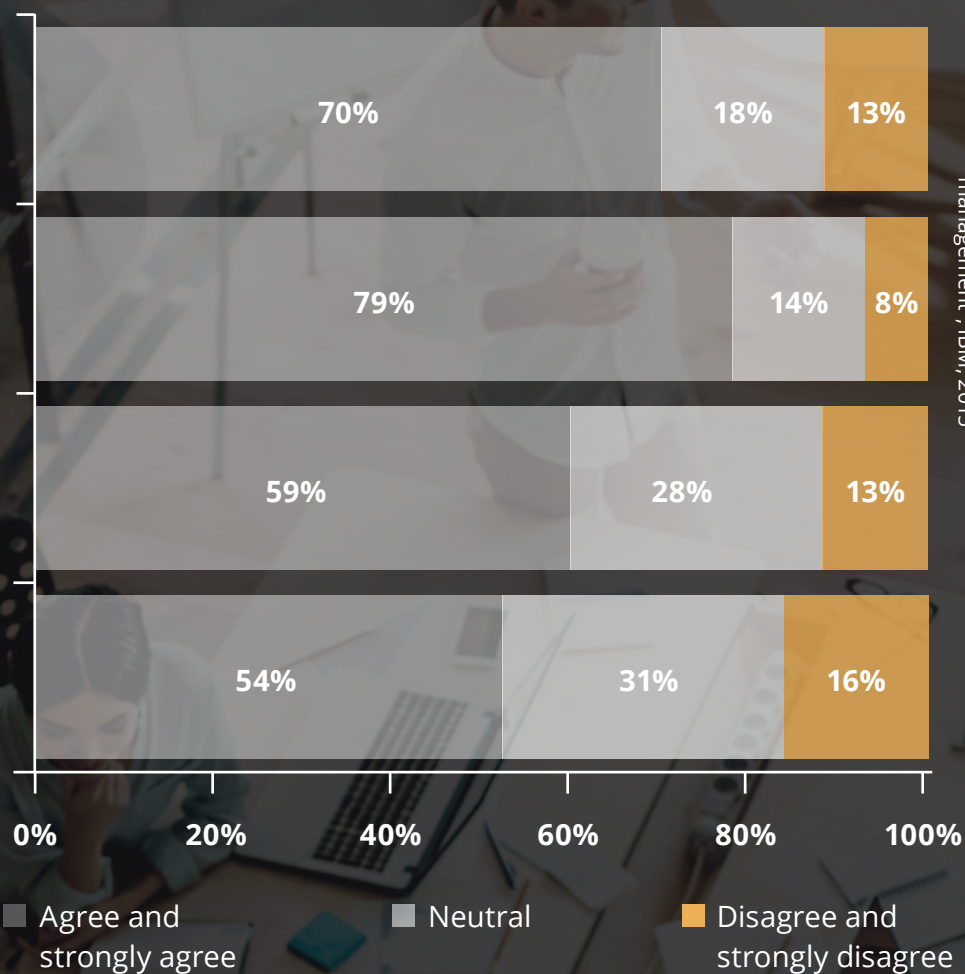
The power of transparent, flexible goal setting

Seeing other people's goals helps me align my goals with those of others in our group

The flexibility to change my goal helps me set more relevant goals

Flexible goal setting has contributed to my professional growth

Flexible goal setting has improved my work performance



Source: "Implementing Agile performance management", IBM, 2015

If businesses enable goal transparency and flexibility they will see a great impact on their company culture, as well as the engagement and retention of their employees.

Improvement is a deliberate, gradual process. Transitioning from traditional to Agile performance management is no different. Here are four tips to do it effectively:

