

The Future of Performance Management 2023



Use continuous feedback to nurture a strong manager-employee partnership



JULY 2023

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About the Survey

The State of Performance Management survey ran in the second quarter of 2023. We gathered 295 complete and partial responses from HR professionals in virtually every industry vertical.

Respondents are located all over the world, but most of them reside in North America, especially the United States. The participants represent a broad cross section of employers by number of employees, ranging from small businesses with fewer than 50 employees to enterprises with 20,000+ employees.

Executive Summary

Today's employers have a historic performance management problem. U.S. productivity seldom declines on an annual basis, but in 2022 there was a decline of 1.6%, the [largest](#) in half a century. What's more, 2023 started off with a first-quarter decline of 2.1%.

Amid these trends, businesses are striving to improve their performance management processes, with a renewed emphasis on improving overall performance.

For the first time in six years of conducting our research on performance management, we found that the most widely cited objective for conducting performance management reviews was "to help the company improve overall performance."

This is a change from the past five years, when the most widely cited objective was "to help employees learn and grow" (73% in 2018 versus 66% in 2023, representing a seven percentage point decline). We don't mean to imply that employee development isn't *still* a major objective of performance management, but the desire to improve corporate performance is now predominant.

As organizations struggle to boost their *overall* performance—as well as the performance levels of *individual* employees—they are working to improve their performance structures and systems. To better understand the details of what they're doing, we investigated the following areas:

- the extent to which organizations use structured, formal, and informal performance management processes
- today's performance management objectives and metrics, and the degree to which organizations effectively meet their performance management objectives
- how leaders view the performance management process, and the extent to which managers get training and are held accountable

- the type and frequency of performance feedback, and the extent to which organizations embrace continuous feedback and formal appraisals
- how extensively organizations use performance management digital technology features, and the extent to which performance management systems integrate with other HR systems
- how performance management has changed over the past two years and how it is expected to change in the future
- the practices and outcomes most closely associated with performance management success

Key Findings from the Study

Major Finding 1

Most organizations fail to meet important performance management (PM) goals to a high or very high degree, a problem that seems to have grown worse in the last year.

- From 2022 to 2023, there has been a noticeable drop in the degree to which employers' performance management processes have resulted in the following to a high or very high degree:
 - ▶ ability to meet organizational PM goals (44% to 33%)
 - ▶ improved employee performance (44% to 34%)
 - ▶ improved employee development (35% to 28%)
 - ▶ increased employee engagement (37% to 31%)
 - ▶ improved employee retention (32% to 24%)

Major Finding 2

Over the past two years, performance management has changed in a variety of ways to focus more on the needs of employees.

- There has been an increase in the frequency of one-on-one meetings, with 32% indicating that employees and managers are meeting together more often.
- 32% also indicate employees have had greater input into their performance goals.
- 30% indicate that managers have been touching on issues aside from performance, such as well-being.
- 28% say that managers have been working harder to align employees' personal goals with business objectives.

Major Finding 3

Organizations too often lack accurate performance metrics.

- Less than a third of respondents (30%) indicate their performance management process accurately portrays employee performance.
- The three most commonly used PM metrics are:
 - ▶ manager ratings (66%)
 - ▶ employee self-ratings (55%)
 - ▶ goal achievement (54%)
- As a means of setting and tracking goals, the most widely-used methods organizations are:
 - ▶ SMART goals (63%)
 - ▶ key performance indicators (38%)
 - ▶ objectives and key results (20%)
 - ▶ method used in organization's performance module or system (15%)

Major Finding 4

Most managers lack PM-related training and accountability, which could help explain poor performance management skills.

- Only 31% agree and strongly agree managers have received sufficient training in PM.
- This probably contributes to why just 23% of HR professionals agree or strongly agree that the managers of their organizations are skilled at overall performance management, and just 32% say they are good at having conversations about workplace performance and behaviors.



Major Finding 5

Although a majority of HR professionals think that top leaders see performance management as useful, many still believe leaders see it in a negative way.

- Over half (56%) believe top leaders view PM in a positive light.
 - ▶ 15% say it aids employee development,
 - ▶ 15% think it improves engagement,
 - ▶ 13% say it is an effective way to make employee-related decisions, and
 - ▶ 13% report crucial for business performance, which is of particular concern considering it is a strong part of the purpose of performance management.
- Nonetheless, the wide response is that top leaders view PM as a “necessary evil” (34%), and another 6% believe leaders see it as an “unnecessary waste of time,” indicating that two-fifths of organizations have leaders with a negative view of PM.

Major Finding 6

Most organizations use digital technologies for the purpose of performance management, but the technologies often fall short in certain ways.

- 80% of organizations use digital technologies, but only 42% use them to a high and very high degree, while another 17% use them to a moderate degree.
- The most commonly cited capabilities of PM systems are:
 - ▶ tracks performance appraisal ratings (63%)
 - ▶ facilitates the review process (62%)
 - ▶ allows users to evaluate performance in relation to goals (58%)
 - ▶ provides timely reminders to managers (54%)
 - ▶ permits managers to add notes at any time (53%)
 - ▶ permits automated reminders (51%)
- Given the reported importance of employee development, it is surprising to find that only:
 - ▶ 34% say their system tracks training and development achievement
 - ▶ 28% say their system aids training and development (T&D)
 - ▶ 17% make T&D suggestions
 - ▶ 16% say their system can integrate with third-party solutions (for example, learning management systems)

Major Finding 7

Compared to organizations that do not excel at PM, those that do are:

- nearly 4X more likely to get better employee development and 4X more likely to get better employee performance
- 4X more likely to discuss formal reviews or appraisals of employee performance four or more times per year
- over 3X more likely to have top leaders who think performance management is an aid to employee development and nearly 2X as many leaders who think performance management is crucial to the business
- nearly 3X more likely to hold managers accountable by tracking their coaching and/or conversations
- nearly 3X more likely to hold managers accountable for engagement and/or retention rates of direct reports assessed
- nearly 2.5X more likely to tie managers' performance management goals to compensation rates, bonuses, or other rewards
- nearly 2X more likely to say managers are held accountable for KPIs metrics
- nearly 2X more likely to have manager and employee conversations about career goals and aspirations four or more times per year
- 2X more likely to accurately portray employee performance
- nearly 2X more likely to improve manager-employee relationships
- 2X more likely to be good at helping employees set goals
- over 2X more likely to say managers are satisfied with their performance management system
- nearly 2X more likely to say their PM technology systems can integrate with third-party solutions
- are nearly 2X more likely to say managers have received sufficient training in PM
- nearly 1.5X more likely to embrace a structured and formalized performance management process
- nearly 1.5X more likely to allow for continuous feedback
- 1.5X more likely to say the future will focus on boosting employee performance

Please note that the findings and recommendations contained in this report are informational only. Nothing in this report should be construed as constituting legal opinions or advice. Please consult an attorney if you have questions about the legal requirements, rules or regulations associated with any content discussed in this report.

The Effectiveness of Performance Management Today



Finding: From 2022 to 2023, there was a decline in the perceived effectiveness of performance management based on various results

Losing Ground

We asked respondents to identify the degree to which their company's performance management processes bring about ten major PM outcomes. As shown below, for the last two years, most organizations have not received high and very high degrees of performance management results.

Further, there has been a considerable decline in those results from 2022 to 2023. Perhaps the most concerning news is that, in 2023, only a third (34%) of organizations' performance management processes led to the "ability to meet all organizational performance management goals" to high and very high degree, as compared to more than two-fifths in 2022 (44%). Moreover, only 33% indicate improved employee performance, compared with 43% in 2022. Likewise, in 2023, only 28% of organizations indicate high degrees of better employee development, compared to 35% in 2022.

Productivity Woes

U.S. productivity seldom declines on an annual basis, but in 2022 there was a decline of 1.6%, the [largest](#) in half a century. What's more, 2023 started off with a first-quarter decline of 2.1%. No one quite knows why the U.S. has seen such a historic decline in productivity. There are any number of guesses, from more inexperienced workers in the workforce due to considerable employee turnover during the [Great Resignation](#) period to the claims that people are less productive in [remote work](#) situations to [counterclaims](#) that return-to-work policies are driving down productivity.



There was an especially large drop in the percentage of people saying performance management has improved employee performance to a high or very high degree

Performance Management Leaders and Laggards

To better analyze the data from our survey on performance management, we broke our respondents into groups, based on responses to an option in the survey question cited above.

- **Performance-management (PM) leaders:** respondents who say their organizations' performance management processes result in them achieving all performance management goals to a *high or very high degree*.
- **Performance-management (PM) laggards:** respondents who say their organizations' performance management processes result in them achieving all performance management goals to a *moderate, low, very low degree, or not at all*.

Throughout the rest of this report, we will discuss the aggregate survey findings first. Then, if there are any major differences among the PM leaders and PM laggards, we will report them immediately after the aggregate data to identify possible key takeaway strategies or practices.

Within the PM leader and laggard sections, we will reveal findings that come from the examination of the data in a way that identifies correlations between various organizational factors and the perceived effectiveness of performance management. Correlation does not prove causation, of course, but it may point our attention toward possible best practices and potential strategies.



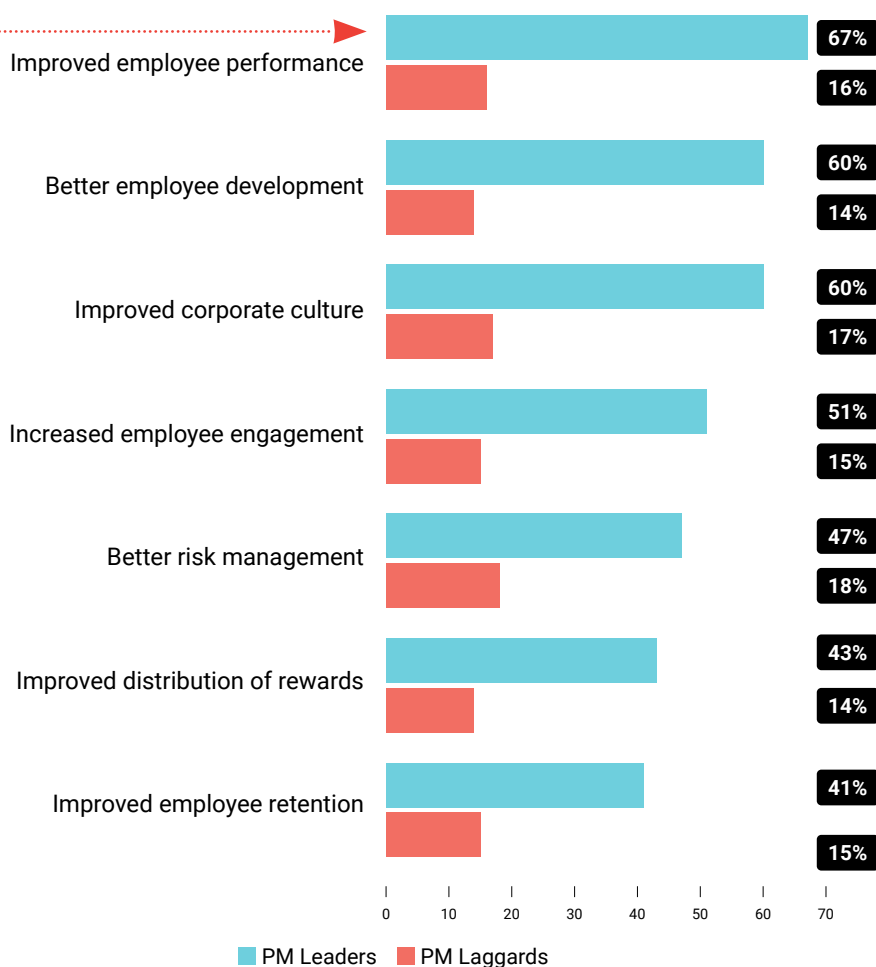
Finding: PM leaders tend to have greater success across a variety of performance indicators

As shown below, organizations that say they have the ability to meet all of their performance management goals to a high or very high extent (that is, our performance management leader organizations) are also far more likely to have seen advances across a variety of variables, from “improved employee performance” to “improved employee retention.”



PM leaders are over 4 times more likely to say they’ve seen improved employee performance to a high or very high extent

Does your organization have a performance management process? (select the one that best applies)



Extent to Which PM Programs Are Formalized and Structured



Finding: About half (48%) indicate their PM process is “structured and formalized”

We asked respondents to let us know which of the statements below best describes the extent to which their programs are formalized and structured. Just under half (48%) say their organizations have a structured and formalized process.

Over a third (37%) say their process has both formal and informal elements, whereas the process is not “structured” per se but may, for example, utilize the annual performance review as a formal component but with less rigor around what touches the review process. Another 9% indicate “an informal performance management process with no formalized elements,” and 6% say their organization has no performance management process at all.

In the rest of this study, we exclude the 6% of organizations that do not have performance management processes, except for questions about the future of performance management.

By Organization Size

Larger organizations (55%) are considerably more likely than smaller (33%) and mid-sized (40%) organizations to have a structured and formalized PM process, while smaller organizations (17%) are more likely than mid-size (4%) and large (5%) organizations to have informal elements.

We believe that one reason for this, which we’ll discuss later in the report, is that larger organizations more often have performance management technologies that lend greater structure and tangible measurements to the PM process.



For the purpose of this report, large organizations have 1,000 or more employees, mid-sized organizations have 100 to 999 employees, and small organizations have 99 or fewer employees.



