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Leaders in Reward: Part 2 – Performance? Yes please!

In early 2019, Aon held interviews with over 40 senior reward professionals from some of the best-known brands and employers across Europe. Their thoughts and views on three particular topics have now been collated and used to inform three separate – but related – articles. The first in the series looked at how the role of reward and its professionals is changing. The second article, which follows below, looks at the subject of performance culture and performance management. The third will look at the evolution of total rewards and the increasing focus on employee experience.

Performance – what is it?

For many HR professionals, performance culture has become a cultural nirvana and an aspiration that is seen as central to their business and people strategies and consequently to the longer-term success of the business. As something that is so clearly regarded as business critical, we can obviously expect a great deal of clarity over exactly what it means for a business, how it will be delivered and the benefits it will bring - can't we? Well, apparently not. In our recent 'Leaders in Reward' interviews across Europe, and in a number of additional and subsequent conversations with both HR and Reward leaders, it is clear that there is a great deal of uncertainty over what 'it' actually is!

Every participant in our interview process stated that a performance culture was important and was accepted as something they 'just needed to have'. However, very few participants (approx. 5% only) actually felt that they had a good one. Perhaps this low success rate is not surprising when you consider that many individuals struggle to define what it means to have a performance culture. When explaining it, the majority focused on the performance management process and/ or the achievement of some very clear business metrics. There is nothing to say that these explanations are wrong - and they might well be adding value to the business - but it is fair to say that they both represent limited interpretations and that they bring their own issues. One interviewee summed it up when they stated "We have been saying for years that we have a performance culture but that's not really true. What we have is management by numbers and we have now developed a 'coin-operated' culture that we must now fight to get out of".

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There are plenty of definitions of performance culture out in the market and they all vary slightly but the important thing is to agree a definition that's works for a particular organisation. Whilst these definitions might vary slightly from one business to another if, at a base level, it is agreed that culture is about 'how things get done' in a business, then any definition of performance culture needs to go beyond a simple statement of financial objectives or an organisation's emphasis on performance management. Whilst we can expect them to be key ingredients, it would clearly be restrictive to focus on them alone. Perhaps this narrow focus goes some way to explaining why so many organisations feel that they don't have a performance culture. If we cannot define it to start with, how can we say whether we really have one? Harvard Business Review published an article in 2012 which described three steps essential to delivering a high-performance culture. These were identified as:

1) Establish a common understanding of culture and the metrics for it
2) Focus on the few changes that matter the most
3) Integrate culture changes efforts with business improvement initiatives

From the conversations in which we have recently been involved, and as demonstrated by the Leaders in Reward conversations, it would appear that many are falling at the first hurdle.

Performance (mis)management?

Similar to the discussion on performance culture, very few organisations felt that they had an effective performance management approach in their organisation. This included those who used more traditional approaches as well as those who had adopted 'ratingless' type solutions. It is clear that for many, the topic of performance management is still a key focus for their business. In our interviews, approximately 25-30% of participants stated that they were reviewing (or planning to review) their approach this year and there remains a very high level of dissatisfaction.

Many of the common challenges which emerged from the discussions are ones that we have heard before. Examples of this feedback includes "The business does not see the value in PM, it is just a box for managers to tick"; "Our annual process just doesn't work, we need to be more flexible and agile"; "Our managers simply can't, or won't, have genuine and grown-up performance conversations with their people", "our managers spend the whole year building trust with their teams and then torpedo all their work in a single meeting" – and the list continues. One participant in our survey stated that they had adjusted their business model to accommodate more flexible and agile working to attract more 'gig-economy' employees and in this environment "performance management has minimal value and is in fact a very controversial topic for us".

Generally, it can be seen that when it comes to performance management, a business wants flexibility, HR wants consistency and rigour, management want a clear process and employees want consistency and clarity regardless of approach. There are some areas of consistency when looking at the needs of all these different stakeholders, but the most notable point seems to be the variation in the need and the challenge inherent in trying to keep everyone happy!

Are rating free approaches a solution or just a new problem to be managed?

