



Who Cares About Performance Evaluations?

It seems Everyone!

Performance evaluations and Performance Management Systems have been under scrutiny since the last quarter of 2019. Over time, there have been talks of investment in technology, delinking compensation from the appraisal system, and reforming the process into a more developmental system.

Organizations were looking forward to moving ahead from merely incentivizing the framework, to investing in the coaching and progression of their employees' careers. Statistically speaking, the need for performance evaluation is pronounced through several factors—albeit with varying verdicts on the system's effectiveness. Several arguments speak in favor of them, many against them, and even more in favor of re-thinking how they are conducted.

When we hosted our first Galaxy of Leaders series for 2020 in New Delhi, India, earlier this year, our roundtable discussion took us through a broader understanding of how leaders feel about performance evaluations.

Titled *Don't Waste My Time with Performance Evaluations! Who Cares?*, our two-day discussion saw the participation of over thirty CEOs and CHROs spanning industries discussing the different ways of conducting appraisals, means to enhance their effectiveness, and how technology can illuminate the path forward.

Then COVID-19 hit the business environment, giving birth to our new normal.

This new normal involved employees getting salary cuts, companies participating in unfortunate layoffs and furloughs, and communications between the workforce being limited to a secure and reliable internet connection.

What effect did this forced shift to digitization and digitalization have on the performance evaluation system? This whitepaper will encapsulate the different perspectives brought to light through the course of these discussions—during the roundtable and our virtual conversations.



HOW RELEVANT ARE PERFORMANCE EVALUATIONS?



Traditionally speaking, performance evaluation links to a company's culture and values, and serves as a platform for conversation while also fostering a feeling of connectivity between an employee and the organization, helping them feel integral to the organization's future. Aligning business goals with individual goals further encourages motivation and engagement in employees.

Back in March 2020 and before COVID, many senior leaders felt that performance evaluations were a necessity in a capitalistic company. Ultimately, organizations need to be profit-focused, and this entails a need for tangible results from employees. If the ownership of an organization's success lies with its leaders, then the leaders will need their teams to perform. Therefore, evaluating performance provides an opportunity to statistically gauge the success of the organization's recruitment and induction strategy and practices.

For instance, management company Gallup conducted a study in March, involving 65,672 employees and found that those who received feedback on their strengths had turnover rates that were 14.9% lower than those who received no feedback. This is not limited to positive feedback.

Per a survey of 899 executives by leadership development firm Zenger and Folkman, 92% of the respondents agreed that negative/redirecting feedback, when delivered appropriately, can affect improvement in performance.

The same study asserts that 69% of employees feel they would work harder if their efforts were recognized. This trend exists even among leaders and managers. Through a survey of 469 business units, covering entities like retail stores and large manufacturing facilities, Gallup found that departments with managers who received feedback showed 8.9% greater profitability post-intervention than units in which the manager received no feedback.

Each of these factors is an indicator of the significant role performance evaluation plays in business productivity. For instance, low turnover rates hold considerable importance for businesses.

The Society for Human Resource Management has determined that it costs approximately six to nine months of an employee's salary to replace her/him, including recruitment and training costs. By ensuring employee retention, companies can save time, money, and effort that it would take to replace them.

Additionally, by providing constructive corrective feedback, employees will be able to chart out their development goals, keeping in mind areas of improvement. They are likely to feel more motivated upon realizing that the organization is invested in helping them better as individual professionals. Such employees are more likely to develop concrete improvement plans. With demonstrated success in the areas identified, their performance, and thus productivity towards the organization, will improve.



WHAT DOES THE DATA SAY ABOUT THE TRADITIONAL PROCESS?

With strong indicators suggesting the importance of performance evaluations, what has given rise to several arguments against it? According to existing data, it could be how evaluations are conducted.

Compelling evidence points to how historically, performance evaluations have been conducted in a counterproductive manner.

According to a study by SHRM, 90% of performance reviews are perceived as painful and ineffective, resulting in a low percentage of top performers.

In another survey of 500 companies by research and advisory firm, Corporate Executive Board Co., results showed that 51% of employees believed that annual reviews were inaccurate.

