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MIT Sloan
Management Review

**RESEARCH
REPORT**

In collaboration with
**McKinsey
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FINDINGS FROM THE 2019 PERFORMANCE MANAGEMENT
GLOBAL EXECUTIVE STUDY AND RESEARCH PROJECT

Performance Management's Digital Shift

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Performance Management's Digital Shift

Executive Summary

The business value of traditional performance management models is collapsing. While these legacy systems still inform decision-making around compensation, promotions, terminations, and other compliance-mandated functions, they've become irrelevant to actually improving performance or its management. They do not measurably add value.

Instead of better clarifying expectations and building morale, the traditional annual appraisal aspect of performance management (PM) alienates talented and typical employees alike. Managers dislike it, too. Even as personal and enterprise tools and technologies have radically improved, performance management systems have not. And while the nature of work and the workplace have grown more data-driven and analytical, performance management has not kept pace. Perennial complaints — rigidity, opacity, unfairness, arbitrariness, and an inherent backward-looking bias — persist.

Across industries, serious companies recognize that competing effectively in digital business environments demands a new approach to performance management. Technological innovation, the changing nature of work, and digital transformation all enable and create new demand for novel PM approaches. Getting performance management right is culturally critical to strategic execution in rapidly evolving business environments. The technology-based future of performance management is an essential component of leading successful digital transformation.

Our research offers clear evidence that the future of PM is more data-driven, more flexible, more continuous, and more development-oriented. It's focused not just on individual employees, but on skills and teams. (Read below about IBM's move to catalog employee skills, a digital indexing effort that marshals skills, not just roles, to get work done.) It emphasizes technology-enabled, continuous improvement, self-service/DIY skills development, and automated coaching tools. The ways that feedback is given, when, and by whom — and how it is both received and acted upon — are changing.

This global executive research study about the future of performance management is based on more than 30 interviews with leading industry experts. The implications of our findings are far-reaching for leaders intent on maintaining their company's competitiveness in modern business environments.

1. Performance management's purpose is shifting, structurally and dramatically. Technology enables and facilitates this change. With the proliferation of digital tools designed to uplift performance, leading companies are using PM to measurably improve performance, develop skills, and retain valued employees. For these companies, the heart of performance management is performance, not compliance. With blurring lines between performance management and talent development, executives will have to consider how to balance the assessment of past performance with the ongoing need to develop employee skills. Performance management becomes a serious, strategically relevant business activity, not a perfunctory end-of-year duty.
2. Performance management's longtime reliance on manager opinion, subjective observation, and intuition is being replaced by a reliance on data. Data is generated, increasingly, from platforms that enable communication and collaboration (e.g., Slack and Asana) and dedicated apps and tools (e.g., automated coaches and sociometric badges). Feedback will be more continuous and sourced from different places and people. Employee engagement will be both an input to and output from performance management activities. This data emphasis empowers more evidence and fact-based performance management appraisals and conversations, with inputs from a variety of sources.
3. Increasingly, interdependencies between people, processes, and technologies are becoming more important to getting work done in the enterprise. As a result, team performance is overtaking individual performance as the workplace's salient unit of analysis. Team performance, coachability, and skills development require heightened attention and specific investment.
4. One-size-fits-all approaches will give way to bespoke efforts that revitalize human capital. Both managers and workers will get individualized perspectives on what works (well) and what doesn't. Digital performance management platforms will make such customization simpler, cheaper, and more scalable, which, in turn, will make performance management an enterprise-wide capability, not just the elite province of the top performers.
5. Without question, the biggest cultural and organizational impact of next-generation PM systems will be feedback time, tempo, and impact. Instead of annual, quarterly, or impromptu reviews, talent- and accountability-oriented enterprises will encourage and enable near-constant feedback. Fundamental insights about human psychology are helping to influence the character and cadence of this feedback.

This report presents the critical insights managers will need to grapple effectively with in this evolving performance management landscape. It can serve as a guide to rethinking performance management to ensure its effectiveness at a time of profound change.

ABOUT THE RESEARCH

This global executive research study about the future of performance management is based on more than 30 interviews with leading industry and academic experts. The study also draws on the authors' collective experience in performance management consulting and a review of relevant management literature.

IBM Goes Agile

In 2015, in the midst of undergoing business transformation, IBM executives recognized that the strategic shifts the company needed to make required employees to be fully engaged.¹ Standing in the way was an outdated performance management approach, one out of step with how employees were working. As chief human resources officer and senior vice president of human resources Diane Gh-

erson recalls, the 107-year-old tech giant had a fairly traditional PM system of ratings and annual reviews. “You’d write in your goals at the beginning of the year, and at the end of the year, your manager would give you feedback and your rating,” Gherson says. “We threw all that out.”

Seeking to align to its growing adoption of agile and enterprise design thinking at scale, IBM invited more than 360,000 employees to cocreate on a new design starting with the release of a minimum viable product. The crowdsourced response revealed that IBMers wanted the new system to “shift the emphasis from assessment to feedback,” says Joanna Daly, vice president of global talent. “They wanted to know how they were doing, but they didn’t want a single rating based on one review.”

The broader insight informing the move to more continual feedback was that skills had to be the primary factor of analysis. “The real shift for us was realizing that our end-to-end talent management is really about skills,” Daly says. “We needed employees to build skills in new areas. The half-life of skills is going to get shorter. For all of our approaches to talent — whether it’s a learning decision, a compensation decision, feedback from managers — the conversation has to be with the underpinning of skills.”

Another key move was making talent and performance management a more data-driven activity. “For too long, HR people have relied on just being highly intuitive,” Gherson observes. “‘I think this person’s a good fit for the job’ or ‘I think a two-year assignment is the right length.’ And actually you can employ science-based methods to estimate if there’s an 80% chance they’ll fail in this job because they lack these capabilities or a 50% chance you’ll get no return on your investment in that international assignment because it’s too short.”

IBM was at an advantage in this respect, as the company develops its own AI programs internally. Gherson and her team earned a patent for their predictive attrition program, which uses Watson algorithms to predict which employees are likely to leave the company in the near future. Most managers scoffed at the

notion that Watson had more insight into their employees’ intentions than they did — until the algorithm consistently made correct predictions. Gherson recalls getting notes from managers asking, “How did you know?” As the technology evolved, it began to recommend actions for managers to implement — often related to skills development — to bolster engagement and prevent attrition. Gherson estimates that the improvements in employee retention alone have saved IBM nearly \$300 million.

As IBM’s experience suggests, technology-driven talent management and performance management in particular have immense potential to support managers, develop employees, enable HR to drive additional value, and even provide strategic focus to an organization. To realize this potential, companies must grapple with fundamental questions about how to integrate HR and PM with their broader culture and purpose. Many organizations will find the challenges of such an integration to be formidable. But there is little doubt that technological innovation and the changing nature of work are consigning the traditional PM model to irrelevance. Just as marketing and other functions have been reimaged in the face of digital transformation, HR too must adapt. For many organizations, talent and performance management will have to become much more data-driven, development-oriented, and agile to be effective.