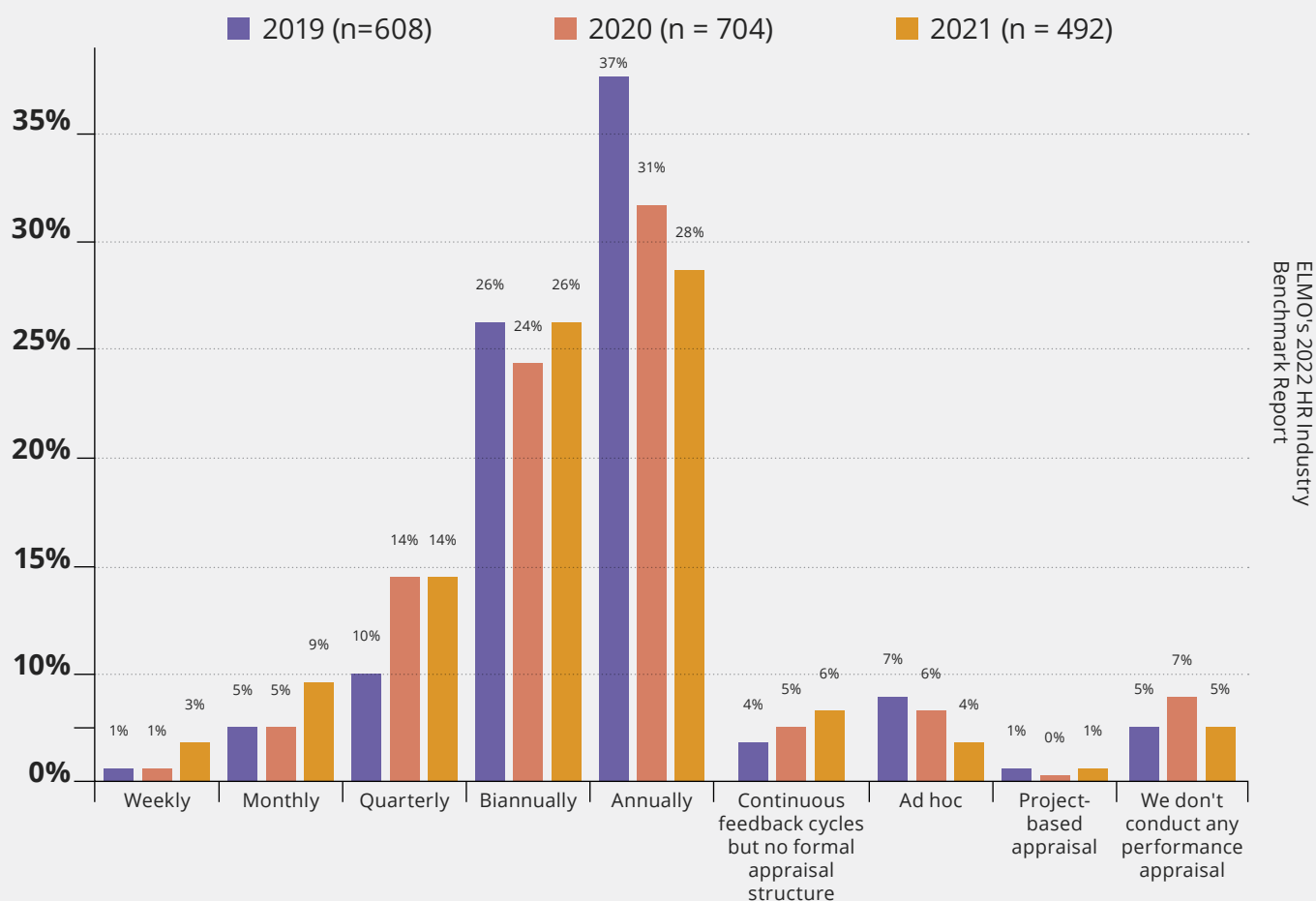
1. Start slow. Speak to other decision-makers and key stakeholders. Compile the research (external and internal data) needed to make the case for transforming existing processes.
2. Ask the question: what are the simplest changes we can implement for the best possible ROI on performance? An easy option is the adoption of frequent check-ins and the use of goals.
3. Experiment with a single unit or department within your organisation.
4. As always, measure the results of the changes you've made.

Transformation #4: Performance management will be project-based

Just 1% of Australian and New Zealand organisations conduct project-based appraisals, but this will likely increase as leaders seek to match performance management processes to how businesses are operating.

The ideal time for feedback is in real-time, as the behaviour occurs, rather than weeks or months later. Retrospective feedback often lacks context: it's less meaningful for an employee to be judged for their performance on a task completed six months previously. As such, more regular check-ins are gaining popularity, as seen in the graph below.

How frequently are performance appraisals conducted in your organisation?



A project-based performance review assesses an employee's quality of work during a single, specific project, as opposed to an annual review that summarises all performance completed in a year. These types of reviews take place following the completion of a project and are led by the project owner, rather than an employee's direct manager.

Unlike a 360° review that combines feedback from an individual's manager and peers, a project-based review includes input from the project leader and project participants who worked closely with the reviewee. Since these reviewers are familiar with both the project and the tasks for which the employee was responsible, they can share specific, informed feedback on the individual's communication, collaboration, and problem-solving skills, among other assessments.

However, according to ELMO's [2022 HR Industry Benchmark Report](#), just 1% of organisations conduct project-based appraisals frequently. This will likely change as organisations work to satisfy employees' desire for more frequent, timely feedback and ongoing conversations about their work.