Furthermore, the process is both time-consuming and costly. In terms of time, per a study by management research firm CEB, managers spend an average of 210 hours a year in performance management activities. Managers said their employees, in turn, each spend 40 hours a year. Deloitte reported that its approximately 244,000 employees spent more than 2 million hours per year on performance reviews. A company with approximately 10,000 employees spends about \$35 million on annual reviews each year in terms of cost.

That was before we shifted everything online.

Post COVID-19, the performance evaluation system seems to have gone for a metaphoric toss

with the appraisal mechanism quickly getting tied to the organization's financial performance.

Leaders are now calling for their employees' reskilling and capabilities development in a time of crisis.

The age-old method of annual or bi-annual appraisals has seen a drastic change. Firms are being forced to reinvent their performance management systems to suit a virtual work environment in a more constructive and unbiased approach instead of the demotivating and incorrect assessment techniques.

This forced digitalization also raises questions on the value of the approved systems. Leaders/HR and employees tend to regard performance evaluations purely as appraisals and not as a development tool. This perception gives rise to two issues: Leaders / HR do this as a mechanical, academic exercise, making it a linear approach to determine promotions and bonuses; and as a result, employees can then lose the emotional investment in the process.

There is a need for more context instead of overly simplistic measures for a complicated subject on a performance evaluation scale. Traditionally, performance evaluations tend to be one-sided, depriving employees of the opportunity to share their unique perspectives, and, thereby, depriving managers of the chance to learn about the work environment they're cultivating.



HOW DO WE MITIGATE THE GAP?



Based on the evidence furnished in the previous section, we can conclude that the annual or bi-annual occurrence of performance evaluations is too infrequent for it to be effective. A few of the gaps recognized during our discussion included:

- **Understanding who is responsible for conducting the evaluations. It invariably ends up with management members who may not have had sufficient interaction with the employee concerned or HR or the administrative personnel.**
- **Defining it as a space for criticism and complaint without development. This may lead to a dip in employee morale, encouraging them to look externally for other opportunities.**
- **The poorly defined criteria for the assessment. This leads to an unfortunate lack of objectivity. There is a need to standardize the measurement and ensure an unbiased evaluation of all employees.**
- **A dire need to cut down the time and money involved in these assessments. This may lead to jeopardizing business productivity by hampering the morale and output.**

That said, firms are experimenting with new, almost unheard-of methods to introduce a more holistic approach to performance evaluations to benefit both the organization and the individual. These approaches lend a more developmental coaching hand to the age-old process, thereby ensuring a “high-performance organization.”

Some of the innovative new methods of creating performance management systems befitting the new normal suggested during our discussions included:

Delinking Compensation from Performance Evaluation

Compensation has thus far been the glue holding this process together. But the strategic move to recreate the appraisal system to be more holistic for both the organization and the individual has led to certain firms discussing the possibility of delinking compensation from the process altogether. Renowned leaders from private equity fund backgrounds have successfully seen this step through to avoid giving revenue the center-

stage. “Different people have different perceptions of what performance is,” they said. “This step allows us to focus on both the organization’s and the individual’s personal development.”

Involving third parties to streamline the evaluation process readily and removing the financial incentive, help to approach this process from a career development perspective. Companies are steadily moving towards coaching their team members across hierarchies and verticals. It helps evaluate everyone’s progress, both as a team member and as a team leader, thereby increasing employees’ chances of engaging in more meaningful conversations.

But is this step valid in the New Normal? Maybe—although not as the main criteria.

Delinking compensation today may be more of a foregone conclusion. Organizations and employees are looking at viable ways to continue with their jobs. Compensation—especially with the salary cuts—is not being kept as the criteria any longer. What does matter is the overall global or regional performance of the firm while maintaining business continuity.

“A lot of our client base is also looking at creative ways to decrease expenses, increase revenue, and in essence, protect the future,” said the leading partner of the human resources function for a global professional services network. “Companies have readjusted budgets and set up new performance targets with the aim of sustaining operations, people, and performances—but without looking at people’s salaries.”