Less than half say
their organization
has a structured and
formal performance
management
process

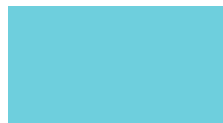
Does your organization have a performance management process?
(select the one that best applies)

Yes, it is a structured
and formalized process



48%

Yes, it is a process
with both formal and
informal elements



37%

Yes, but it is an informal
process with no
formalized elements



9%

No



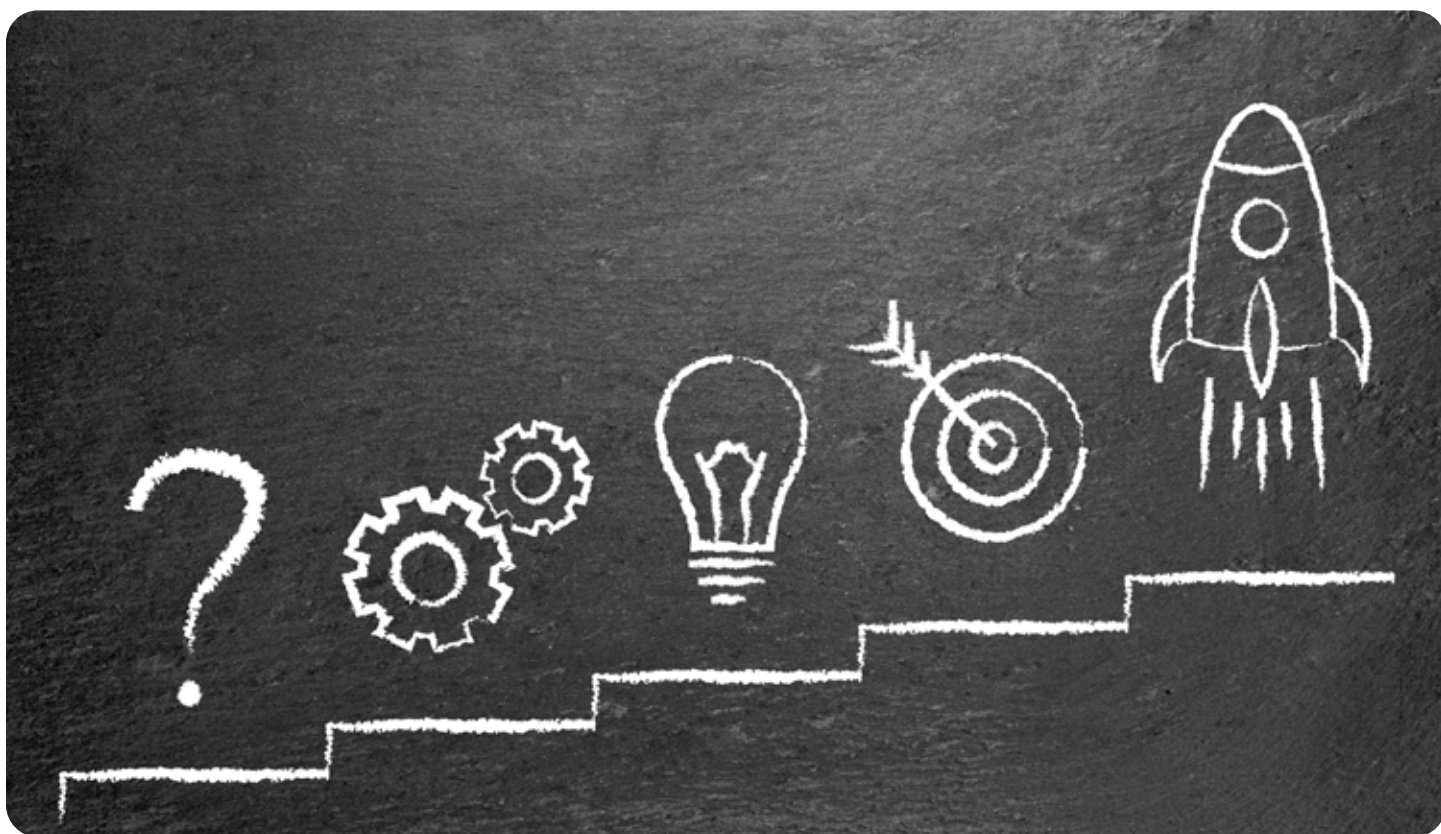
6%

0 10 20 30 40 50



Finding: PM leaders are more likely to embrace a structured and formalized performance management process

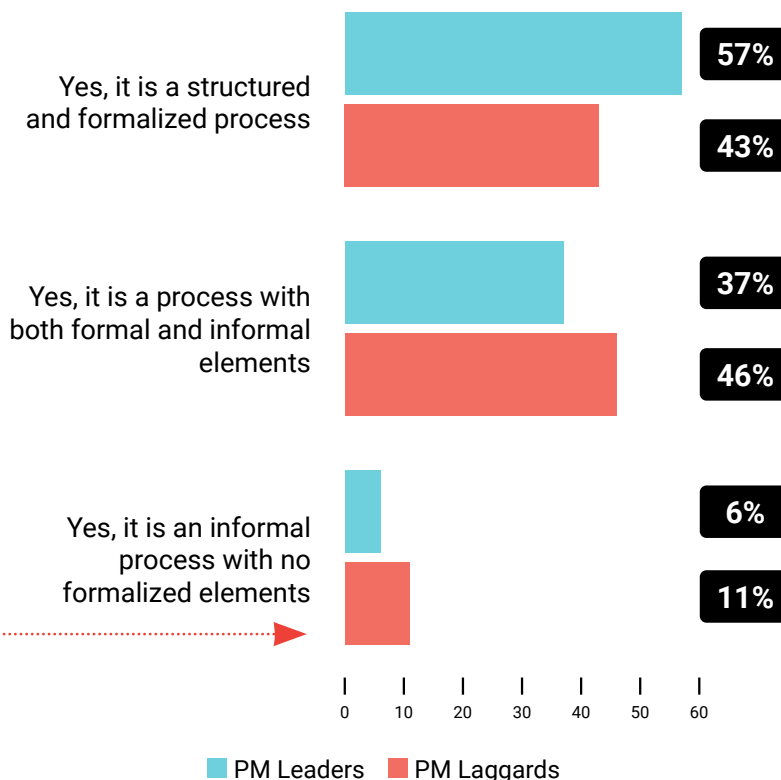
Other [research](#) suggests that putting structure around management practices and disciplines leads to higher productivity and fosters learning and development. This may be one of the reasons PM leader organizations (57%) are more likely than laggard organizations (43%) to indicate their performance management process is structured and formalized. On the other end of the spectrum, laggard organizations (11%) are about twice as likely as leader organizations (6%) to indicate their performance management processes are informal, with no formalized elements.





Laggards are more likely to implement less formalized performance management processes

Does your organization have a performance management process? (select the best one that applies)



HRRI Research Takeaway: Although an organization doesn't need to have a formal and structured process to be successful at performance management, there do appear to be advantages to more formal systems. So, if your current system is ineffectual as well as informal and unstructured, you should consider investigating more formal systems that are working well for other organizations that you respect.

How Performance Management Has Evolved Recently



Finding: Performance management has become more personalized and has incorporated non-performance-based discussions

How has performance management changed over the last two years? Generally speaking, we found that organizations are most likely to have increased their focus on interacting with individual employees. In fact, about a third (32%) report their organization is conducting more one-on-ones with their employees, and an equal proportion say they afford employees more opportunities to have greater input into their performance goals.

Rounding out the top five changes:

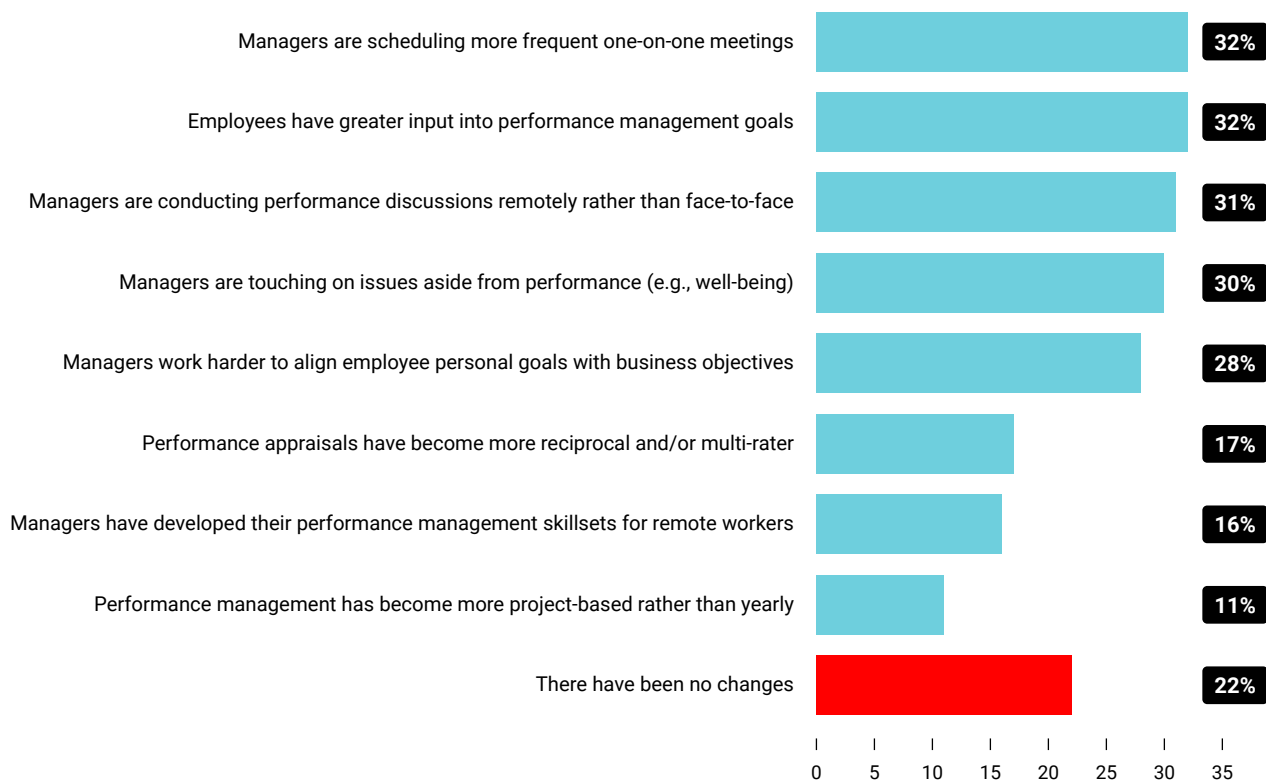
- conducting more performance discussions remotely
- spending more time discussing issues aside from performance (e.g., well-being)
- working more to align employees personal goals with business objectives

On the other hand, just 17% indicate the structure of performance appraisals has become more reciprocal/multi-rater, and just 16% say managers have developed their PM skillsets for remote workers. The latter is just one of various data points in the study suggesting that managers could benefit from better performance management skill sets. Most organizations (78%) have seen some type of change over the last two years.

By Organization Size

Smaller organizations and mid-size organizations (both at 42%) are considerably more likely than large (23%) organizations to indicate managers are scheduling more one-on-one meetings. We don't know if this is because larger organizations had already adopted this process early during the pandemic or because managers at larger organizations are stretched too thin due to managing too many direct reports. Larger organizations (23%) are more likely than smaller (8%) and mid-size (16%) organizations to indicate managers have developed their performance management skill sets for remote workers.

How has performance management changed in your organization over the last two years? (select all that apply)



Just 11% say that performance management has become more project-based

The Primary Objectives of Performance Management



Finding: The single most common performance review objective is to improve overall performance, but PM typically has multiple important objectives

A majority of organizations (71%) say that their most common objective for conducting performance reviews is to help the organization improve overall performance. Although this doesn't *sound* surprising, it actually represents an interesting change from previous years.

Longitudinal Changes in PM Objectives

2018 was the first year in which the HR Research Institute asked HR professionals, "Which of the following describes your organization's objective for conducting performance reviews?" At that time, the top response was "To help employees learn and grow," cited by 73% of respondents. For four years, that remained the number one response to that question. In 2023, however, we saw a change. For the first time, the top response was "To help the company improve overall performance." Meanwhile, the response about helping employees learn and grow fell to third place and was cited by only 66%.

The shift from 73% to 66% represents a statistically significant drop, according to a chi-square test.

An Important Shift

Although we don't want to read too much into this decline, we do think it might be an important turning point. As we noted earlier, the United States suffered an overall decline in productivity in 2022, the largest decline since 1974, according to data from the [Bureau of Labor Statistics](#). In the context of these widespread productivity woes, it makes sense that overall organizational performance has become the most widely cited objective of performance management.