“Performance Management Is Broken”

Performance management has historically performed two functions: appraisal and professional development. Appraisal typically has managers and employees defining performance objectives at the year’s start and assessing outcomes at year’s end.

This annual review remains the primary tool for evaluating employees and rewarding performance. Failure to achieve objectives can create legal justification for termination. Consequently, assessment serves a legal and regulatory pur-

pose, not just an organizational one. The professional development function — emphasizing performance improvement, coaching, and feedback — often receives short shrift. Ironically, this imbalance is a major reason why performance management systems underperform (for example, if the annual review is the only time feedback happens).

Longtime discontent with that conventional model has intensified as larger transformational forces have come into play. As Natalie Baumgartner, chief workforce scientist at employee engagement company Achievers, observes, “I think there’s certainly been a sense in my field for quite some time that performance management is broken.” Our interviews surfaced several common criticisms of the performance management systems built around compliance and an annual review cycle. (See “Criticism of Present-Day Performance Management Practices,” page 5.)

Given these common and longstanding complaints, it is little surprise that many companies are adopting more frequent, flexible, and data-driven methods of appraisal. A 2017 survey of nearly 1,800 global leaders shows that 68% of respondents agree that ongoing coaching and feedback conversations have a positive impact on individual performance.² Still, nearly 70% of organizations surveyed in a 2018 study say they still run annual or biannual reviews.³ Sweeping changes in the workplace — including digital transformation, a global talent shortage, and an increase in contingent workers — demand equally sweeping changes in how performance is managed.

Even More Pressure on the Traditional Model

Several other macro-factors — largely related to the changing nature of work and rapid technological innovation — are making the traditional performance model obsolete, irrelevant, and unsustainable in today’s competitive environment.

“We Are Tied to One Another Now”

Several executives observed that the individual annual review feels pointless in environments where employees work in cross-functional teams that often shift throughout the year. IBM’s Gherson points out that “in a classic, old-fashioned, traditional model, a manager will oversee the work of an employee and therefore have firsthand knowledge of how they’re doing. That model is long gone in most companies, because work is more fluid. Their employee might be working on multiple teams.” In short, the individual might no longer be the most salient unit of analysis. Lisa Sterling, executive vice president and chief people and culture officer at Ceridian, notes that at the human resources software company, the significant unit is the team: “We are very much tied to one another now, and if you fail, I fail. There is no more ‘You get yours; I get mine.’”

The diminishing value of current skill sets is another factor. Industry observers peg the average half-life of a professional skill at just five years.⁴ In response, some companies now view skills development as a criterion for both recruitment and performance. Gherson notes that “skills are actually more important than jobs.”

“You can’t hire someone because they have a particular skill. You have to hire someone because they have the capacity to continue to learn.”

— Diane Gherson, chief human resources officer and senior vice president, human resources, IBM

“In order to reinvent our company, we need everyone to reinvent their skills on a continuous basis,” she says. “You can’t hire someone because they have a particular skill. You have to hire someone because they have the capacity to continue to learn.”

IBM’s AI-powered learning platform, Your Learning, uses data to make personalized recommendations and help employees build skills that are increasingly in demand. The personalized program is “really ac-

CRITICISM OF PRESENT-DAY PERFORMANCE MANAGEMENT PRACTICES

1. LACK TRANSPARENCY

“Our employees want more transparency. They want to know ‘How am I doing? How am I doing in comparison to my peers? What do I need to develop more of to go further and faster?’ ”

 **KELLY KURAS** | senior manager, global talent evaluation and employee experience
General Motors

“A lot of the HR practices like old traditional performance management systems were black boxes for people. Compensation was a black box.”

 **DEAN CARTER** | chief people officer
Patagonia

2. TOO BACKWARD-LOOKING AND RIGID

“We used to have a rearview-mirror approach that looked at how employees performed over the previous 12 months. We now live in a world where things change on a regular, real-time basis, and the approach to how you look at people’s objectives needs to be more real-time and agile.”

 **DONNA MORRIS** | chief human resources officer and executive vice president, human resources
Adobe

3. TOO TIME-CONSUMING

“Traditional performance reviews demand too much time from managers and their employees. Feedback and recognition should happen in the flow of work (not at the expense of it). Our work experiences should mimic our consumer lives, with the ability to pull out our mobile device, send someone feedback, and then let the system save (and aggregate) the data for later use in performance, promotion, and compensation decisions.”

 **MARCUS MOSSBERGER** | senior director, global human capital management strategy
Infor

4. DON'T MOTIVATE EMPLOYEES

“Where ratings and raises are confined to a standard bell curve, employees know that no matter how strong the team is, somebody’s going to get more and somebody’s going to get less, with most everyone stuck in the middle. While rewards should be performance-based, forcing a false distribution disempowers and demotivates employees. Just as leaders are asking for and truly need the best from people, the organization is telling them, ‘In the end, most of you are going to be average.’ Who does that inspire?”

 **TERRI RUNDELL** | owner and experience designer
Dezign2Think

cessible, very consumer-friendly,” Gherson explains. “It has everything: internal and external courses, *Harvard Business Review* articles, *MIT Sloan Management Review* articles, YouTube videos — you name it. And it serves it up for you as an individual. It will say, ‘Given what you’ve taken so far and your career goals, here are some recommendations, and here’s what people like you have taken and how they’ve rated it.’”

Donna Morris, chief human resources officer and executive vice president of human resources at Adobe, observes that performance management systems should coach and develop people for their strengths. “When you force a distribution, you’re not valuing the contributions of individuals,” she says. “When you realize that everybody’s uniquely qualified based on his or her contributions, you

focus on bringing out the best of everyone.” Human resources industry analyst Josh Bersin adds that companies ought to ensure that their performance management systems “coach and develop people so they move into the right roles, so that they feel like they have meaningful careers, and so they don’t quit. We need to make everybody more effective because there aren’t enough people to hire.” In other words, amputating the bottom 10% of your workforce Jack Welch-style won’t work when that 10% can’t be replaced.

More recent studies also demonstrate that forced rankings can have a damaging effect on productivity, engagement, and perceptions of fairness.⁵ At Microsoft, stacked rankings led to a fiercely competitive culture that undermined the company’s performance in the early part of this decade.⁶ Millennial workers, in particular, expect more congenial work environments, more development opportunities, and more meaningful work experiences. As a result, employee experience is now a point of emphasis in leading companies’ approaches to PM.⁷

Additionally, more and more hires in the current market are contingent workers; some experts predict that contingent workers could comprise half of the total U.S. workforce by 2020.⁸ Jeanne Achille, founder and CEO of public relations firm The Devon Group, says a typical American workplace is changing dramatically: “If I’m a traditional W-2 employee, and I’m working alongside AI-driven robots, chances are as part of my workgroup or my project, I’m also working with consultants and contractors and temp-to-perm workers. What was once a very homogeneous work environment is now so, so different.”