This malady’s financial impact has resulted in one positive outcome—organizations are now looking at innovative ways to keep their employees motivated. “As far as career development/leadership development is concerned, our focus has doubled this year (with a program focused on various levels of leadership—deeper focus on an individual’s career aspirations, providing them tools/anchors to get there) on ensuring there is a representation (in a fair and merit-based manner) from both genders,” the HR Director of well-known Indian e-commerce company commented.

“Instead of monetary incentives, companies are now transparently discussing the high performers to reduce the apprehensions and increase internal communications,” the former chief human resources officer for a leading player in steel, power, mining, oil, and gas, and infrastructure in India added, bringing us to the next innovative method.

Feedback versus Feed-Forward

The ‘feedback’ system has always been one of those ‘checklist conversations’ on every team leaders’ list. But is it possible to judge the work done over a year at one go? There are two ways of looking at this discussion.

- **One is the frequency with which these conversations take place.**

With more firms ensuring the feedback process gets carried out weekly or monthly across hierarchies, culture is slowly becoming the priority. Continuous feedback helps enhance not only the competency and the efficiency of employees, but it also helps leaderships maintain a constant dialog between them and their team, thereby improving the overall culture of the firm. Statistics show that 63 percent of the Gen Z workforce prefer timely, constructive feedback throughout the year. Simultaneously, a whopping 80% of Gen Y said they like on-the-spot recognition over formal reviews. These reports ultimately result in the necessary steps being taken by industries to ensure these demands are also met.

- **The second part of the discussion lies with the way the system has been handled thus far.**

While organizations in the United States are used to more candid forms of feedback, India seems to have not let go of the niceties just yet. As a senior leader from a leading private equity and venture capital firm rightly pointed out, “just because a job was poorly executed doesn’t mean it was wrongly executed.”

The art of giving and receiving feedback is yet to be perfected. With 92% of respondents agreeing with the assertion that “negative (redirecting) feedback if delivered appropriately, is effective at improving performance,” firms are slowly practicing the concept of Feed-Forward, i.e., frequent feedback which flows both ways. Companies are adopting bottom to top practices to ensure that managers or leaders also correct themselves and their processes. Such changes have successfully resulted in people having more frequent one to one discussion, thus becoming more responsible and accountable for meeting their KRA’s. This not only helps structure the working culture of the firm but also substantiates a sense of ownership within the employees as they keep both their personal and organizational goals in check.

This method is relevant today, more so than ever! With firms encouraging their senior leaders to engage with the employees almost daily through virtual communications, transparency and accountability within the workforce are increasing tremendously. An example of this is the triangulated transparent approach taken by a leading British multinational pharmaceutical company. The approach:

- Links the employee goals with the business priorities to maintain flexibility in resetting goals in an ever-evolving environment.
- Includes investing time in introducing coaching and leadership development experts to the talent pool.
- Encourages flexibility in terms of rating each individual so that no one needs to undergo an unnecessary change in compensation in these trying times.

Such robust and developmental conversations initiate crafting a strategy that recognizes the distinct talent motivating their morale and retaining overall organizational performance.

The spirit of continual motivation for the employees transgresses into the 80-20 approach, which was also brought up during our discussion.

The 80-20 approach

The performance discussion should focus on two aspects: one, the work related to the KRA's, and two, the extra effort one puts in developing skill sets that are not directly related. Coined as the '80-20 approach' by a leader from a global real estate investment, development, and management firm, the process allows you to address the task-oriented details completed by an employee in the previous year. It also questions the expectations the employee has from their respective organizations. This brings a whole new perspective to the age-old 'HR exercise,' bringing forward recognition for your firm's high-performing segment to ensure retention.

The 80-20 approach holds much more value today, with firms moving towards upskilling their employees as they work from home. According to the head of the human resources operations for a renowned American management consulting firm, a trend has emerged during the new normal. "While organizations are being more conservative concerning salary hikes and bonus payouts, HR teams are now regrouping to discuss newer initiatives to assess performance management appraisals and realign these with more realistic goals," she said. "Secondly, firms are also investing in the right kind of technology to measure, monitor, and track the metrics on a more transparent platform."