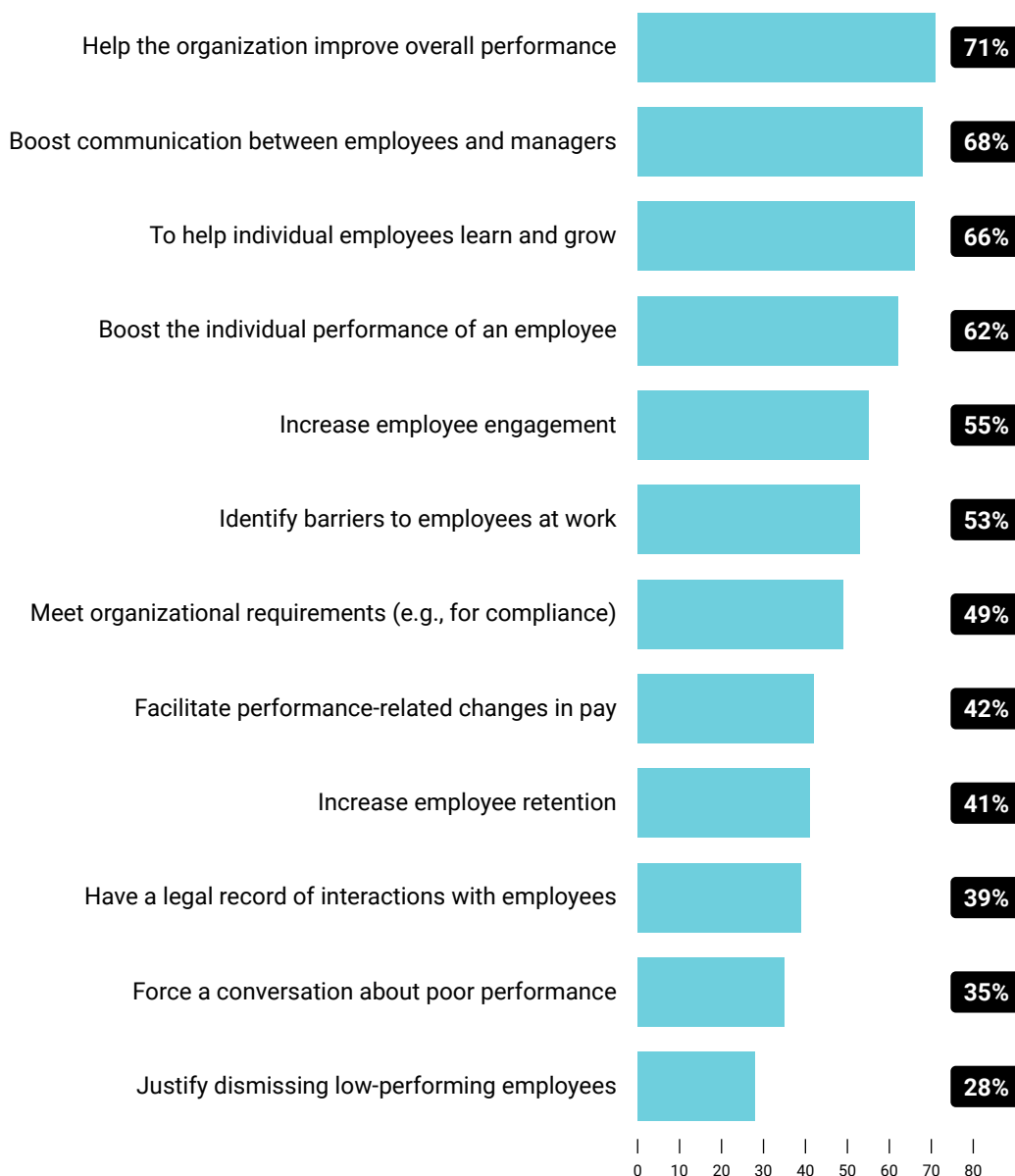
There Are Multiple Important Goals

Although overall performance is most widely cited, there are six different objectives cited by over half the respondents, as can be seen in the chart below. It's clear that performance management continues to be a function from which much is expected in today's organizations.

By Organization Size

Larger organizations (63%) are considerably more likely than smaller (38%) and mid-size (48%) organizations to say that objectives of performance review meet organizational requirements (e.g., for compliance). This may be because some larger organizations have a wider range of compliance initiatives, given their size. It may also be linked to their more common use of performance management technologies.

Which of the following are objectives your organization's performance reviews are designed to achieve? (select all that apply)



Just 42% say their organization uses performance reviews to facilitate performance-related changes to pay



Finding: When structuring and managing goals, organizations most commonly use “SMART” goals to increase performance

A classic performance management approach, and one backed with a great deal of research, is the [SMART process](#) (specific, measurable, achievable, relevant and time bound goals). Nearly two-thirds use this method (63%), the only option used by a majority of respondents.

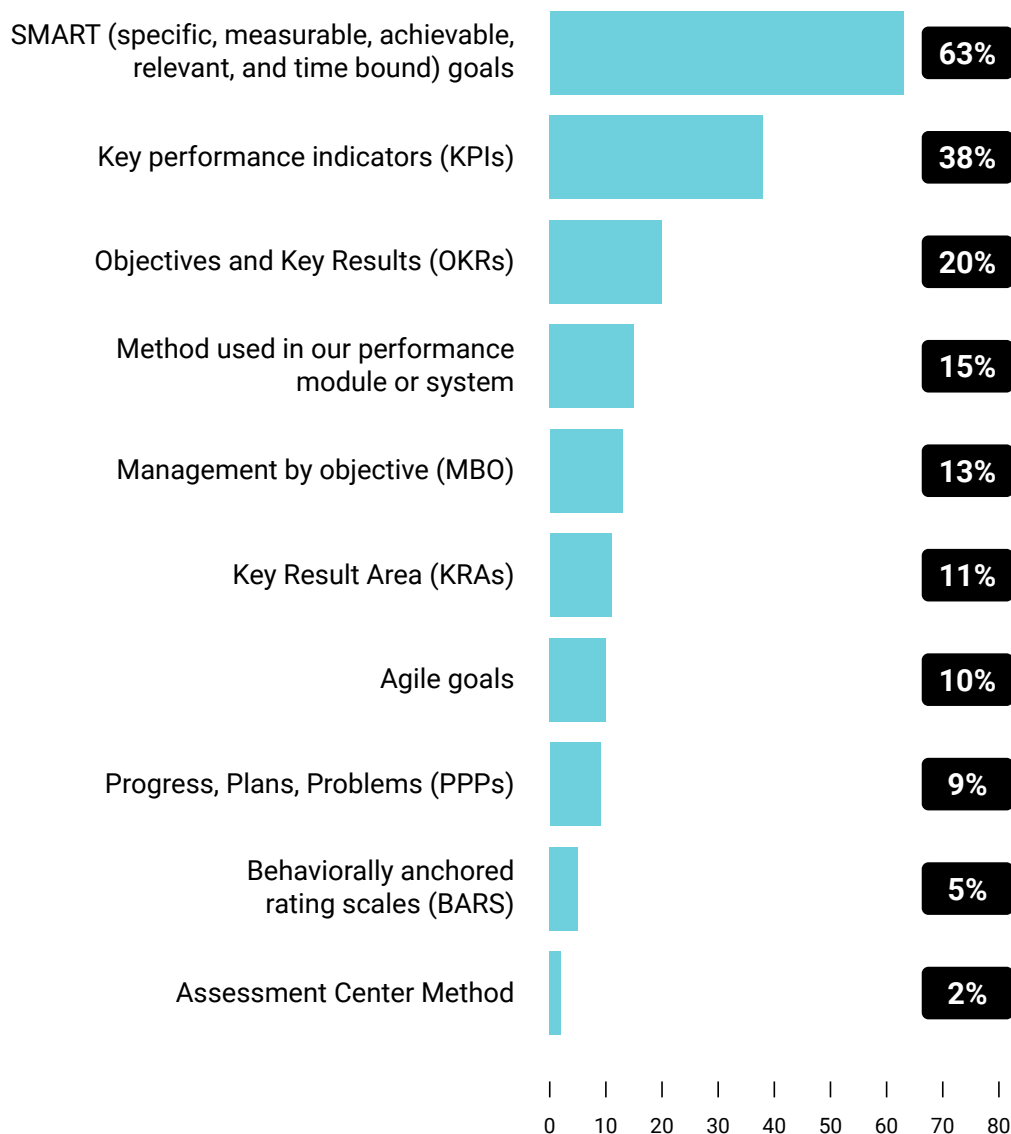
Key performance indicators ([KPIs](#)) are the second most common method (38%), which are subsets of goal-oriented activities or objectives that help an organization realize if it is on track for meeting a particular goal. The third most widely cited method is Objectives and Key Results, often known as [OKRs](#).

By Organization Size

Smaller organizations (26%) are more likely than larger (6%) and mid-size organizations (13%) to say they do not use any of these tracking methods. This may be because smaller organizations use technology less often, or perhaps they believe such formal tracking methods are less necessary when performance is more easily apparent when there are small numbers of employees.



**What methods does your organization use to set goals and track results for the purpose of increasing performance?
(select all that apply)**



Just 10% use agile goals and even fewer use behaviorally anchored rating scales



Finding: Organizations most commonly rely on manager ratings

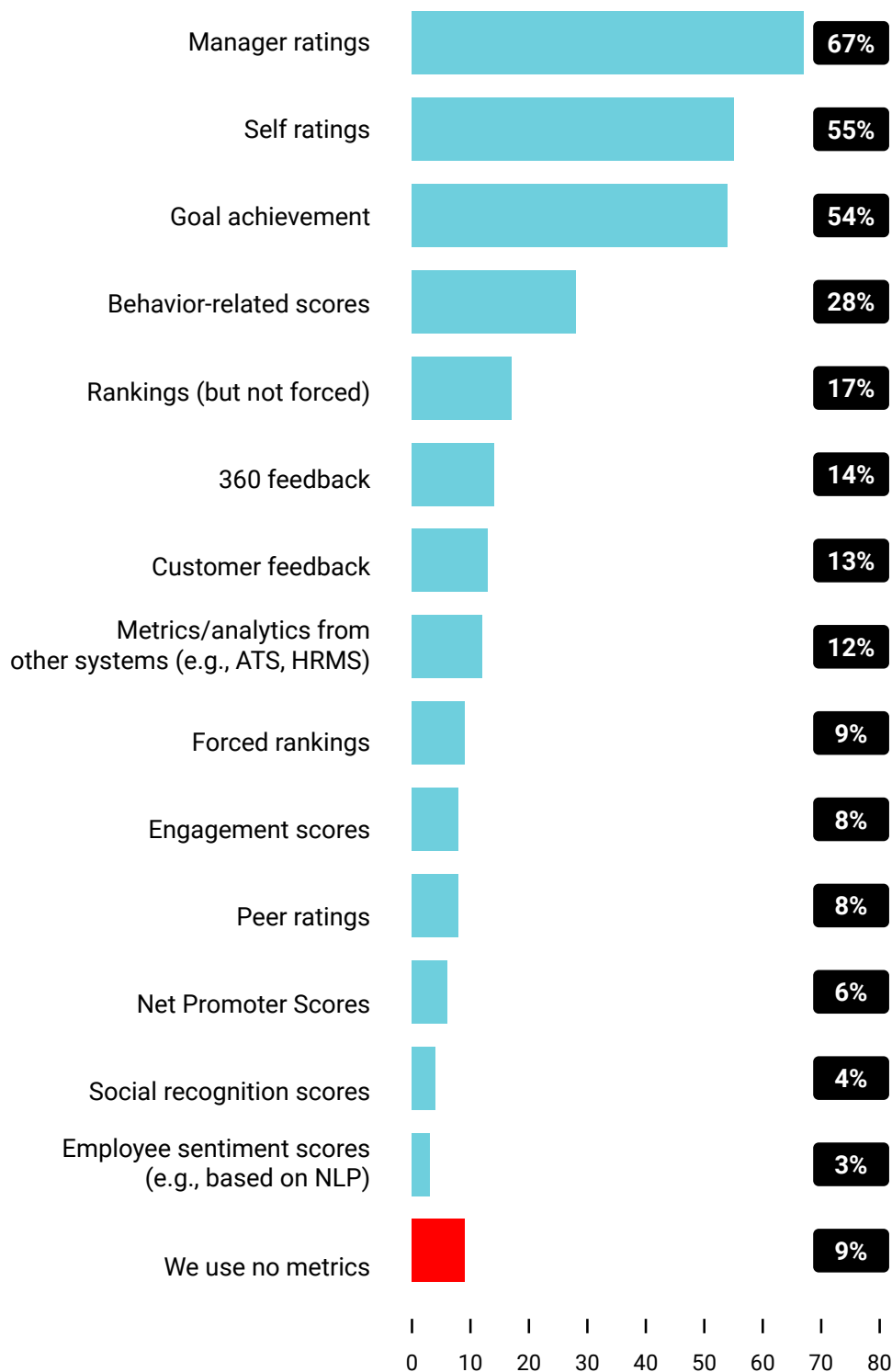
The most common type of metric incorporated into performance management processes is manager ratings (67%). Somewhat fewer organizations (54%) indicate goal achievement, which we find worrisome since without goal achievement metrics, organizations can become more susceptible to subjectivity and performance rating bias. Subjectivity can also bring transparency into question, making employees more concerned about favoritism and inequitably distributed performance pay and promotions.

Over half of organizations now use self-ratings (55%). Self-assessments may give individual employees a voice as well as allow them the chance to pause and introspect about how their performance and behaviors contribute to organizational performance and the organization's culture.

A much smaller percentage of organizations use 360-degree feedback (14%) and peer ratings (8%). Although there are many reported advantages of the use of [360s](#), there can also be challenges, such as the fact that some employees may not be comfortable receiving criticism from a peer.