“Agility, Not Efficiency”

Technology is also literally — and digitally — restructuring the way performance management gets done, from recognition to retention to promotions. At the heart of this technological progress is an explosion in data, and all companies will have to determine how to collect, organize, analyze, and deploy PM-related data.

Anna Tavis, clinical associate professor of human capital management at New York University, notes that larger companies are often beholden to older, entrenched systems. “Part of the reason HR has been so slow in adapting agility in its operations was because they were trapped into these big mainframe legacy HRIS systems, such as PeopleSoft, SAP, and Oracle, while the newer, more startup-type companies moved much faster,” she says. “They reshaped their performance systems or created them from scratch, often aided with new technologies, whereas the larger companies were stuck in the industrial age.”

Gherson, describing the reinvention of IBM’s PM system, says, “The real turn of the page for me was thinking about agility and not efficiency.” The new system, which recognized that the model of a backward-looking assessment can stifle employee engagement and innovation, is an important part of IBM’s overall reinvented, data-driven talent management capabilities. Similarly, Adobe’s Morris explains why the company replaced its stack-ranking system with one that provides regular performance check-ins. “People are working in different locations, with different teams and different modalities — the nimbleness by which they are able to understand what’s expected of them and how they’re doing relative to those expectations is super-important to their productivity,” she says.

Signposts of the Future

Given the profound impact of technology and of changes in how work gets done, a growing number of companies are tying performance management more closely to operational success and less closely to their operations’ calendar. This shift — toward making performance management a truly business-relevant activity — is having a dramatic effect on how human capital is managed in the enterprise.

Data plays a pivotal role in powering all of these changes, including talent development, team management, bias detection and correction, and appraisals and promotions.

IMPLICATIONS FOR HR

The HR function is, ostensibly, the steward of the technologies that currently support performance management. As performance management becomes increasingly dependent on data and digital technologies, HR's influence will become increasingly dependent on its technical and business fluency. HR organizations could radically expand their remit, starkly sharpen their focus, or be dramatically shrunk or marginalized.

Some HR leaders — notably Dean Carter, chief people officer at Patagonia — warn that HR chiefs could go the way of chiefs of electricity if they don't adapt to new technologies and use them to become more strategic about performance. But over the next five to 10 years, HR could become a predictive department that helps companies head off problems before they develop, Carter and others believe. (IBM's pioneering retention tool, which predicts who's getting ready to exit, presents an early example of this capability.) Carter sees the future HR department as "an insight generator, based on the data that's there. HR will be able to be the strategic partner HR has always wanted and thought it could be."

We are already seeing some evolution in the HR function, which is becoming more data-driven and tech-savvy. More chief human resources officers are coming from outside HR. And as we've seen in marketing, different roles are emerging in HR. Chief people officers and chief well-being officers are just two examples.

With some valuable performance management information embedded in non-HR systems, demand will likely grow for technology that analyzes these informational flows. "Nudges are the new coaching and training, or at least they ought to be," says Jordan Birnbaum, vice president and chief behavioral economist at HR services giant ADP. "Coaching and training present significant inherent challenges, including time and resource constraints and employee limits around learning new behaviors. Automated nudges diffuse both, as they are light on required resources and required cognitive retention."

On-Demand Feedback

Formal feedback has been periodic, perfunctory, and problematic. Companies increasingly see the wisdom of more continual communication. HR services giant ADP, for example, uses two programs, Compass and StandOut, to nurture connection and communication.

The company wrestled with how best to deliver feedback as a means for driving development. Live coaches would be excessively costly, while learning and development websites might not pull sufficient traffic to add value. Borrowing from behavioral economists' philosophy of "nudging" to effect change in habits and conduct, ADP created email-based coaching curricula for each surveyed behavior.

Compass, created in-house, turns employee-survey feedback on team needs into personalized, weekly email-based coaching. Jordan Birnbaum, ADP's vice president and chief behavioral economist, explains the program's creation, saying, "We knew from behavioral economics and understanding applied

psychology, human bias, and intrinsic motivation that how we provided this feedback to individuals was going to make or break our efforts to drive development toward that end. We felt that managers were more likely to embrace feedback as indicative of team needs than as managerial deficiencies.

"The big hypothesis," Birnbaum adds, "was that if we sent people this email coaching based on their results, and subsequently remeasured after they had received the coaching, that whatever they got the coaching on was going to be a much-improved score." Results have borne that out: Improvements averaged 10%, while scores for uncoached items remained the same. ADP brought Compass to market, and more than 130 companies currently use the program.

ADP also launched StandOut, a tool that drives managers and employees to connect weekly. "This tool helps to create a habit of making sure there is much greater connection," says Birnbaum, "because we know that it's very human that over time

EMPLOYEE ENGAGEMENT AT GENERAL MOTORS

As one of the world's largest automakers, General Motors employs more than 180,000 people worldwide. In 2016, top GM executives recognized the company needed a vibrant corporate culture common to all of its regional businesses to boost its competitiveness. An important first step was to identify a set of core GM behaviors and values that everyone in the company should demonstrate. Recognizing employees for demonstrating these core behaviors and values became a powerful tool for aligning the company's goals and objectives to individual employee experience and contribution. At the time, however, GM's employee recognition practices were not centralized, and they embraced a variety of behaviors. GM subsequently revamped its employee recognition system.

The new organization-wide platform, powered by employee engagement firm Achievers and conducted through the company's performance management system, replaced more than 60 different programs that had been operating around the world. The refashioned system enables leaders to offer recognition that's directly aligned with a series of explicitly identified GM values and behaviors. Additionally, whereas feedback was previously top-down only, with the new platform, employees can recognize managers and peers for demonstrating GM's behaviors. Significantly, the system also allows leaders to recognize employees who don't

directly report to them, an acknowledgement of the cross-functional nature of today's workplace. Kelly Kuras, senior manager of global talent evaluation and employee engagement, calls it a "social network for feedback," noting that "it can go any level, any time."

Key to the program's success are its visibility and transparency. In the past, recognition sometimes was public and other times it took place behind closed doors. In addition, there was no consistent philosophy undergirding recognition. Employees in the U.S. might be rewarded with cash while those in, say, Argentina would be gifted with movie passes. "There was a lot of negative perception of how recognition was working in the company," says Sandra Garcia, GM's global compensation lead for global strategic initiatives, citing employee frustration with the idea that something valued in one part of the world might not be valued elsewhere. "One global program under one global platform allowed us to resolve all those issues." Describing its simple, intuitive design and its mobile platform, Kuras adds, "This is a great story of what technology enables in terms of leadership."

With one streamlined platform, GM is now able to study the impact of employee recognition and engagement, and measure the demonstration of GM values and behaviors at all levels.

people stop being disciplined about checking in and then normally only are communicating when there are problems." Between Compass and StandOut, he adds, "we are fundamentally altering how work works here."