The benefits of project-based reviews:

1

They are more objective

As projects tend to have clear, well-defined objectives, it's easy to design objective criteria. So, performance reviews are often fairer because an employee can be assessed based on their ability to meet the criteria, rather than relying on the opinion or perception of the manager – which can be biased.

2

They offer diverse perspectives

In traditional performance reviews, an employee's manager is the authoritative figure, and their opinion is the most important, but this can lead to recency or proximity bias.

However, in the case of project-based reviews, an employee may receive feedback from different project leaders and contributors. The variety of perspectives can provide the employee with insights they haven't previously received. Plus, the timely nature of the project and objectivity of goals can help to ensure reviews are fair.

3

They provide feedback that is more meaningful

Another drawback of the traditional manager-led review is that often managers don't work directly with their employees, so opinions and impressions are based on what managers hear from other people. This means feedback isn't as authentic, specific, or meaningful as it can be. Project-based reviews, on the other hand, can breed constructive feedback on an employee's abilities, skills, and workplace relationships. What's more, such open and honest conversations can build strong human connections.

4

They provide feedback that is more timely

Due to their timely nature, project-based performance reviews provide employees with feedback that allows them to course correct as required and implement before they take on a new project.

As the graph on the previous page indicates, full adoption of project-based reviews may be some way off, but they will ultimately help to fulfil that desire from employees to receive timely, meaningful feedback.

Transformation #5: There will be emphasis on the “whole person”

As the line between work and home continues to blur, there is a growing expectation from employees that they should be able to bring their "whole selves" to work. As such, goals will be personal as well as professional.

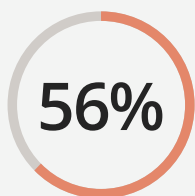


Since COVID-19, employees' personal circumstances have been of greater concern to employers. There is a desire among employees for their employers to give them concessions considering all the hardships they are facing outside of work.

Gartner found that 82% of employees want their employer to view them as people, not just employees.⁶ A focus on the "whole person" will result in a greater integration of work goals with personal goals, such as wellbeing or acquiring skills not directly related to work. This will enhance employees' sense of belonging, which is critical for an organisation's bottom line.

'Belonging' and employee performance

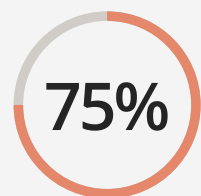
A 2019 study⁷ found that workplace belonging can lead to an estimated:



increase in job performance



reduction in turnover risk



decrease in employee sick days

The study found that a single incidence of 'micro-exclusion' can lead to an immediate 25% decline in an individual's performance on a team project.

⁶. Gartner 2021 EVP Employee Survey ⁷. "The value of belonging", BetterUp, 2019

It takes commitment to build a culture where employees get that sense of belonging – the feeling their employer cares about their overall happiness and understands that everyone has a unique background and is coping with unique circumstances, and so on. This new era will depend on employees being able to discuss their personal goals honestly and openly with their managers, and employers investing in tools that allow for self-assessment so that employees can evaluate progress towards both personal and professional goals.

This more 'human' approach will transform performance management. However, it's important to consider that a complex web of interactions, processes and technology must work in harmony to address the changing size, shape, and skills of the workforce.

It's also critical to ensure managers have the skills required to have meaningful conversations with employees. That's how deeper interpersonal understanding is built and how social bonds are formed. From there, a greater degree of personalisation can occur, and employees will feel more comfortable bringing their “whole selves” to work.

4 tips for managers to have meaningful conversations with employees:

1

Practise active listening:

Always aim to listen carefully to what is being shared and any feedback being given. Remember, you're not just listening to be polite, but rather to support your direct report in the best way possible. Effective managers also recognise and respect their direct report's circumstances and opinions.

2

Get personal:

Sometimes it's helpful to share some personal anecdotes or experiences in the context of the 1-on-1. By getting personal, you encourage direct reports to open up and share any problems they aren't sure how to tackle.

3

Be open-minded:

Set the example in 1-on-1s by showing you are open to upwards feedback on your own performance and development. Once you have a clear sense of what's working and what's not working with the team you can define the next steps to keep iterating and improving your management skills.

4

Be prepared:

1-on-1s can be about almost anything. If you're not sure what to cover, set a meeting agenda in advance, allowing your employees to provide input. Make sure to review and then share the agenda ahead of time so everyone can prepare.

A woman with long dark hair is sitting at a wooden desk, talking on a mobile phone. She is also writing in a notebook. A laptop is open in front of her. The background is a white brick wall decorated with several circular woven hats and a small potted plant. The entire image has a semi-transparent purple overlay.