**What types of metrics are incorporated into your PM process?
(select all that apply)**



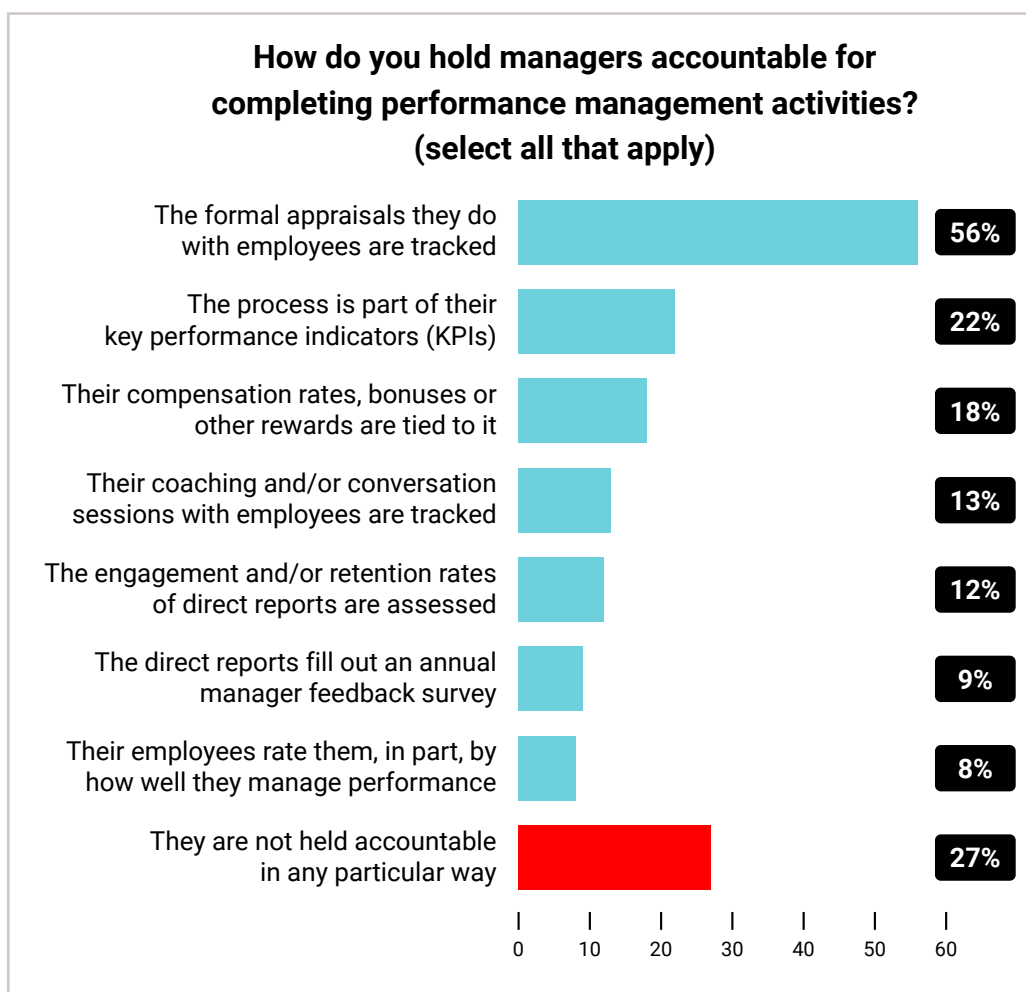
Only 28% evaluate behavior-related scores



When structuring manager accountability, organizations most commonly track whether a manager completes a formal appraisal

We asked participants to indicate the methods they use to hold their managers accountable for performance management. While 56% track whether formal appraisals are conducted, most organizations are not holding managers accountable. In fact, just 22% say their performance management activities are part of their key performance indicators, and only 13% say their coaching and/or conversations with employees are tracked.

Further, less than a fifth say their managers' compensation rates, bonuses, and other rewards are tied to performance management activities (18%), and over a quarter (27%) say managers are not held accountable in any way. We would also note that only few organizations are collecting feedback (9%) or ratings (8%) from employees about their manager.





Finding: PM leaders are more likely to hold their managers accountable

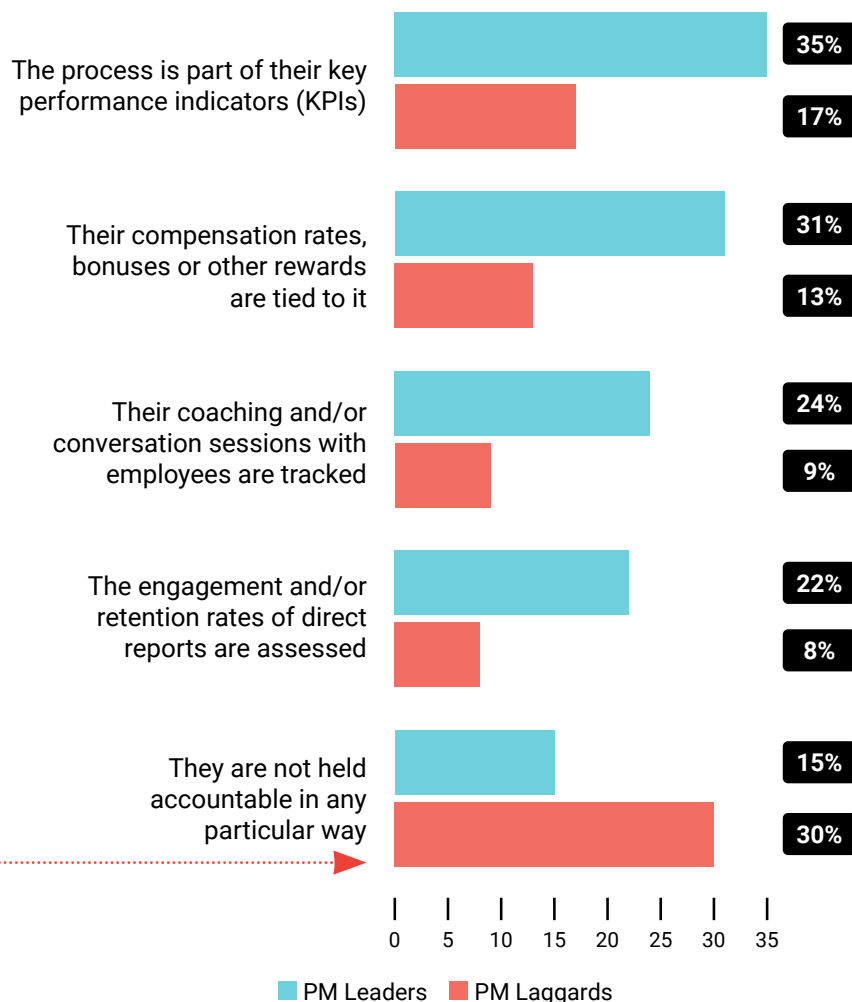
While a large majority of PM leaders (60%) and laggards (57%) indicate that formal appraisals are tracked, PM leaders are more likely to move beyond this basic participation metric and do more to hold managers accountable.

For example, PM leaders (35%) are about twice as likely as laggards (17%) to track and assess manager KPIs as they related to performance management activities. In addition, PM leaders (31%) are over twice as likely as laggards (13%) to tie compensation rates, bonuses, or other rewards to their managers' performance management goals.

PM leaders also more often recognize the importance of development and engagement in performance management. For example, nearly three times as many PM leaders (24%) as laggards (9%) track coaching and feedback conversations. In addition, PM leaders (22%) are far for likely than laggards (8%) to assess their managers' engagement retention rates of direct reports.



How do you hold managers accountable for completing PM activities? (select all that apply)



Laggards are twice as likely to fail to hold managers accountable in any way

HRRI Research Takeaway: PM leader organizations are considerably more likely to go beyond just tracking to see whether managers have engaged in formal performance appraisals. We believe that going beyond such tracking indicates that these organizations take performance management more seriously as part of the duties of a manager. In our view, it makes sense to somehow hold managers accountable for the *quality* of the process itself. After all, true performance management is the essence of what a manager does.

How Leaders View Performance Management



Finding: HR indicates that top leaders most commonly view performance management as “a necessary evil,” though a majority of leaders see performance management as useful in some way

We asked respondents to pick the one factor that best represents how top leaders view performance management in their organization. Three-fifths indicate that top leaders think performance management is useful in some way (56%), such as aiding employee development (15%), improving engagement (15%), boosting performance (13%), or as an effective way to make employee-related decisions (13%).

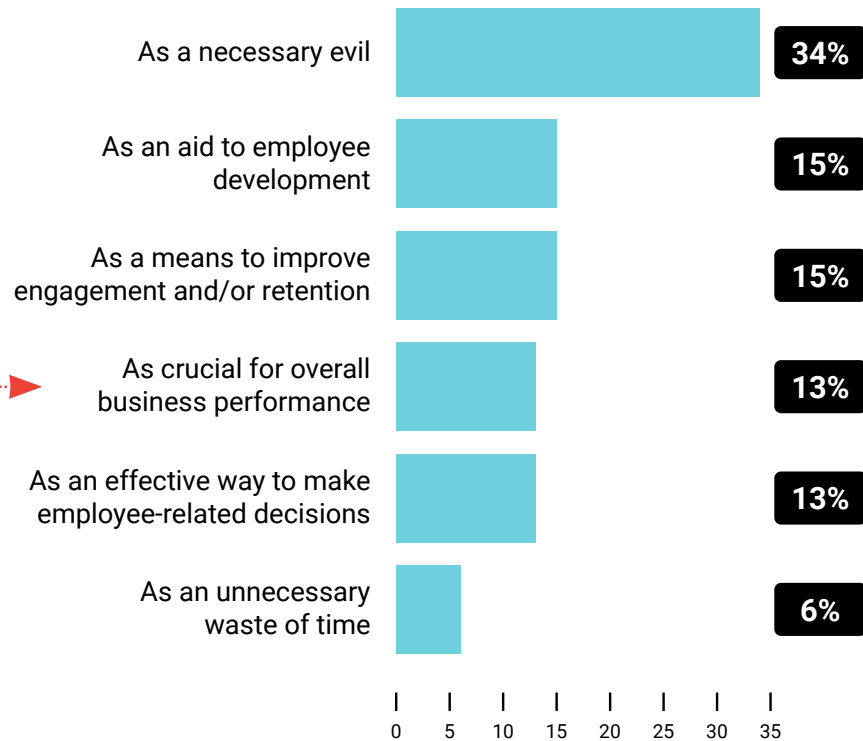
However, the remaining 40% view performance management in a negative light. In fact, thirty-four percent say that top leaders view performance management as a “necessary evil,” suggesting that leaders may struggle to understand how to do performance management well. Further, another 6% say leaders view PM as an “unnecessary waste of time.”

In our opinion, this is a major finding and a serious problem. If leaders do not believe in the efficacy of performance management, then they will be less likely to implement and encourage a process that truly serves the needs of the organization. They may also fail to invest in or even recognize a good system.

In your organization, how do most top leaders tend to view performance? (select the one that best applies)



Only 13% say top leaders view performance management as crucial for business performance



Editor's note: The graph above excludes the "other" category responses, which amounted to 4%.



56% imply that top leaders view performance management as useful in some way



Finding: PM leader organizations are far more likely to have executives who believe in the value of performance management

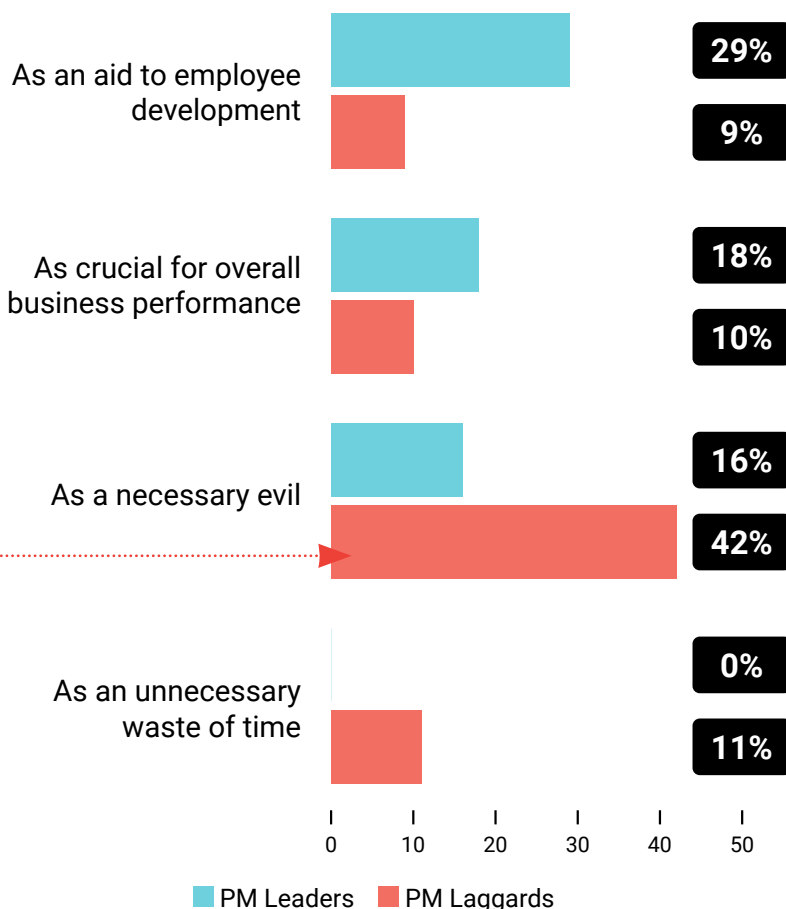
PM leader organizations (29%) are over three times as likely as laggards (9%) to say their executives view performance management as an aid for employee development. On the other hand, about two-fifths (42%) of top managers in PM laggard organizations view performance management as a “necessary evil,” whereas this is true in 16% of PM leader organizations. Overall, the larger majority of respondents from PM leader organizations say their executives have a favorable view of performance management.





More than two-fifths of laggards view PM as a “necessary evil”

In your organization, how do most top leaders tend to view PM? (select the one that best applies)



HRRI Research Takeaway: It can be difficult to change the opinions of top organizational leaders, but in this case, we believe HR needs to try. HR can marshal information and data to demonstrate to top leaders the virtues of effective performance management systems. Business leaders can be educated about why performance management is useful and how they can work with employees more collaboratively and in partnership to achieve their performance goals. One possible way of achieving this might be by bringing in successful leaders from other respected organizations who can vouch for their own performance management systems.