ADP is not alone in seeking to seamlessly incorporate useful feedback into daily work. "The current thinking is, 'Why don't we give people a performance management tool that they actually can use as part of their work?'" Bersin observes. "We're seeing a whole new generation of software with chat interfaces using AI to give people intelligent, relevant nudges."

Humu, a startup of former Google chief people officer Laszlo Bock, is just one of several new companies using AI to create nudges to engage managers and their teams throughout the day. (For more on improving systems of feedback, see "Employee Engagement at General Motors.")

Factors Beyond Performance

Performance management now means cultivating new capabilities (such as skills and innovation), not just improving existing efficiencies. IBM measures employees on skills development; Patagonia

measures executives on whether they are exemplifying company values, particularly those related to environmental activism; and DBS Bank measures executives on their progress with digital transformation. (For more on DBS Bank's embrace of digital transformation, see "Performance Management Meets Digital Transformation at DBS Bank," page 11.) But there are no high-performance panaceas here.

These factors force top management to revisit their leadership roles. "We've given people the ability to take risks and not be penalized for taking risks," says Ceridian's Sterling. She describes how the company's CEO, David Ossip, supports a top-down change in company culture. "I often tell people, 'I'd rather you make a decision that is aggressive and innovative and forward-thinking, and fall flat on your face than do something that makes you feel comfortable.' When your CEO supports that kind of bold experimentation, people's decision-making changes."

Toward Team Assessment

More value-added processes and deliverables increasingly depend on cross-functional teams. These teams are often composed of a mix of full-time employees, part-time staff, gig workers, and geographically dispersed contributors. Performance management must be assessed in the context of team-based outcomes. Credibly measuring team performance matters as much as measuring individual contribution.

"The big challenge for a lot of companies and for HR as a function is how we transition from a philosophy and a whole infrastructure we built around individuals to an environment where it's about teams and collaboration," NYU's Tavis observes, "We haven't figured out how to measure and how to value collaboration."

Unsurprisingly, professional sports teams are far ahead of their legacy enterprise counterparts in effectively bringing analytics to bear on team performance management. In pro basketball, for example, the champion Golden State Warriors⁹ and the Houston Rockets¹⁰ use analytics to determine what combinations of players should be on the floor during key moments of the game. While key performance indicators (KPIs) and

metrics for sporting events do differ from traditional business, the essential insight remains: Team performance is not merely a sum or aggregate of individual performances. Team performance — and the dynamics of interpersonal interaction between teams and coaches alike — requires dedicated data and analytics.

Beyond the field of sports, leading companies are clearly trying to achieve team-level insights and measurements. But, it's a difficult problem. Notes DBS Bank CIO David Gledhill, "Developing quality measures at a team level would be interesting to get at. But we just have not yet figured out a nice, creative way that wouldn't offend or turn people off. It's very complex to do that." Team-level assessment is inherently complex and complicated because "if I have not achieved my goal because I helped you to achieve your much larger goal, you get the credit for it and I don't," Tavis asserts. "And, in fact, I'm being penalized for giving you my time and maybe not attending to my goal that was organizationally a lot less important."

ADP's Compass is one of the few tools that supports team performance metrics, with teams rather than individuals as the primary unit of analysis. Such tools will likely grow in number and sophistication as the people analytics paradigm championed by Google attracts more attention and cross-functional teams take center stage in the workplace.

Performance Enhancement for All

Traditional performance management approaches have typically taken a three-pronged approach: (1) identify high performers to promote and develop them, (2) identify the low performers so that they may be culled, and (3) identify the broad middle — the typical, solid-but-unexceptional performers who, while hardly an afterthought, were not a focus or beneficiary of performance management systems design.

A new structural and cultural emphasis on talent, technology, and human capital development by market leaders is changing the game. Talent assessment and evaluation remain central, but increasingly, organizations embrace digital media and platforms to cultivate new competences and capabilities in the

broader workforce. Coaching — not just rating, ranking, and reviewing — is becoming part of the new performance management system. Digital economics makes this option simpler, cheaper, and more scalable. Just as important, the business impact and influence of these human capital investments can be quickly measured and assessed. “Technology is going to serve a tremendous role in directly empowering employees with resources and tools that are bite-size and real-time, that they can use to solve problems without necessarily needing to rely on their manager and certainly not on HR,” says Achievers’ Baumgartner.

To be clear, digital- and data-driven development tools have begun to personalize and customize their coaching and advice. Moreover, high-talent, high-potential performers and at-risk underperformers alike continue to receive special attention. But, increasingly, technology has become a medium for applying performance management methods to employees throughout the organization, whatever their talent level.

People Analytics

People analytics is a growing source of insight into performance. Ben Waber, CEO of people analytics software provider Humanyze, describes a Fortune 500 client considering a move that would consolidate 800 senior managers scattered among dozens of countries in Singapore. Looking at traditional metrics like moving costs, rent, salaries, and benefits, the company concluded that the move would result in an

annual savings of \$6 million. Most bottom-line-oriented companies, Waber asserts, would have embraced those savings and “stopped there. You would have said, ‘We are saving money, so we are going to do that.’”

However, the organization recognized top-line and organizational risks, as well. It decided to seriously analyze “how is this going to change not individual performance, but the performance of this entire division,” Waber recalls. Using people analytics, the company concluded that while the proposed move would increase cohesion among senior leadership, it would dramatically decrease cohesion within working teams. Modeling the adverse team impact — specifically, how the proposed consolidation would break valuable formal and informal networks — the company estimated the move would more likely result in an \$11 million annual loss.

By digitally detailing how individuals work and communicate with each other, people analytics can identify new sources of value creation. Despite — or because of — its potential, however, legal, ethical, and privacy concerns quickly surface. Sociometric badges, for example, have already become so sophisticated that they can discern a broad range of business-relevant information about employee interactions, including the frequency and duration of face-to-face interactions. Managed thoughtfully, that wealth of new data can generate a new wealth of human capital insights. “If you’re ‘datafying’ the information that you’re getting, datafying networks, datafying how people communicate, and you’re putting those data pieces together,” notes Patagonia’s Carter, “then you can begin to tell a story about what is going on in *this* company *today*, which is really the only thing that the C-suite cares about.”

Digitally transforming enterprises are revamping their performance management systems not only to accelerate their own transformations but rethink how to get the best from their people.

The Digital Future(s) of Performance Management

Clearly, yesterday’s compliance-oriented performance management systems aren’t good enough to sustain, let alone create, tomorrow’s competitive advantage: They can’t support enterprise ambitions to swiftly assess and productively cultivate human

PERFORMANCE MANAGEMENT MEETS DIGITAL TRANSFORMATION AT DBS BANK

Singapore-based DBS Bank is a multinational corporation that employs more than 26,000 people, but it's become a digital leader by thinking more like a tech startup than a bank. Describing the company's change in strategy, DBS CIO David Gledhill says, "We realized that the future competition wasn't going to come from just banks, but from a lot of cool technology companies that were going into finance." That epiphany led DBS to what Gledhill calls "a big mind shift." The company committed itself to total digital transformation and realized that it would need a thorough-going culture change to go along with it — one that also forced a change in how performance management is conceived.