This blend of pressures and the feedback highlighted above led many organisations to change their performance management processes. Around five years ago, the vogue was very clearly for organisations to move to ratingless systems with more of an emphasis on the conversation. However, these have not proven to be the solution in all cases either, and we are seeing a number of the early adopters already reintroducing ratings. However, the arguments put forward by supporters of both sides do appear to be compelling.

Traditional approaches were described by survey participants as “having lost their focus on development” and as being “too rigid” and as a result they cause too much “frustration” in a business. It is this frustration which ‘pushed’ organisations into responding with new ratings-free approaches, which seem to be more aligned to manager preferences to avoid difficult conversations. One organisation stated that their previous approach to performance was too “mathematical, structured and complex” and as a result their new ratings-free approach was “refreshing in comparison”.

In contrast, we received a lot of feedback on ratings-free approaches by those who were using them or who had considered them, and they were described as “too complex” with a “really unconvincing value-add”, with significant question-marks over their “long-term sustainability and suitability”. One business described their recent experience of a ratings free approach as having “not gone well!” and “both managers and employees just want to go back to the previous approach “as they enjoyed the clarity and structure”; “the annual ratings led approach gave us a clear timetable, a rhythm to our conversations and a clear set of outputs that we have just not been able to replicate with our new, more agile, ratings fee approach”.

It is clear that views and opinions on this subject are still very divided. There are those who question the fundamental value and sincerity of any attempt to manage performance and then there are the obvious disagreements on which approach should be adopted. From the conversations we had and the feedback that we collated, it does appear that in the right environment both ratings and rating-free approaches can deliver value. This does, though, imply a very clear need to assess an organisation’s specific context and readiness before committing to a course of action. It is equally clear that a number of organisations that introduced ratings-free approaches actually failed to do this.

In determining readiness for change, one of the key questions to be addressed is what the organisation actually wants from its performance approach. For example, is it a tool to manage and guide development and growth or is it a simple mechanism to manage pay? The answer to this sort of question will help to guide the potential choice of process. Many organisations want both a development and a pay management outcome. In these cases, the purest form of ratings or ratingless approaches might not be suitable and more hybrid solutions might need to be developed. An increasing number of employers are doing exactly this. They want the security and consistency of a rating but at the same time they want to focus on the flexibility and opportunity offered by effective ongoing conversations and are developing annual processes that incorporate both. It is still early to judge the success of many of these hybrid solutions, but early indicators are positive as they have focussed on simple and flexible processes with a clear outcome. For example, many who go down this route are replacing a traditional 5 level rating structure with a simpler 3 level approach, one stating that: “we find it much easier to identify those who are performing above and below expectation, we have found that we don’t need to confuse things with different levels of above and below, our employees seem to just buy-in to this”.

Performance – the ultimate aspiration?

The concept of a performance culture is a clear aspiration for many but feels relatively unachievable by the majority. There is a lot of confusion over what 'it' actually is and there is a clear benefit in organisations giving more thought and delivering more clarity on what a performance culture means for them and how they will go about delivering on it.

It should also be made clear that performance culture should not be confused with performance management. There has been a lot of debate in recent history on the subject of performance management and how it should be working in today's economy. The emerging view in recent years that ratings, as a concept, are no longer relevant and should be seen as a symbol of another age was readily accepted by many, but this is now being challenged as the ratings systems are fighting back.

Thinking and practice around what constitutes effective performance management has clearly evolved again. Organisations are coming to realise that what is important is not actually whether a rating is used or not; more significant is the quality of the underpinning conversation. Today, we are seeing a more focused set of practices emerge that consider the fundamental purpose of performance management on a business-by-business basis and it is these new (often hybrid) approaches which look set to become much more common in the years ahead.

Sectors represented include:

Technology	Retail	Manufacturing	Professional Services
Financial Services	Travel & Tourism	Real Estate and Property	Media and Entertainment
Pharmaceutical and Life Sciences	Aerospace and Engineering	Mining	Automotive
Construction	Energy	Publishing	Distribution and Logistics

Participants were based in the following markets although all had responsibility/influence over reward arrangements in Europe as part of their role:

UK	France	Germany
Denmark	Sweden	Norway
U.S.A.	Switzerland	

Total number of employees at participant organisations = approx. 3.3 Million

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About Rewards Solutions

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