The PM Skill Sets of Today's Managers



Finding: Just 23% HR respondents think managers are skilled at performance management

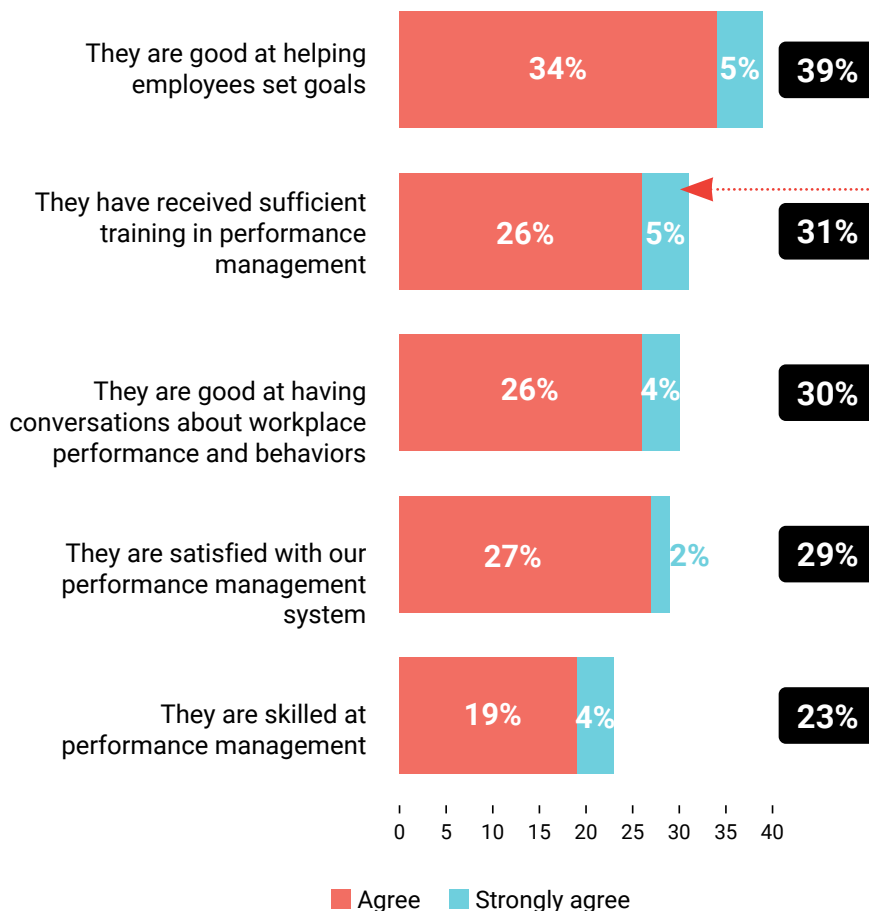
Less than a quarter (23%) of respondents say that managers in their organization are skilled at overall performance management. We find this a very troubling number, especially in light of the fact that a mere 31% say respondents agree or strongly agree that managers in their organization have received sufficient training. After all, HR typically is in charge of learning and development, so in many organizations it should be able to influence the training and skill sets of managers in this area. In essence, many HR respondents are admitting that they either lack the power or the ability to hone the capabilities of managers in the area of performance management.

HR thinks managers are a little better at helping employees set goals (39%), though just 30% say think managers are good at having conversations about workplace performance and behaviors. So, it's little wonder that most managers themselves are unsatisfied with performance management (70%).

By Organization Size

Large (21%) organizations are far less likely than smaller (57%) and mid-size (42%) organizations to agree and strongly agree that managers are good at helping employees set goals. Large organizations (21%) are also less likely than smaller (38%) and mid-size (35%) organizations to say managers have received sufficient training in performance management. What's more, large (16%) organizations are also less likely than smaller (44%) and mid-size (34%) organizations to indicate managers are good at having conversations about workplace performance and behaviors.

To what extent do you agree with the following statements about most managers in your organizations? (percent responding agree and strongly agree)



Just 5% strongly agree that managers in their organization have received sufficient training in performance management



Finding: Managers in PM leader organizations are more likely to have skills and training

Respondents from PM leader organizations (62%) are more than twice as likely as those from PM laggard organizations (30%) to agree or strongly agree that managers in their organizations are good at helping employees set goals. In addition managers in PM leader organizations (46%) are also nearly twice as likely as laggards (26%) to be better at having conversations about workplace performance and behaviors.

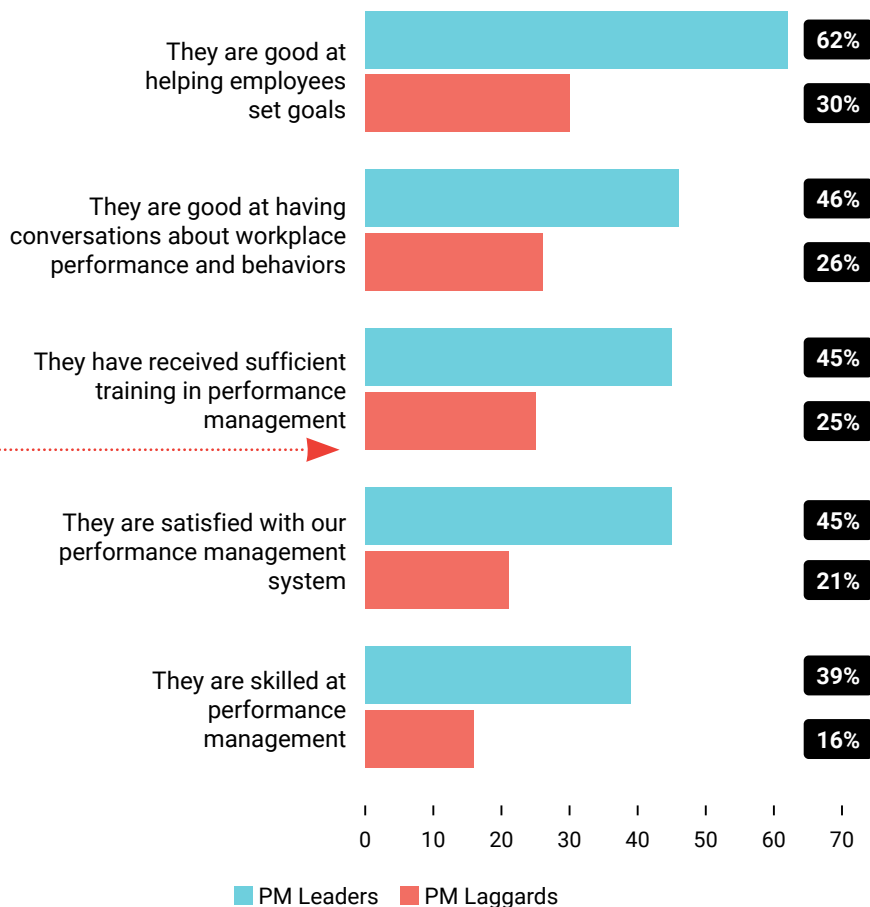
These differences may be, in part, because managers already have the knowledge, experience, and training to help managers set goals and/or partner with employees to set their goals. In fact, considerably more leaders (45%) than laggards (25%) say their managers have received sufficient PM training. Training may increase employee satisfaction with the PM system in general. This may be why PM leaders (45%) are more likely than laggards (21%) to indicate they are satisfied with their performance management system.





Only a quarter of laggard organizations have managers sufficiently trained in performance management

To what extent do you agree with the following statements about most managers in your organization?
(percent answering strongly agree and agree)



HRRI Research Takeaway: HR and L&D are in a unique position to help improve performance management in their organizations by enabling managers to get better at it. Of course, training can't be optimal unless there's a solid performance management process already in place. But once it is, managers should provide proper instruction in how to get the most out of current processes and systems. And, we think a version of such instruction should be readily available via e-learning because over time managers may forget certain details and best practices.

How to Communicate and Meet Goals and Objectives



Finding: Performance management typically involves positive and constructive feedback as well as a focus on work goals

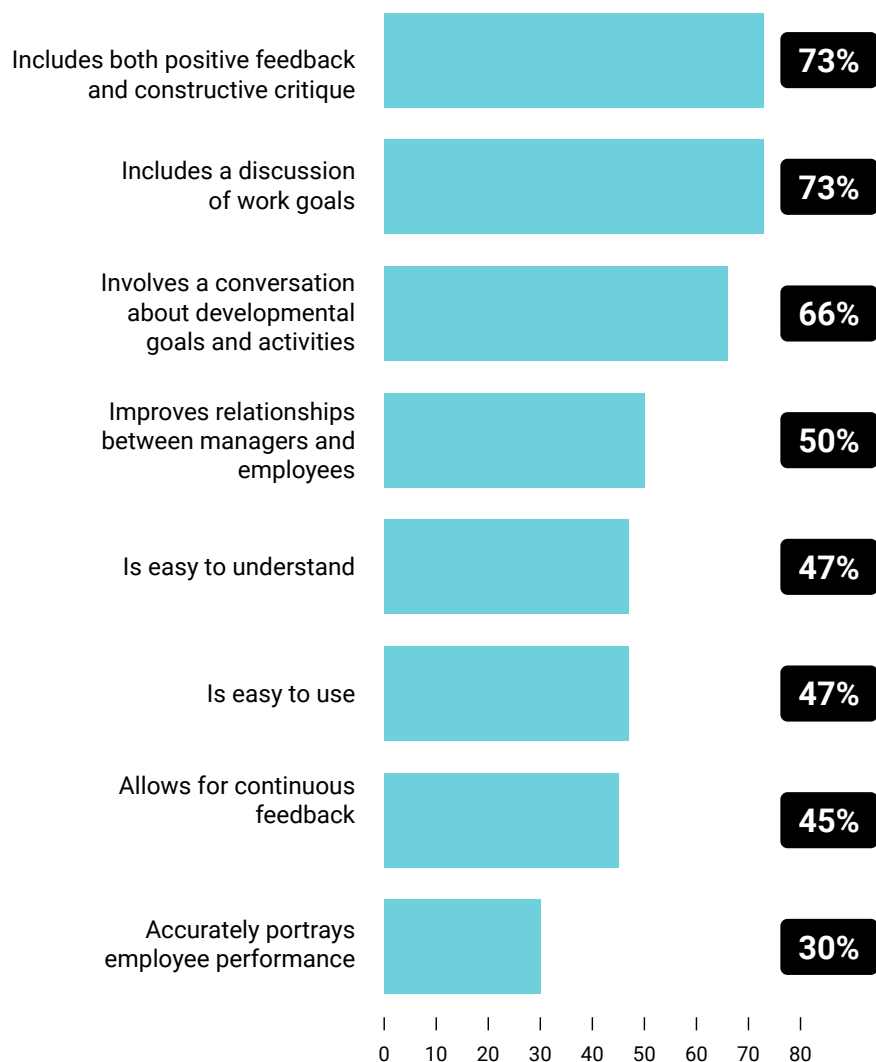
Performance management is based on feedback and discussions of goals. Nearly three-quarters say that PM-related communication includes both positive feedback and a constructive critique (73%), and the same percentage cite a discussion of work goals. These are at the heart of most performance management.

What's fascinating, however, is that less than a third (30%) indicate that performance management processes accurately portray employee performance. Why? One reason may be that feedback is not typically captured continuously. In fact, less than half (45%) have features that allow for continuous feedback. Moreover, just 47% say the performance management process is easy to understand or is easy to use.

By Organization Size

Smaller organizations (60%) are more likely than large (41%) and mid-size (38%) organizations to allow for continuous feedback. Continuous feedback may be easier because smaller organizations have fewer people to manage. This may be one of the reasons why respondents from larger organizations (39%) are less likely than those from smaller (63%) and mid-size (54%) organizations to say performance processes improve relationships between managers and employees.

Which of the following are features of your organization's performance management process? (select all that apply)



Editor's note: The graph above excludes "None of the above," which were 4% of respondents.



Only 30% say their performance management processes accurately portrays performance management



Finding: PM leaders are nearly twice as likely as laggards to say PM improves relationships between managers and employees

When it comes to features of their PM process, PM leaders and laggards differ in substantial ways. PM leaders (72%) are considerably more likely than laggards (40%) to say their performance management systems improve relationships with managers. One reason for this may be because managers in PM leader organizations are more likely to engage in continuous communication. That is, PM leaders (59%) are more likely than laggards to allow for continuous feedback (40%).

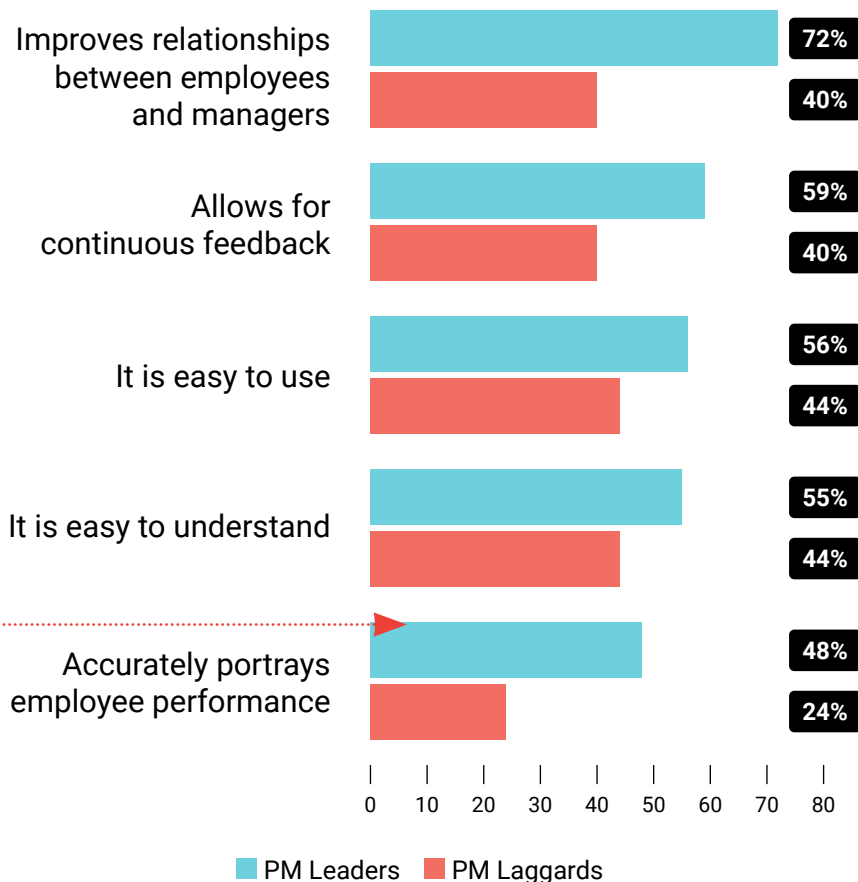
PM leaders (48%) are also twice as likely as laggards (24%) to indicate their performance management process accurately portrays employee performance. This may be, in part, due to greater transparency, with more feedback and more data from technology as well as better structure and accountability, as previously discussed.