The company has created a culture in which its workers embrace innovation and rapid iteration. It began by taking a cue from the tech giants Google, Amazon, Netflix, Apple, LinkedIn, and Facebook, which together form the acronym GANALF. To encourage employees to rally around the company goal, DBS added a "D" to spell GANDALF, a nod to the wise and wizened wizard of J.R.R. Tolkien's *The Hobbit* and *The Lord of the Rings* novels. "That goal and aspiration, more than any single piece of technology or anything else, really galvanized people to a completely new level of performance and thinking," Gledhill says.

With the goal established, DBS set about to engage all enterprise functions. "It's a partnership with HR in terms of reimagining the training and tools and the programs that we want to run," Gledhill says. "It's working with our

marketing folks to figure out how we shape and sell our message. It's working with the other business leaders to get them on board. So it becomes a culture shift more than anything else, which has to affect all parts of the organization. Everybody has to shift the way they operate."

The company, which has redefined banking in countries like Indonesia and India by making it mobile-only, paperless, and branchless, effected change in the organization through a focus on five areas: "project to platform, drive agile through the company, reorganize for success, design for modern systems, and automate everything," according to Gledhill. "Basically, we pivoted and changed the KPIs of performance completely for what great technology looked like. And if you weren't building towards those new targets, what you were building was starting to look not so good."

The company looks at performance on a daily, weekly, and monthly basis, and is using analytics to predict when salespeople will leave; Gledhill says DBS can predict attrition with 85% accuracy. When he thinks about the future of performance management at DBS, Gledhill is most excited about the "creative use of machine learning and advanced analytics. There's a lot of opportunity there that is very achievable, that could tell us an infinitely greater deal about what our employees are doing than we know today."

performance. The emerging consensus is that the performance management future belongs to data-rich systems that better inform and advise managers and workers alike. Bluntly, anticipating new opportunities matters more than summarizing past results.

Increasingly innovative, pervasive, precise, and predictive technologies will drive next-generation performance management. "Feedback" is yielding to "feed-forward" — data and analytics explicitly designed to facilitate tomorrow's high-performance outcomes. Organizational values and aspirations, not technical constraints, will shape how enterprises worldwide prioritize people's performance. New performance management systems will nudge

and make data-driven recommendations to both managers and workers. Professional development options will increase, while the ability to escape personal accountability will become more difficult.

The early impact is clear. Digitally transforming enterprises — such as IBM, DBS Bank, and Adobe — are revamping their performance management systems not only to accelerate their own transformations but rethink how to get the best from their people. (See "Performance Management Meets Digital Transformation at DBS Bank.") For these pioneers, new performance management platforms are both operationally and culturally strategic. They represent a key investment in human capital.

High-profile digital innovators around the world — Apple, Google, Amazon, Facebook, Alibaba, and Tencent, to name a few — are famous for their metrics-oriented cultures. They explicitly embed relentless performance expectations for their talented workforce. Indeed, Bock's performance management startup, Humu, is just the latest effort to disruptively do for people analytics what digital practitioners have done for — and to — legacy marketing and advertising: new metrics, new technologies, and new expectations. "Humu's algorithm runs thousands of iterations of proprietary statistical models to determine the unique areas of action that will drive happiness, productivity, and retention for every team at your company," Bock says. "That means every single person in your organization can focus on the change that matters, when it matters most."¹¹

To paraphrase science fiction writer William Gibson, the implications of the performance management future are already here — they're just unevenly distributed. Employees know they will receive constant, even relentless, data-driven performance feedback. That feedback's purpose is not to better review past performance but to empower ongoing improvement. Performance management is becoming customized and bespoke: Managers, as well as workers, get individualized perspectives and insights into what works and what doesn't.

Digital performance management platforms make such customization simpler, cheaper, and more scalable, which, in turn, makes performance management an enterprise-wide capability, not just the elite province of the top performers. Contingent contact center workers are as subject to the opportunities afforded by next-generation performance management as are full-time coders and salespeople.

New Dualities to Tackle

The overarching and transcendent technical reality is that the essence of human performance has changed. Next-generation performance management makes unambiguously clear that today's global workforces — from the most talented to the most typical — are becoming dependent on data and

other digital technologies. Advancements in workplace technologies effectively make next-generation performance management not just possible but also more powerful. The same digital tools and technologies that facilitate personal productivity can easily measure and monitor that productivity.

In other words, the technologies of performance monitoring, management, assessment, and improvement have become inextricably entwined. Data once used to track performance can — algorithmically — be used to predict, suggest, or even demand improvements. Enterprise networks that monitor individual and team performance for managers could be used to facilitate feedback for self-management. Next-generation performance management creates new opportunities for transparency and accountability across the enterprise. On one hand, these new digital tools help managers have better conversations, help employees know where they stand on an ongoing basis, and help companies build catalogs of skills.¹² On the other hand, the prevalence of highly personalized automated tools may lead employees to wonder, "Is everything I do now part of my evaluation?" This puts enormous pressure on traditional compliance-oriented HR functions. It forces a fundamental reevaluation of how organizations can get greater value from their people and processes.

Essential performance management questions around assessment, development, compensation, and incentives must be revisited. As better and more sophisticated performance analytics become instantly accessible, should individuals take greater self-improvement initiatives? Or should their managers manage and motivate more? Where should organizations draw clear lines between performance management data used to assess performance versus identifying areas for professional development? Should people be evaluated, recognized, and rewarded more for their performance as individuals or as parts of teams?

Next-generation performance management removes these questions from the realms of the hypothetical. In truth, these questions become future challenges. Their answers will determine the culture and quality of enterprise transformation.

In the final analysis, however, a focus on the digital future of performance management misses the fundamental point: The future of performance management matters less than the future of performance. That is, how does the organization want to

transform its performance capabilities and aspirations? The rise of new performance management platforms empowers the enterprise to drive and assess that transformation. As a result, leadership will be forced to confront new dualities.



1. More Impersonal and More Personal

The data-driven and algorithmically informed automation of feedback is the epitome of impersonal (think email coaching and automated nudges, for example). Greater automation can disintermediate the human manager from direct employee feedback or, alternatively, be used to augment human feedback (or both). Managers can more effectively offer specific personalized coaching and feedback based on what they see through their systems and on how a given employee is using his or her feedback. The role of the manager remains central but is recast, raising important new management issues.

How should companies blend automated and human feedback? Will human managers know when it's best to inject themselves into an employee's flow of automated feedback? Should organizations track whether people follow the nudges they get? How rigorously should such compliance be monitored? Is thumbs-up, in-the-moment feedback at the end of a meeting or conversation tracked, or is end-of-day, end-of-week, or end-of-month feedback more effective at constructively influencing performance?