The pandemic's initial phase was around 'getting work done,' now it's about initiating a 360-degree

feedback process to ensure qualitative firmwide communications. "Our organization addressed the home office's digitalization by ensuring managers and employees get used to 'New Ways of Working.' This includes the way meetings are now conducted, feedback delivery (virtually), leveraging video conferencing/collaboration tools and most importantly demonstrating empathy to team members," commented the head HR for a Canadian retail business group who has also piloted a productivity tool within a select target pool to enable employees to manage their time better from a resourcing and development perspective as they work from home.

Integrating HR 4.0 in the Performance Management System

Implementing technologically driven evaluation frameworks helps make the dialog more efficient, candid, and more granular. One question which stood out during the discussion was, "Why do 84% of employers look outside their respective organizations to select their leaders?" Asked by a senior leader from a venture capital firm, the question steered the discussion about technology being an 'enabler' more than a replacement to ensure a sense of accountability and responsibility within each individual.

Performance Management Systems are, as they say, systems that aid the process. In no way are they a replacement for the human connection, which is mandatory to encourage the system's cultural aspect. HR 4.0, with its myriad of technological advancements, ensures this.

The Office of the CEO, Kingsley Gate Partners, for example, innovated the use of a virtual leaderboard – with no incentives attached – to show the employees their global rankings. "We aim to ultimately create exoskeletons for the consultants to use as their superpowers,"

says Umesh Ramakrishnan. “With the kind of technology available today, the idea is not to take the people out of the process but to take the process out of the people, thereby empowering the consultants to police themselves and make sure their names are not ranked towards the end. Ideally even those that bring up the rear are above the benchmark you set for performance.”

Such Management Information Systems or automated systems are a guide towards separating the performers from the non-performers leading to creative award strategies like complementary benefits, flexibility in working hours, healthcare facilities, home office equipment, and also non-financial rewards like timely recognition, development opportunities, team engagement, etc.



CONCLUSION

“Performance management isn’t dead. The old way of thinking about it is,” by Anita Bowess

The virtual business environment is here to stay. That means we are looking at continuous engagement via townhalls, peer to peer interactions, investment in training facilities—everything that was not a part of the 2020 plan. These collaborative frameworks lead to a more defined and developmental approach to performance evaluations, thereby encouraging more engagement from motivated employees.

The business leaders and the human resources function must work together and steer the appraisal system from a unidirectional, potentially reprimandable framework to a more empowering one. Fruitful, frequent training and interactions on professional coaching and development help remove personal biases and ensure accountability simultaneously.

While some firms tend to follow a slightly rendered version of the original framework – assigning KRA’s in a more task-oriented approach – other, recently-established organizations put a different spin on things. “I prefer looking at the individual’s skills, grit, and determination to take the firm to the next level,” commented the co-founder of a young insurance broker firm which, like many young organizations, may be dependent on external factors like funding to steer their business decisions.

On the other hand, this ‘collaborative approach’ to performance evaluations also gives birth to platforms like ‘social recruiting,’ which are increasingly becoming the norm. With technology offering customizable profiles to its users like Facebook, Instagram, LinkedIn, Twitter, etc., firms

invest in third-party vendors who assist them in implementing thorough social screening before hiring a new employee. These methods have also resulted in some firms keeping track of everyone's digital footprint during their work tenure.

Now, while there might be multiple opinions on the sustainability and legal ramifications of this, the one questions which pops up here is:

“Where do you draw the line?” Is it only at legal? As one of our delegates from a leading global commercial real estate services firm said, “what do you eventually end up policing here – the actual expression or the thought?” – but that remains a discussion for another time that we have summed up in our article on [Is Your Digital Reputation A Smokin' Gun?](#)

Overall, the discussion came to an optimistic, future-foward finale defining the much-needed blend of technology and human insight that is required to fuel productivity and encourage innovation within the workforce. While there are several factors such as the tendency to conduct infrequent appraisals in a linear, one-sided manner; or approaching the system with a cost and time-intensive standard, our roundtable delegates agreed that there is massive potential to reimagine the performance evaluation process and maximize the growth of both the employees and the organization.

Let discussions like these pave the way for a more progressive future for all of us.



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