**PM leaders are twice
as likely to accurately
portray employee
performance**

Which of the following are features of your organization's performance management process? (select all that apply)



HRRI Research Takeaway: Good performance management is far more likely than weak performance management to improve relationships between employees and managers. One way to enhance PM may be to make healthy feedback more frequent, or even continuous. It seems to help if processes are relatively easy to understand and use. Although it's difficult to accurately portray something as complex and ever-changing as performance, organizations should strive to portray performance as accurately and fairly as possible even while keeping the process constructive, useful and usable.



Finding: More than two-thirds say managers see performance management as simply an obligation to get through

We asked respondents who do not think the performance management process “improves relationships with managers and employees” why that is the case and found a large majority think managers and employees just see the performance review as an obligation to get through (68%). Another 64% indicate that managers lack good skills in this area.

It is again likely that communication may be breaking down between the manager and employee possibly because managers are not adept at coaching employees well because they do not understand how to motivate or develop employees based on their backgrounds. Just 14% indicate that employees do not like constructive feedback, and 11% say performance management appraisals are too threatening.



Only 14% think employees do not like constructive feedback

In the previous question, you did not choose “It improves relationships between managers and employees.” Why don’t you feel the performance management process improves relationships between managers and employees?



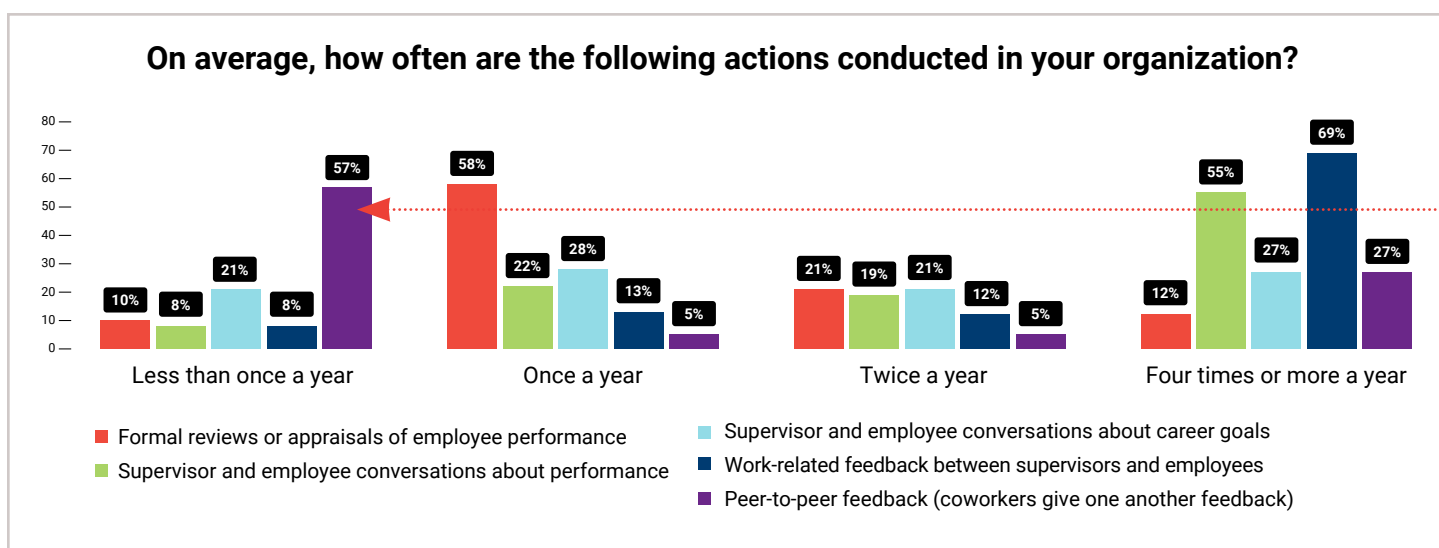
Editor's Note: This chart does not include those who responded, "other."



Finding: Although formal appraisals are still most likely to happen only once a year, other forms of performance management occur more frequently

Although a majority of formal appraisals happen once a year (58%), feedback between supervisors and employees (69%) happens four times or more a year. Conversations about performance are also most likely to occur four times or more per year. This highlights that most managers and employees are indeed communicating about performance beyond a formal review period.

However, we also see that, despite the fact that helping “individual employees learn and grow” is among the objectives of performance management, only 27% say they have conversations about career goals and aspirations four times or more in a year.



Editor's Note: This chart does not include those who responded, "Don't know."



In 57% of organizations, peer feedback occurs less than once per year



Finding: PM leaders have supervisor-employee conversations about performance at least quarterly

PM leaders (70%) are more likely than PM laggards (55%) to implement frequent (that is, four or more times per year) feedback among supervisors and employees. PM leaders (60%) are also considerably more likely than laggards (46%) to have more frequent manager and employee conversations about performance. Moreover, nearly twice as many PM leaders (33%) as laggards (17%) have frequent conversations around career goals and aspirations.

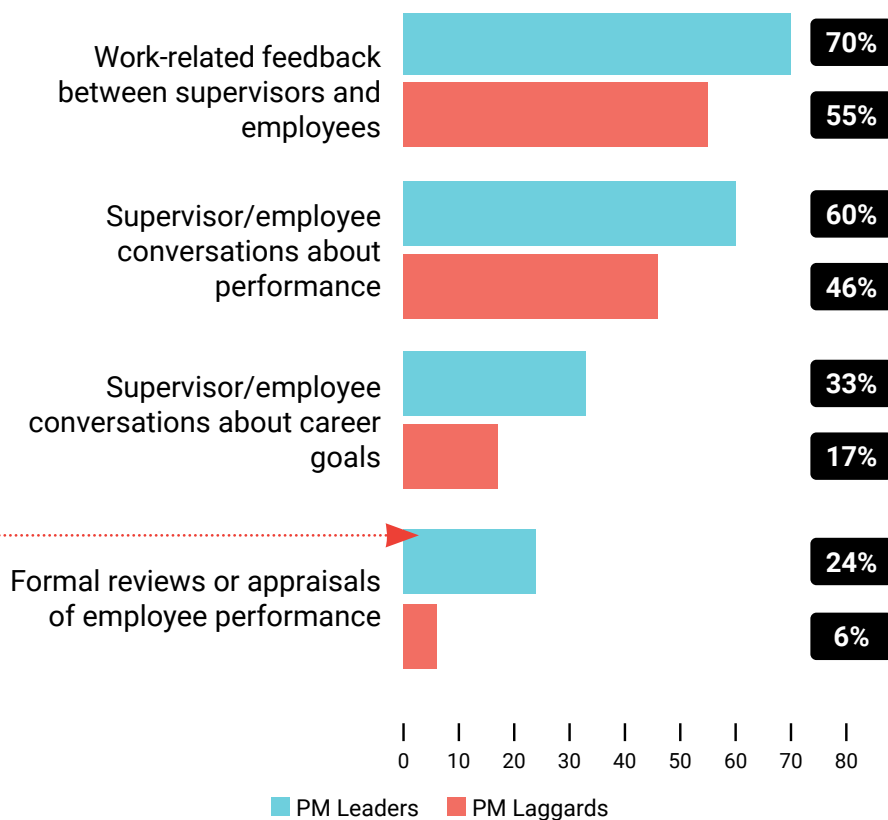
Finally, it is important to point out that PM leaders (24%) are more likely than laggards (6%) to conduct formal appraisals four times a year or more frequently. Such conversations bring forth the potential for managers to course correct directives to help the business, and this also serves as an opportunity for managers to give employees development tools to reach their performance goals. In other words, feedback has a chance to be more natural but also needs to be directive and have a purpose for true performance and development to happen.





Four times as many PM leaders talk about the formal review at least once a quarter or more

On average, how often are the following actions conducted in your organization?
(percent responding “Quarterly or more frequently”)



HRRI Research Takeaway: Generally speaking, more frequent conversations about performance and development are associated with greater self-reported performance management success. Of course, this assumes that performance-related conversations are constructive and conducted in a skillful manner. Obviously, more isn't better if the quality is low.

The differences between leaders and laggards are especially large (nearly a 2X disparity) in the area of conversations about career goals. Although not every performance conversation needs to be related to career development, it may well make sense to check in more often than just once a year on developmental progress. This helps both managers and employees align organizational and departmental goals with individual work goals. Of course, every corporate culture is different, so employers must do whatever works best for their particular organization.

The Prevalence of Performance Management Technology



Finding: Forty-two percent of organizations use technology to support performance management to a high or very high degree, with large firms being the most likely to use it

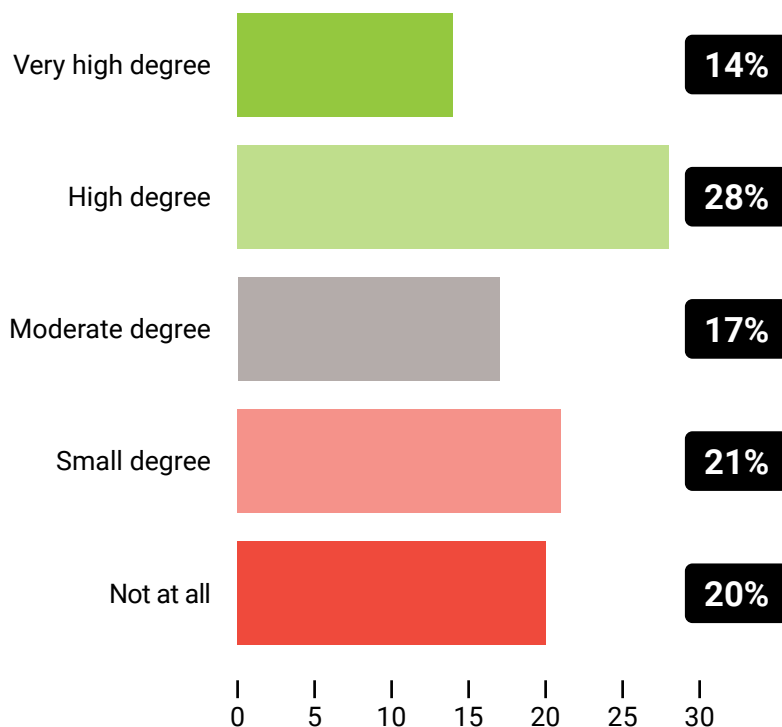
Just over two-fifths (42%) use performance management technology to high and very high degrees, while 17% use it to a moderate degree. Two-fifths do not use it at all (20%) or use it only to a small degree (21%).

Those that use technology more often can more easily automate and structure processes to better support their employees and managers. For example, these systems help schedule performance discussions, hold the baselines for performance evaluations, and store feedback and historical review data.

By Organization Size

Smaller organizations (21%) are far less likely than large (52%) and mid-size organizations (48%) to use technology to high and very high degrees. This might be because some smaller organizations think the investment in the technology is less likely to provide a payoff for them.

**To what degree does your organization use any type of digital technology for the purpose of performance management?
(please select the one that best applies)**



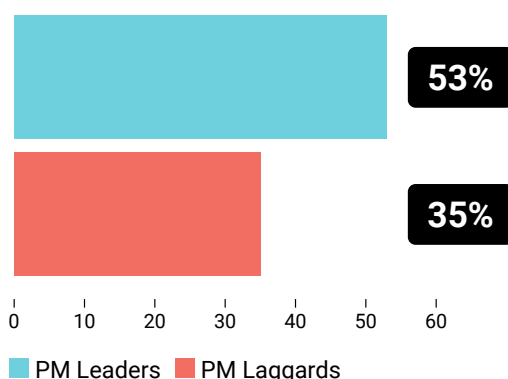
A fifth of respondents do not use technology to support performance management, but they tend to be smaller organizations



Finding: PM leaders are more likely to use computer technology to a high or very high degree

PM leader organizations (53%) are more likely than laggard organizations (35%) to use digital technology for performance management to a high degree or very high degree. This may be because they recognize that technology helps them provide structure around performance management, allowing employees and managers to better understand what they are expected to do to manage their performance over time. In addition, technology may help PM leaders capture historical data that is critical to helping them make strategic decisions about employee and business performance today and in the future.

**To what degree does your organization use any type of digital technology for the purpose of performance management?
(percent responding high or very high degrees)**



HRRI Research Takeaway: Adopting performance-management technology may not be imperative to every organization, but it is correlated with higher PM success. If your organization is struggling with performance management, then you may want to investigate existing technologies and see if one could lend greater structure and effectiveness to your system. Likewise, if your current technology is not meeting the needs of your organization well, you should consider investigating alternatives. There are many different kinds of technologies on the market today, so it's seldom been easier to find one suited to your organizational needs.



Finding: Half of the organizations use performance management module(s) bundled into the HRIS/HRMS

Among organizations that use some sort of performance technology, half (51%) use a module bundled into HRMS/HRIS. Organizations often choose a module for easier integration and comprehensive performance management supported by one provider.