An additional (and disconcerting) challenge confronting every workplace worldwide is whether people's personal phones should be instrumented to facilitate PM systems analysis and feedback. Even with privacy safeguards, should personal devices become part of professional assessment and development? Revamping PM requires many values- and culture-based choices to be made about feedback systems.



2. Feedback and Feed-Forward

With so many different ways to generate feedback, talent-oriented organizations will have many more options to analyze how feedback is actually used by employees. Are employees following advice and automated nudges? Compliance data around following advice and nudges will create new information flows — in effect, forwarding managers feedback usage data. This raises several new, profound management questions: How will managers choose to use these data flows? Will they create psychological profiles based on the nudges

employees receive and how effectively they adjust or respond to these recommendations? Future digital performance management systems will push managers to rethink how best to integrate feedback and feed-forward data. What kind of training will managers require to make full use of their feedback data? Will managers themselves be assessed on their effectiveness in using feedback data?



3. Individuals and Teams

Individual performance will continue to be measured and managed. Ongoing innovation ensures that the measuring and managing of individual performance will increase at a rapid rate, barring regulatory or legislative intervention. At the same time, more companies rely on teams and cross-functional collaborations to get work done. As the rise of sports analytics affirms, measuring team performance has become a human capital priority. ADP, for example, already offers team-based performance measures. This trend will likely intensify and accelerate. How, then, will companies blend individual and team-based metrics? Will evaluation, recognition, and rewards be weighted more for individual or team performance?



4. Success and Failure

Companies explicitly herald high performers, successful producers of value-generating outcomes. In innovation environments, however, risk-taking and failure must not be unduly discouraged. As more companies innovate to drive growth, some may choose to celebrate noble failures. Such failures may even be integral to how enlightened organizations culturally choose to define performance. Companies will have to consider how best to blend performance outcome metrics with experimentation and risk-taking metrics.



5. Employees and Nonemployees

Performance management systems, processes, and behaviors historically focus on full-time employees. The growing dependence on contingent and contract workers, however, raises concerns about cultural and operational consistency in the execution of performance management. To the extent that PM can measurably improve the efficiency and effectiveness of contingent workers, how might they be phased in? “Contingent” performance management can play a role not just in identifying the talent to be hired but in pinpointing the skills to be developed.



6. More Data-Driven and Intuitive

With improved data and analytics, managers will have data-enriched insights with which to personally coach individuals and teams. This puts an implied premium on softer skills — persuasion, facilitation, motivation — even as performance management becomes more tech-dependent.

Highlighting these dualities starkly clarifies the cultural and organizational challenges leaders confront when committing to next-generation performance management systems. C-suite executives must decide which trade-offs work best for employees, investors, and customers alike. Which types of monitoring, measures, and metrics offer the greatest insight into sustainable value creation? Effective performance management systems reinforce the workplace priorities and practices that top management has declared essential. So what kind of human capital investors do enterprise leaders want to be? If people truly are vital assets, they must be measured and managed in ways that meaningfully maximize their returns.

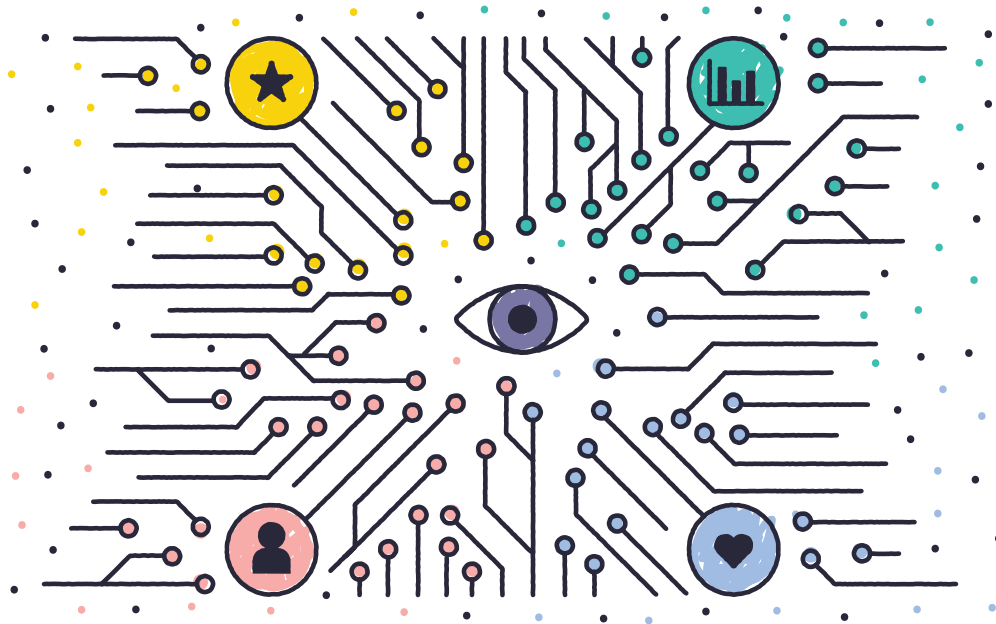
Five Scenarios

Our research suggests better practices but no single best practice when it comes to the design of performance management systems. That said, our interviews make clear that the most influential performance management systems go beyond simply managing performance to recognizing and rewarding enterprise values.

Performance management systems powerfully influence cultural norms; they monitor, measure, and manage the way people do things. The dualities described above highlight the challenging choices leadership confronts when investing in PM. Which dualities best reflect and respect enterprise values and people's potential going forward? What kind of performance culture works best?

The following scenarios illustrate how readily PM systems can reinforce values-based processes and professional development. Digital PM platforms enable innovation around hiring, acquiring, cultivating, and retaining talent. Management will have more, not fewer, options around centralization, delegation, and accountability. Performance management becomes performance leadership.

Many large organizations will have to confront technology integration issues, combining new systems with older, legacy arrangements that have helped entrench PM behaviors and related cultures. Those that solve these integration issues quickly and thoroughly will gain an advantage in the war for talent.



Scenario 1: Driving Performance With Metrics

In this scenario, performance management is characterized by comprehensive top-down monitoring, measurement, and accountability. C-suite leaders explicitly identify the strategic goals and enterprise KPIs or objectives and key results (OKRs) — customer lifetime value, Net Promoter Score, churn, revenue per employee, risk-adjusted return on capital, and others — that matter most. This approach ensures that platforms rigorously track how well people and processes deliver to quantitative expectations — that is, how well individual, team, and functional KPIs contribute to overall enterprise outcomes. Feedback is focused and relentless; everyone knows what is expected of them. Morale and employee engagement are monitored to the extent they ensure desired outcomes.