— Considerations when managing hybrid teams

Hybrid work arrangements present challenges for business leaders – but also opportunities. What needs to be considered in relation to performance management?

In today's hybrid working environment, traditional modes of management will not be enough to satisfy employees' expectations and yield good business outcomes. It doesn't mean we should do away with the once-a-year performance review format altogether, but organisations must adapt and uplift approaches to performance management and ensure that managers are upskilled to facilitate more effective communication and structure within dispersed teams.



PwC⁸ suggests asking the following questions when it comes to improving, measuring, and managing hybrid work performance:

- Do leaders have the skills and ways of working to ensure staff are connected virtually, feel supported, and are continuing to connect their inputs to the success of the team overall? If this was not well established for on-site employees, it is even harder to embed virtually.
- Are you measuring a number of different perspectives of performance in a simple and standardised way, reducing opportunity to hide poor performance while clarifying opportunities for improvement for all staff?
- Are you increasing emphasis on the way managers are communicating over email and chat channels, with steps taken to ensure that it can't be misinterpreted by employees? Without appropriate care and attention, people may feel left out or discriminated against, and legal challenges such as bullying claims could arise due to misinterpretation.
- Are you ensuring that managers are educated on the risks and how important clear communication and setting of expectations is in a hybrid work environment, including where possible, backing up written communication with verbal communications to test understanding and provide an opportunity to ask questions? This is where good team culture comes in, creating psychological safety within virtual teams.
- Are managers being upskilled and empowered to become aware of and minimise the opportunity for proximity bias? Without acknowledgement of this risk, and explicit steps being taken to mitigate against it, wider disparities may appear in your organisation. Are you, for example, keeping track of any gender disparity between those returning to the workforce – if it is predominantly men returning and managers are displaying proximity bias, this could lead to a lack of inclusion, and discrimination claims may ultimately result.
- Are you on top of what staff are working on and ensuring that there's equity in how work is apportioned? Keeping track of what people are working on will be key to managing performance and mitigating risk. Bullying can take many forms, including excluding someone, or not giving them meaningful work to do.

8. "Changing places: Uplifting, measuring and managing hybrid work performance", PwC, 2021



The way forward

There's general agreement that performance management is an essential business process, but there is division about the best way to manage and carry out the process. Quite often, performance management activities are not seen as valuable by employees or managers. How can this perception be improved?

Before embracing any of the emerging trends outlined in this eBook, it's important to ensure solid foundations are in place.

Top tip

HR leaders should question the true purpose of performance management within their organisation. It can often be broken down into three high-level objectives:

- Compliance
- Building skills and potential (capability)
- Aligning employees and teams with corporate strategy and goals

It's critical to focus on the desired outcomes of the performance process. Many of the desired outcomes (e.g., increased individual engagement) may already be happening through other processes and strategies within the organisation. Identify these and then build a framework around the aspects that genuinely need more attention, so this does not become a 'tick the box' exercise and actually helps people to achieve their own personal goals and ensures that those goals are in line with or contributing to the broader strategic goals of your organisation.

Other steps to consider may include:

- Developing managers' coaching skills and their ability to have meaningful conversations with employees.
- Ensuring you've got performance frameworks in place so you can better understand what 'good', 'excellent' and 'poor' performance means in each role – and these parameters can then be communicated to employees.
- Exploring and experimenting with different structures and formats to find the right methods, tools and procedures for your organisation, teams and employees.
- Ensuring that existing performance management methods support and are accessible to both on-site and work-from-home employees, without any danger of bias, discrimination or inconsistency across managers or departments.

With all aspects of work undergoing a transformation post-pandemic, 2022 is the perfect time to assess whether existing performance management processes are working effectively in this rapidly changing world. Not only will this benefit the bottom line, but it'll benefit employees, too.

Our recommendation:

[ELMO Performance Management](#) improves employee productivity, boosts profitability and engagement through continuous feedback. It enables organisations to align individual and team goals with organisational strategies. It also streamlines the employee appraisal process by offering a range of pre-built goals and development objectives, provides 360 reviews that assist in the development of a performance culture that reduces employee turnover. ELMO's performance management software fully integrates with the entire ELMO cloud HR & payroll suite.

How ELMO can help

ELMO Software (ASX:ELO) is a cloud-based solution that helps thousands of organisations across Australia, New Zealand and the United Kingdom to effectively manage their people, process and pay. ELMO solutions span the entire employee lifecycle from 'hire to retire'. They can be used together or stand-alone, and are configurable according to an organisation's unique processes and workflows. Automate and streamline your operations to reduce costs, increase efficiency and bolster productivity.

For further information:

[Contact us](#)