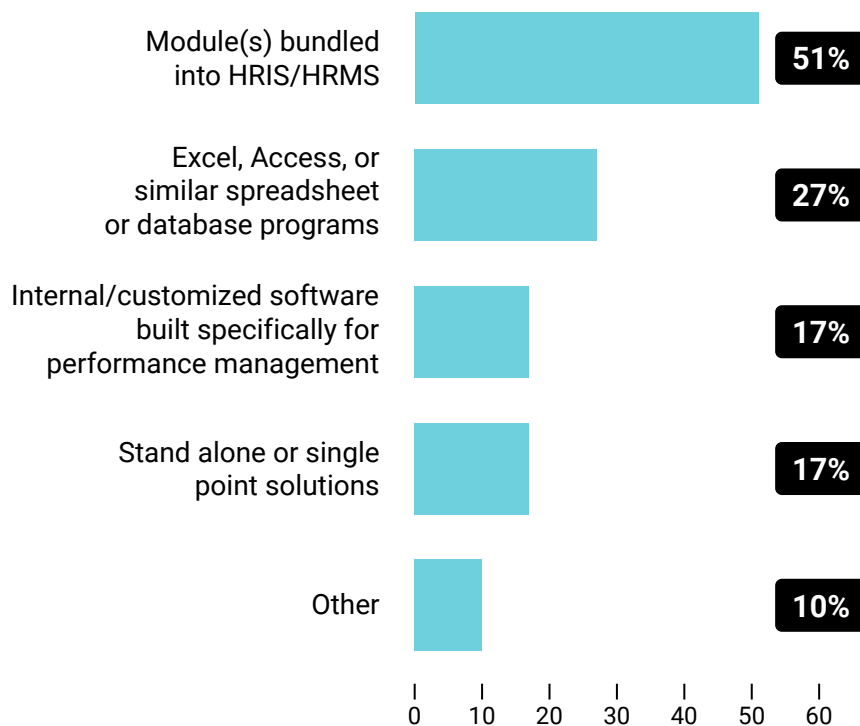
However, a bundled solution may have fewer needed features than some standalone/single-point solution providers, which are used by 17% of respondents. Standalone/single-point solutions can typically be integrated with an HRMS/HRIS, though this process may take time and work. Another 17% built their own performance management software, and an additional 27% use Excel, Access, or similar spreadsheet or database programs.

We should note, however, that this was a “select all that apply” question, and organizations often have more than one technology. For example, among those that have a single point solution, 17% also have a bundled module. And, of those that use spreadsheet or database programs, nearly a third (32%) also have a bundled solution and 11% have a single point solution.

By Organization Size

Large (14%) organizations are far less likely than small (39%) and mid-size (34%) to rely on spreadsheet and database programs. Large organizations, by contrast, are much more likely to use modules bundles into an HRMS (65%) when compared to small organizations (23%).

Which technologies does your organization use to support performance management? (select all that apply)



Editor's Note: Those who responded, "Not at all" to the question "To what degree does your organization use any type of computer technology for the purpose of performance management?" were not shown this question.



More than a quarter still use spreadsheet or database software for performance management



Finding: Many performance management technologies seem underpowered

We asked organizations about which capabilities their performance management technology system(s) include.

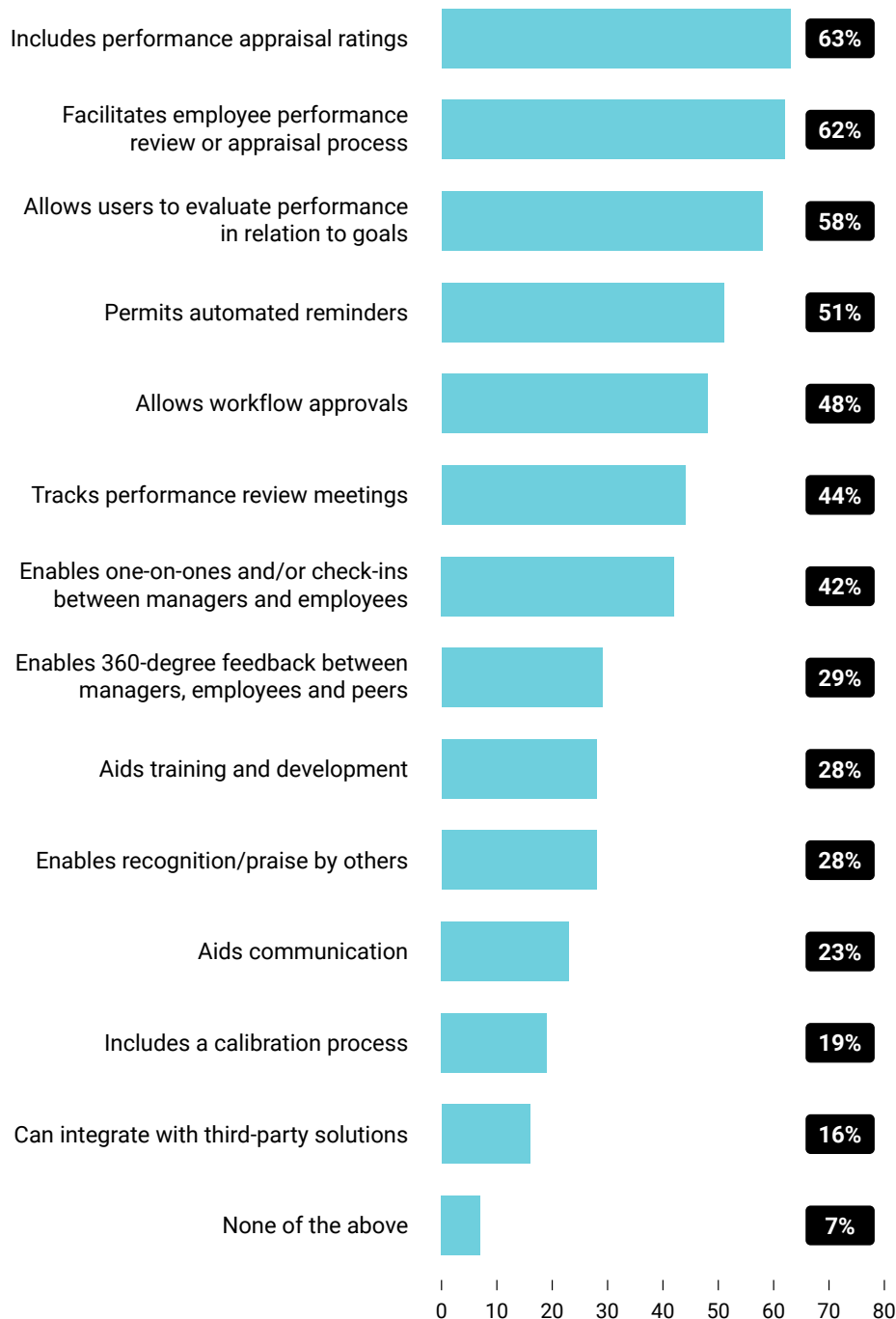
The most commonly cited capabilities are:

- includes performance appraisal ratings (63%)
- facilitates employee performance reviews/or appraisal processes (62%)
- allows users to evaluate performance in relation to goals (58%)

Overall, these capabilities indicate that most organizations are using technology to track and monitor their review process, which is often based on performance goals. Fewer organizations, however, have technology with a higher degree of automation and user configuration such as “permits automated reminders” (51%), “allows workflow approvals” (48%), and “enables one-on-ones and/or check-ins between managers and employees” (42%). The lack of reminders and timely workflow could put organizations at more risk for biases such as recency error (where managers often have trouble remembering older performances).

Most organizations are also not using technology as much for development and rewards. In fact, just 28% indicate their technology aids training and development, which is concerning given that helping employees learn and grow is among the widely cited objectives of performance management. Just 23% say their technology aids communication, another major objective of PM.

**Which of the following capabilities does your performance management technology system(s) include?
(select all that apply)**



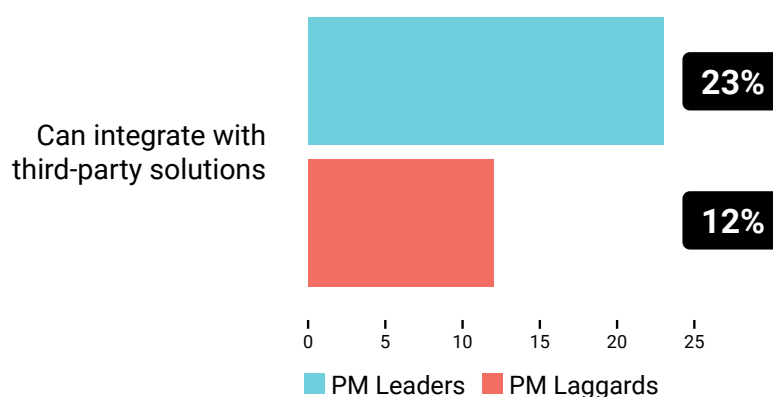
Only 28% of PM systems aid training and development and just 23% aid communication



Finding: PM leaders are twice as likely to be able to integrate with third-party solutions

PM leaders (23%) are nearly twice as likely as laggards (12%) to be able to integrate with third-party solutions. This allows for more seamless functioning of their PM tech systems.

**Which of the following capabilities does your performance management technology system(s) include?
(select all that apply)**



HRRI Research Takeaway: We think organizations should document the capabilities of their technological systems and compare those capabilities to needs. Is there a close match? If so, then they probably have the right technology.

Another area to consider is whether those who use the system are knowledgeable about and using the most important capabilities. Sometimes HR professionals and managers are not even aware of all the capabilities of their system.

This research suggests that being able to integrate third-party solutions is associated with greater PM success, but we suspect that this all boils down to the details. The *question* is which system are most important to integrate. For example, given that learning and communication are major goals of the PM process, we are surprised at how few say their systems aid communication or training.



Finding: Roughly half are encouraging employees to enter timely feedback

We asked respondents which features their performance-related technologies include. Three features exist in about half of the organizations with PM technologies:

- provides timely reminders to managers (54%)
- permits managers to add notes at any time (53%)
- permits employees to add notes at any time (48%)

These three features help to document a culture of continuous feedback so managers have a trail that backs up the conversation and can more easily compare performance pay, albeit only about half of them are using those features.

PM technology systems more rarely make training and development suggestions (18%) and just a third track training and development achievements (34%), suggesting some organizations do not focus on development as much as performance or that some organizations have a separate learning and development system that is distinct from performance unless data is entered manually. Likewise, some organizations may not value recognition/rewards as part of performance or have a separate distinct rewards/recognition system. About a third indicate their performance system allows for recognition of employee achievements (30%) and only 13% allow rewards for employee achievement.

As discussed in the previous finding, many organizations do not integrate their HR, pay, development and rewards technology systems well, and this can make managing performance data and performance management processes challenging because it fails to accurately track activities well with key metrics and data, which makes it harder for performance goals and performance pay to be as objective and transparent as possible.

Which of the following features do your performance-related technologies include? (select all that apply)



Editor's Note: The graph above excludes the "other" category responses.



Less than one-fifth say their performance-related technologies make training and development suggestions

The Future of Performance Management



Finding: Organizations most commonly say future performance will include more feedback and continuous conversations

Given previous findings in this report, we see it as a positive sign that nearly three-fifths (58%) of respondents foresee more frequent and continuous feedback over the next two years in their organizations. It is also encouraging to find that more than half anticipate greater manager training (55%) as well as more frequent, natural conversations (48%).

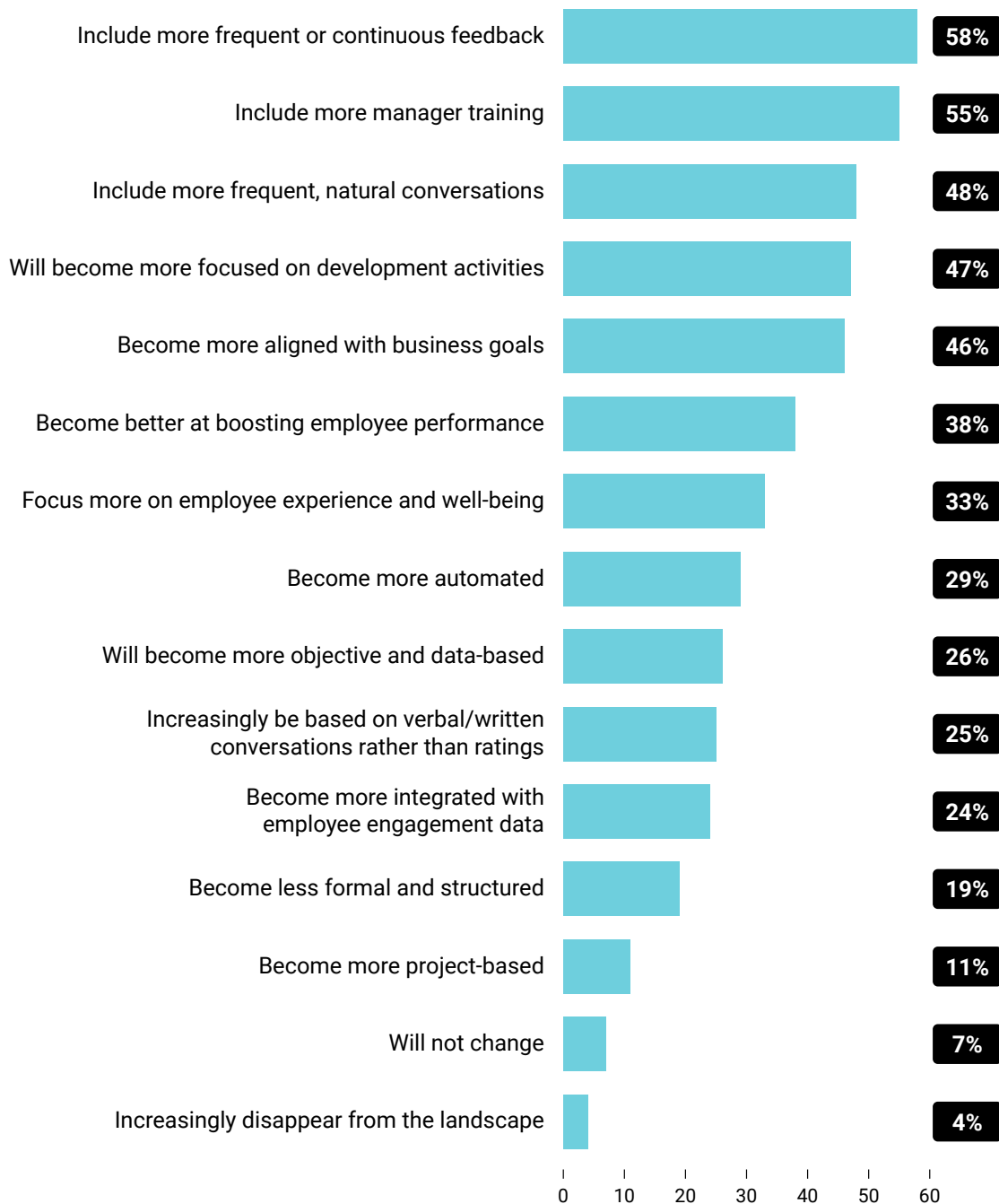
We suspect, given our findings, that many managers need training on how to better interact with employees to build rapport. Further, respondents may see value in training to better prepare managers, direct reports and their teams on how to give and accept feedback in a clear, concise and positive way, particularly as it relates to development activities (47%).