Professional development matters less than hitting one's numbers. Indeed, meeting goals is the price of admission to professional development. CFOs and chief revenue officers, for example, can not only see which teams, groups, and processes reliably meet targets, but they can also access predictive algorithms that anticipate performance-based problems.

Deviation signals performance problems, with outside-the-envelope numbers triggering automated alerts and nudges to wayward workers and their managers. These can be sent in real time or every day. People's devices flicker or vibrate with updates, notifications, and advice for getting tasks done on time and on budget: *Your code needs to be submitted for testing by 3 p.m. Please respond to your last three texts. Please review colleague's customer presentation by 9 a.m. tomorrow.* Their managers and their managers' managers can also track their real-time performance and progress.

PM systems in this scenario privilege standardization and enforcement with algorithmic consistency trumping managerial discretion. This minimizes any possibility of favoritism, cronyism, or discrimination. Diversity and inclusion targets are built into hiring and onboarding assessment; top management determines how much PM transparency exists among business units and functions. Essentially, all employees and managers know which performance deliverables they're signing up for. Machine learning software is used not just to learn

from but to train individual performers. For example, sales software lists and prioritizes which sales teams should pitch which clients and prospects. Machine learning software sequences the cold calls and outreach sales teams should make, along with expected close rates.

Underperformers with potential get linked to digital tutorials and coaches for rehabilitation; those without potential are asked or told to leave. Top-management accountability comes from the corporate boards that have signed off on strategic KPIs and clearly see how well the enterprise achieves them.



Scenario 2: Treating People as Assets

In this scenario, people are treated as human capital assets who merit ongoing investment and renewal. The purpose of performance management is to be a smart portal for both personal and professional development. Performance management is as much about measurably promoting and reinforcing core values of collaboration and teamwork as it is about cultivating individual skills and capabilities. While hitting enterprise KPIs is vital, investing in people is seen, operationally and culturally, as the surest way to attain desired results. Digital platforms explicitly inform workers and managers how to become their best selves.

Assessment is designed to motivate and enhance performance; managers and workers are asked rather than told to accomplish tasks. Just-in-time data and analytics offer insight into improving efficiency and effectiveness. Managerial inboxes

and calendars, for example, are filled with recommendations on colleagues to contact and meetings that are linked to agreed-upon performance goals. Enterprise performance management tools and technologies are positioned as digital prompts, partners, and advisers rather than monitors or enforcers.

While the majority of feedback is delivered digitally, performance management software does advise human managers how to better offer face-to-face feedback and critique. The goal is to offer a full array of data-driven and analytically informed touch points assuring that people can improve performance along the learning paths most comfortable and effective for them.

People are hired and promoted with the expectation that they're invested in their own professional

development and that the enterprise fully supports them. Managers and workers alike are expected to be self-motivated and committed to using performance management resources for ongoing improvement. Promotions to management are likewise conditioned upon enterprise values of bringing out the best in one's team. Assessment is inextricably linked to professional development and performance improvement.

These performance management platforms look to facilitate productive network effects: workers and managers improving the performance of other workers and managers across the enterprise. Best-practice repositories of videos, tutorials, apps, and presentations are readily accessible, recommended, and shared.

In this scenario, HR — or the people management function — assiduously monitors which

performance management tools, techniques, and technologies promote the greatest improvements in engagement, efficiencies, and outcomes.

This group advises leadership, process owners, and managers on what works best for their people, as well as recommends professional development road maps for high performers and typical performers alike. Persistent underperformers usually do not need to be told to leave; remaining becomes too uncomfortable for those unwilling to eagerly and actively invest in themselves and others. People join and stay with these organizations precisely because they promote healthy self-awareness, self-improvement, and social support. These organizations aren't just intent on getting better at getting better; they select for people who are intent on helping others get better at getting better. Their performance management platform investments reflect and respect those commitments.



Scenario 3: Leveraging Leaders and Managers

In this scenario, enterprise leaders and managers choose which performance management ensembles work best for them. That is, the leaders and manag-

ers held explicitly accountable for delivering key results select the performance management platforms that best align to their promised deliverables.

Consequently, effective performance management systems must reinforce the priorities of the leadership team or individual most responsible for successful outcomes.

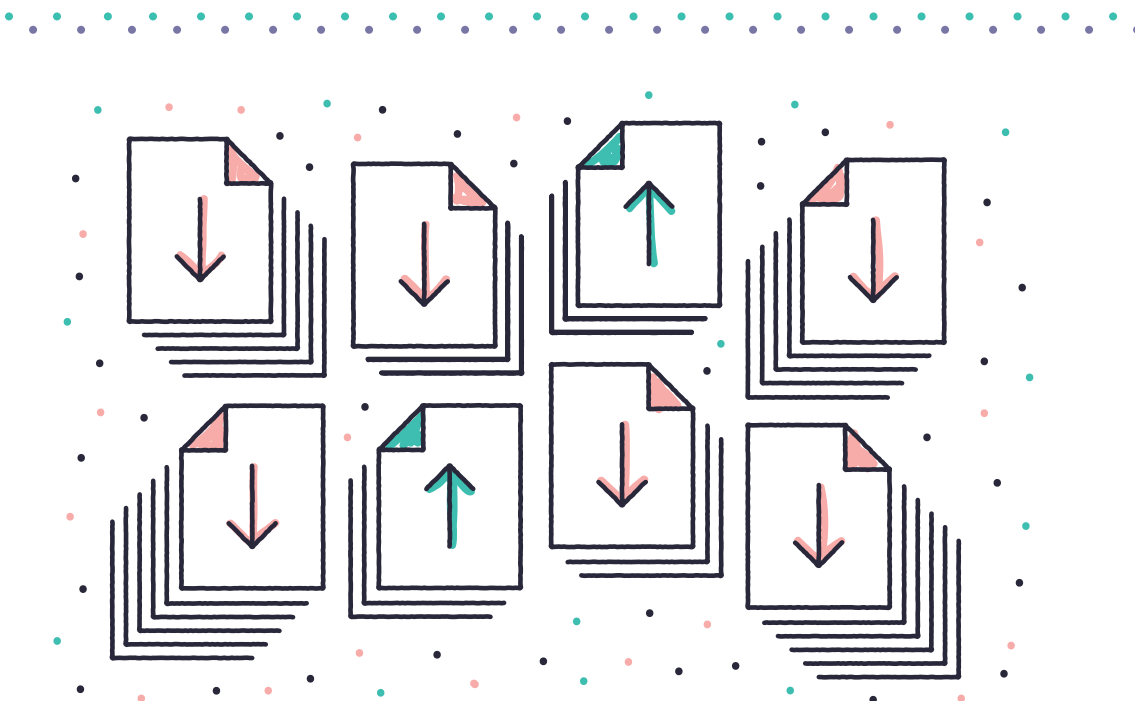
The sales leadership selects the PM approach most suitable for sales; the marketing leadership picks the PM platform best supporting its needs; and customer success management chooses PM capabilities that promote its desired impact. The flexibility given to functional leaders comes at a cost, however: possible conflict and confusion.