That said, we are concerned that so few organizations will focus on becoming more objective and data based (26%), particularly given the lack of technology and low performance management effectiveness scores documented by this study. Without objective data, it is more difficult for an organization to become more aligned with business goals (46%) and become better at boosting employee performance (38%).

By Organization Size

Smaller (60%) organizations are more likely than larger (39%) and mid-size organizations (42%) to say that PM will become more aligned with business goals.

In your organization, how will performance management change over the next two years? (select all that apply)



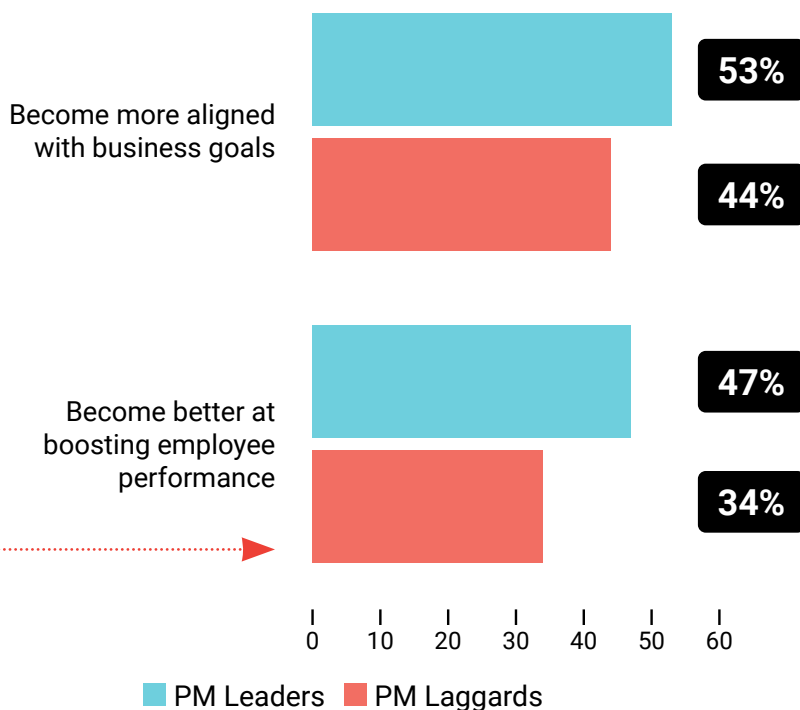
Just 26% indicate that performance management will become more objective and data-based



Finding: In the future, PM leaders will focus more on business goals alignment

Compared with PM laggards, PM leader organizations are more likely to say that PM will become more aligned with business goals (53%) and that they'll get better at boosting employee performance over the next two years.

In your organization, how will performance management change over the next two years? (select all that apply)



Laggards are less likely to say PM will become better at boosting employee performance over the next two years

HRRI Research Takeaway: Over the next two years, organizations will increasingly boost the frequency of performance feedback, train managers to be better at PM, and focus more on career development. At the same time, organizations that already excel at PM will work to align it better with business goals and focus on boosting overall employee performance.

Therefore, we recommend the following actions where they make sense for your organization:

- Consider the frequency of performance feedback and, if you find it doesn't occur frequently enough for optimal results, determine how to best increase that frequency (assuming the feedback is of high quality to start with).
- Ensure your managers are sufficiently trained and, if they are not, develop instruction to help them become better at performance management
- Consider combining performance management with career development to ensure better alignment of the aspirations of employees with the goals of the organization.
- Analyze overall organizational productivity and quality. Can you measurably link overall productivity to the quality of the performance management system? If not, why? How could such links be made?
- Align the entire performance management system with the strategic goals of the larger organization.



Finding: Over the next two years, nearly two-fifths indicate that their PM systems will change to a high or very high degree

A quarter of organizations indicate that the degree of change in their performance management systems over the past two years was high or very high. This is partly due to the changes brought about by the pandemic. For example, many organizations began conducting performance reviews online and some organizations needed to add collaboration features and video technology.

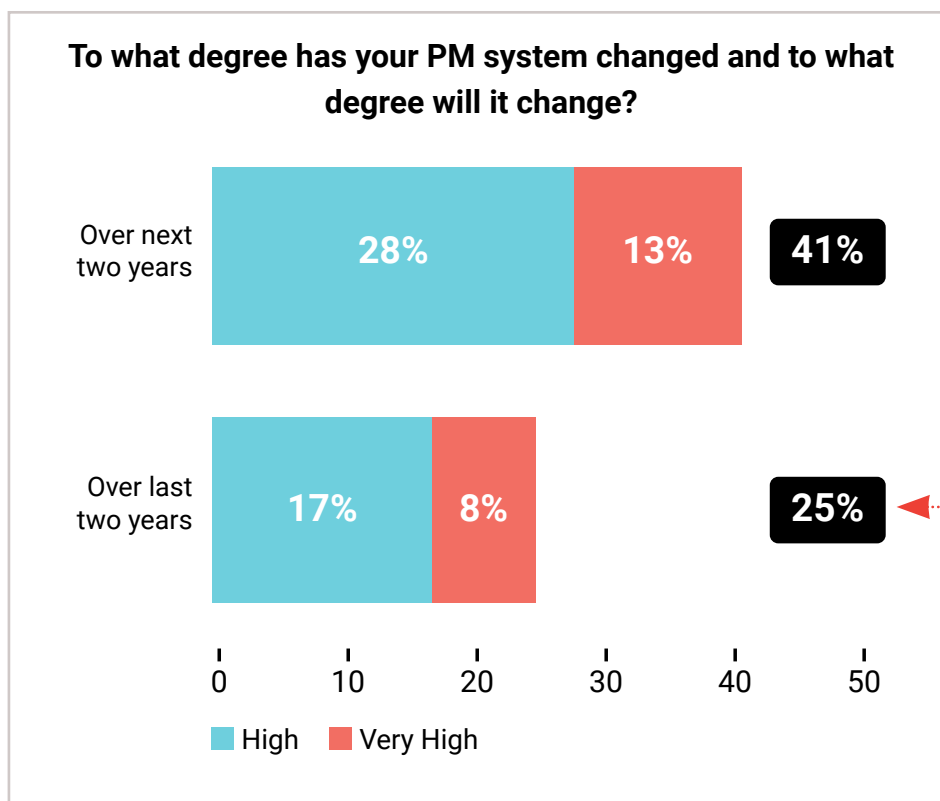
Looking forward, however, respondents expect an even higher degree of change in the area of performance management, with 41% expecting a high or very high amount of change.

Why Is Change Expected to Grow?

Why is a deeper level of change expected in the future? Perhaps, as we've noted before, this is because many organizations have been experiencing productivity declines.

Also, as we finalize this report, the economy has still not entered into a long-predicted recession. Some HR professionals, however, may nonetheless be evaluating their performance management data in order to determine how they could restructure their workforce if they need to. Organizations may be thinking about how they will use PM data to justify who stays and who goes.

We also think that organizations generally want to get better at performance management and may realize that their data is not as comprehensive as it could be to create the most structured and objective processes. Because of that, some organizations may expect to enhance or replace their existing digital technology application or look to more tightly integrating performance management with other technologies.



A quarter indicate that over the last two years their performance management system changed to a high or very high degree

Editor's Note: We have removed the Don't Know responses from this data and recalculated the percentages. Don't knows represented 3% of the original "Over the last two years" responses and 11% of the original "Over the next two years" responses.



Key Takeaways

The findings of this research have many organizational implications. We have highlighted them along with some recommendations in the takeaways below.

Key Takeaway 1

Get top leaders to “rethink” PM and get their support for change.

Our research shows many organizations today put a significant level of effort into managing through a “traditional” infrequent performance appraisal. It is often simply a ritual that managers and employees just need to get through. It checks the compliance box, but many times fails to adequately capture the performance details that happen from one review to the next. This can cause pay decisions to be plagued by subjectivity and bias, making compensation and rewards inequitable. Consider asking leaders key questions to help them rethink PM. What are the pros and cons of renewing performance management by enabling more employee-manager interaction, feedback, and documentation of milestones, rewards, and development? How should managers lead their people to keep pace with changing on-the-job directives and goals over time? Challenging their way of thinking by asking questions and showing them alternatives to overreliance on traditional PM may lead to better results.

Key Takeaway 2

Be intentional and strategic about structuring performance management processes.

This begins with designing a strategy that clearly defines what performance management means to the organization. Organizations tend to have more effective PM processes when those processes align their performance management objectives, metrics, goals, and technologies with the overall vision and mission. Think about your organization’s key objectives for PM. Evaluate the extent to which they have been achievable and comprehensive. Identify the positive and negative aspects of the PM process and make applicable changes. Provide clarity to employees and managers on what is being measured and tracked. Let them know how performance contributes to the overarching goals of the organization and meets employee needs. Make sure the process includes goals that are agile, objective, and measurable.

Key
Takeaway **3**

Consider DEIB and pay equity objectives in the PM process. Take a good look at how your organizational practices support DEIB and performance management objectives. Check if pay is linked to performance evaluations, and evaluate how much tenure, education, and salary history matter relative to work experience, certification and skills. Consider tracking performance measures as much as bonuses, stock options, pay bands, and comparable jobs and using regressions to look for pay inequities. Check the extent to which succession plans consider the diversity of talent.

Key
Takeaway **4**

Consider expanding the role technology plays in performance management. The right technology can help an organization better structure and scale its performance processes; however, the implementation only yields results when people actually use the system. Ensure they are motivated to use the system and that they have access to the data they need. Some potential features include scheduling meetings, inserting development feedback/performance notes, tracking milestones, identifying and linking performance/development objectives, and tracking rewards and recognition. One of the other benefits of technology is that it helps to build equity into the process. Make sure that potential is being realized.

Key
Takeaway **5**

Embrace a PM culture that emphasizes employee development and growth. Consider having conversations with managers to understand their development needs as well as the needs of their team. Start drawing performance-oriented development plans and turn them into action. Consider online learning, job shadowing, stretch projects, mentoring, and continuing education. Make sure you make them relevant to company goals, career paths, and general learning and growth needed for their existing roles. Understanding an employee's short and long-term career goals helps build the leadership pipeline, employee engagement, and retention.

Key
Takeaway **6****Define what “continuous feedback” means to the organization.**

Consider the who, what, why, how often, and the content of feedback. Identify scenarios when feedback should be direct, indirect, formal, or informal. Feedback has the potential to fail when it has no purpose. Consider the employee’s purpose as well as the organization’s goals and the value of natural conversations. Define key milestones, and then decide on the meeting frequency. Identify when feedback may be seen as too much for employees or managers and curtail it to adequate frequency.

Key
Takeaway **7****Train managers and employees to be better communicators and partners.**

Managers and employees have different values, backgrounds, and opinions that often dictate their working styles and preferences. Consider manager and employee training that centers on how and when each should share their opinions about the job and the greater world, and teach them to recognize their inherent biases and the importance of candor. Also, give them the tools they need to formulate “motivational and respectful words” to help them manage up or manage down in an effort to improve and foster an employee-manager relationship as opposed to stressing it. Encourage building a rapport between them.

Key
Takeaway **8****Develop managers to be better coaches and review assessors.**

Understand that while coaching is critical, giving positive and constructive feedback is a skill that takes time to develop. This may be especially applicable for new managers, managers who are also individual contributors, and managers who are new to a company, department or job. Consider what kind of training managers get to manage transitions, give feedback, and manage performance appraisals. In between the review period, encourage managers to teach employees to become problem solvers.

Key
Takeaway **9**

Hold managers accountable for forging a strong partnership with employees. There are a variety of ways of doing this, from simply checking to ensure reviews are carried out to measuring other performance-related outcomes such as employee engagement, performance, and turnover rates. Also consider incentivizing excellent performance management by tying it to promotion opportunities and total rewards programs.

Key
Takeaway **10****Consider managing and measuring project and team performance.**

Managers are placing greater emphasis on team rather than just individual performance. However, the performance review process and their associated goals/metrics for motivating and rewarding teams have not caught up. One idea is to create a performance scorecard that includes team performance, in addition to an employee's individual performance. Managers may also want to put greater stress on behavioral metrics, as they often matter more when employees spend more time interacting with their peers.

Key
Takeaway **11****Take a deep dive into intrinsic and extrinsic motivation and rewards.**

Managers and employees alike are not always aware of what drives each other to be successful in their professional and personal endeavors. Identify employee needs and extrinsic rewards they require to be motivated. Studies show that tapping into an [individual's intrinsic motivation](#) by nurturing interests can help them to hone their passions and become more self-assured and self-directed. As technology continues to blur the lines between an employee's professional and personal lives, employees may simply be motivated when they understand that managers know and care about what happens to them outside of the walls of the office, further emphasizing that the manager-employer relationship may be what matters most to achieving performance goals and business outcomes.

Key
Takeaway **12**

Include compliance and legal in the process. There are many regulations that relate to pay. Identify a point person or team that will oversee these regulations and help HR update performance management processes and technology as necessary. Be proactive instead of reactive. Decide what information will be shared with top leaders and when.



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