Top management's essential role in this scenario is to make sure that these different functions coordinate and align their PM priorities where appropriate. Top management, coordinating with the HR function, must clarify and adjudicate real and perceived PM conflicts between business units. That

is, might promoting greater client engagement via marketing undermine sales team efforts to upsell a product or service? Conversely, do consultative selling initiatives by sales interfere with "customer success" education and training efforts?

In this environment, performance management systems designed to empower and optimize high-performance outcomes for functional leadership may create challenges for other parts of the organization. This internal rivalry, left unaddressed, could prove counterproductive.

On the other hand, PM diversity can not only improve the impact and efficiency of specific functions but identify opportunities for cross-functional coordination and collaboration. HR becomes an essential facilitator of professional assessment and development in this scenario.



Scenario 4: Focusing on Value Creation

In this scenario, focused and targeted priorities overwhelmingly define the performance management platform purpose. After legal and compliance obligations are addressed, the PM system looks at both

managers and workers to determine which 20% of actions and activities are responsible for generating 80% of the value — and 80% of the problems and inefficiencies. Whatever the specific metric, the goal

here is to make sure that a manager's time, effort, and resources address the PM issues and opportunities that matter most. In this scenario, PM analysis and assessment monitor managers and workers with the explicit intent of identifying the portfolio of activi-

ties, people, roles, or skill sets that determine 80% of effective outcomes. Managers and workers alike are assessed by how well they contribute. These assessments generate recommendations for improvement, recognition, or rewards.



Scenario 5: Prioritizing Team Performance

In this scenario, the primary goal of performance management is to maximize a team's effectiveness — thus, team performance is privileged over individual impact. While personal contributions are monitored, KPIs are designed to highlight how well the team is doing. The organizational and cultural goals are to ensure that the performance of the team is measurably greater than the sum of its individual parts.

This performance management approach asks managers to coach and motivate teams of people. Developing team capabilities matters more than cultivating individual skills. This PM platform facilitates the coordination, cooperation, and collaboration that help teams win. Data and analytics are used to create and promote the type of team chemistry that boosts results.

Managers in this scenario will look to professional sports data and analytics practices to inform and in-

spire team-centric PM. Which team players bring out the best in their colleagues? Which interpersonal relationships require special attention? Who should take charge of in-process and in-project decisions? KPIs guide managers to better mix and match their people to encourage desirable outcomes. Identifying the most valuable player is less important than enabling the right two or three people to reliably overdeliver. *Moneyball*-like metrics will monitor and help predict which combinations of talents and skills should be “on the floor” to optimize performance on jobs or tasks.

For example, managers of software development teams might use data and insights to create groupings of programmers and testers who enjoy productive interactions with coders. Managers use team-centric PM not just to make sure quality code is being delivered in a timely fashion but to determine which collaborations energize rather than exhaust.

Alternatively, a contact center manager might use team-based PM to ensure that workers are sharing customer support data with one another — for instance, texting advice, reviewing customer chat screens, and doing network analysis around how effectively informal communications lead to timely resolution of customer issues. The manager might identify which teams do best at different times of the day or with different kinds of customers. The overarching performance optimization issue may be determining which contact center teams improve Net Promoter Scores, with employee incentives rewarding teams rather than individuals.

Executives face new, strategically relevant choices about the kind of cultural values they want their performance management platforms to support.

The irony of this approach to performance management is that creating and cultivating team chemistry likely requires a greater understanding of individual talent and temperament. That is, managers will need to know more about their people as individuals to better motivate their performance as teammates.

These scenarios explicitly highlight a key takeaway of this report: Technology gives senior leadership new powers and capabilities for evaluating and cultivating their human capital. As a result, executives face new, strategically relevant choices about the kind of cultural values they want their performance management platforms to support. This goes well beyond traditional HR charters and compliance mandates; these scenarios challenge top management teams to rethink and revisit how both performance and management should be recognized, measured, encouraged, and rewarded.

Prescriptions

Successful next-generation PM approaches require revisiting fundamental assumptions, not simply using technology to improve existing HR processes and reviews. Is your company prepared for this level of change? MIT Media Lab media arts and sciences professor Alex “Sandy” Pentland suggests that com-

panies still using organization charts may not be: “Just the statement that you have an org chart says that you understand all the connections in the process perfectly, and it’s not supposed to change. And that was exactly right in 1880, when you were going to make the same cast-iron part for 20 years, right? But it’s exactly wrong today.”

Senior leadership should consider how best to invest in and derive greater value from their people and recognize that the future of performance management will likely determine the future of enterprise culture. What does the organization want performance to mean? Is the organization ready to disrupt itself to ensure that talented and typical employees alike can become their best selves? “It’s not so hard to get rid of end-of-year performance appraisals,” says Peter Cappelli, George W. Taylor Professor of Management and director of the Center for Human Resources at The Wharton School. “It’s much harder to get people to actually start talking to each other. That’s a big culture change.” Executive commitment to cultural change is essential to any large-scale change in performance management. This commitment takes several forms.

- **Commit to a data-driven, team-oriented culture.** Develop data-driven performance management platforms and tools that identify and assess the human interdependencies that exist within and between teams. Measuring individual contributions is typically inadequate and misleading. PM tools and platforms must play a dual role in helping managers manage teams as teams, not just as individual performers. Create databases that capture workforce skills to improve team creation and collaboration. Develop a KPI for improving team performance.
- **Commit to a continuous feedback culture.** Just as people rely on Google Maps or Waze to manage their expectations around travel, employees need to be able to manage their expectations around work. Performance management tools and platforms should facilitate ongoing feedback on individuals’ progress, growth, and development opportunities. Among the future

scenarios, feedback is automated, customized, visualized, and communicated in different ways. Executives must wrestle with how to define the feedback experience for their workforce; doing so provides an opportunity for senior management to develop a shared perspective on the purpose of PM in their organization.

- **Commit to clarity between assessment and development.** Granted new digital abilities to appraise and develop, managers should make absolutely clear when feedback is about assessing performance and when it's about cultivating skills. Create easily understandable PM policies that clarify how and where to draw this line, for both managers and employees alike.
- **Commit to transparency.** The credibility and trustworthiness of next-generation PM systems depend on transparency. Managers and employees should have easy access to personalized feedback data. For example, let employees see that their contributions to meetings are recognized or that their blown deadlines cost the company a big client. While this may require a significant shift in how data is collected, connecting feedback transparency to data collection is consequential to organizational culture. In short, transparency is the foundation of a fair and equitable culture.
- **Commit to PM-KPI alignment.** There is no meaningful performance management without measurable KPIs. The surest way of instilling PM accountability for employees and managers alike is requiring clear and concise key performance indicators or key results. Directly and unambiguously linking PM activities to KPIs or OKRs becomes a critically important managerial duty. Managers, not HR, ensure that PM activities support measurable, valuable business outcomes.

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