

**Cambridge Judge Business School
Executive Education**

Centre for International Human Resource Management

CHANGING THE WAY WE THINK ABOUT PERFORMANCE

 **UNIVERSITY OF
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Background

On November 24th 2016 at Peterhouse College Cambridge, an invited group of industry leaders attended a roundtable on the subject “Changing the Way We Think about Performance Management”.

The intention of the roundtable was to examine new approaches to how performance management has been revolutionised in a number of organisations and to explore the implications of this for practice more generally.

The event was organised by the Centre for International Human Resource Management and Cambridge Judge Business School Executive Education.

CIHRM

CIHRM brings together companies and researchers to learn about state-of-the art research findings and innovative advances in practice. Our partnership approach provides a forum for intellectual thought-leaders throughout the world to collaborate and shape relevant and rigorous research agendas.

Cambridge Judge Business School Executive Education

Cambridge Judge Business School Executive Education offers a wide range of open enrolment and customised programmes. These programmes are designed for organisations, business professionals, managers, leaders, and executives from many different functions who strive for professional and personal growth. Programmes are developed to help executives and organisations from both the private and the public sectors achieve operational excellence and results.

Introduction

The intention of the roundtable was to examine new approaches to how performance management has been revolutionised in a number of organisations and to explore the implications of this for practice more generally.

An introduction by Philip Stiles, co-director of the Centre for International Human Resource Management, highlighted the theoretical and empirical foundations for a change in how traditional performance management (specific goals, formal set piece periodic appraisal, ranking system based on a normal distribution, and individual incentives based on performance of chiefly short-term goals) is conducted. These include:

Ratings Dissatisfaction

- A growing sense of dissatisfaction on the part of employees about the inefficiency of ratings and their lack of motivational effect. Not only are ratings potentially divisive within the workforce (with lower rated individuals resenting higher rated ones and vice versa) there is also the concern over the calibration of ratings (should they be “forced”, for example) and the worry that the system is not being used to enhance overall performance but simply to weed out underperformers. Such observations tend to decrease the efficacy of traditional systems of performance management.

Pareto Curve

- For most organisations, performance management using a traditional system highlights normal distribution of employees, and a broad classification into high, medium and low performance, with the bulk of employees labelled in the medium (“meets expectations”) category. However, recent work on performance management has shown that performance within the organisation does not conform to a normal distribution but is in fact subject to a power law or Pareto distribution, meaning that 20% of employees do 80% of the work. Traditional performance management systems therefore using a normal distribution are inaccurately classifying their employees.

Are traditional methods suitable?

- Research shows that employees engaged in complex problems requiring innovative thinking and creative solutions are not best served by a traditional performance management system which emphasises KPIs and contingent rewards. Indeed, applying such a system may actually produce negative effects in terms of reducing motivation and performance because the traditional system narrows the employee’s focus and reduces the capacity to think imaginatively

Ratings creating a fixed mindset

- Work by Carol Dweck suggests that traditional performance management approaches develop a “fixed” mindset through the rating process. For example, an employee labelled “average” will in all likelihood believe that this rating describes them and indeed defines them, so that any further sense of real development may be given an artificially low headroom. The elimination of ratings and an acceptance of a strengths-based conversation-led performance approach encourages a “development” mindset in which the employee may see themselves as having far greater opportunity to develop and grow and a higher sense of their potential.

These arguments have prompted Deloitte, GE, EY, Medtronic, Cargill, Eli Lilly among others to ditch ratings and, in some cases, traditional performance appraisals, to embrace different approaches to manage and increase performance.

What's new in Performance Management?

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November 24th 2016



Presentations

After Philip's Introduction the roundtable heard presentations from two organisations who are both evolving their HR function but work under very different constraints; Deloitte and Lloyds Banking Group.

Deloitte – Tom Skilbeck

First the roundtable heard from a Deloitte, which has developed a new form of performance management. Tom Skilbeck presented insights from work at Deloitte and also gave examples of other companies, notably GE. GE is a very interesting case precisely because they are the company most associated with the traditional approach of ranking and the normal distribution. Tom's discussion of Deloitte and other organisations showed a number of common elements to the new performance management. The changes involved place a high demand on skilled conversations between managers and employees involving regular forward looking conversations, regular feedback and a focus on strengths, supported by continuous coaching and recognition. A core mantra is that "strengths-based, real time, regular, forward-looking conversations produce effective performance outcomes". Much of the performance data is captured by "real-time performance snapshots" – in many cases using performance apps to collect insights from key stakeholders.



Our performance and development story

November 2016

Lloyds Banking Group – Mark Heywood

Mark Heywood of Lloyds Banking Group presented the performance management system of the bank. In many ways, it was a defence of a traditional performance management system in a highly-regulated environment but Mark also showed where the bank is making changes, in particular advancing the idea of enhanced conversations between managers and their team members and developed an enhanced feedback culture within the bank. This was extremely interesting given the regulated and conservative cultures of banks generally and also their large workforces. Elements of the new approaches to performance management are seen here clearly.

Public



CHANGING THE WAY WE THINK ABOUT PERFORMANCE

Mark Heywood

Performance Management, Centres of Excellence, Lloyds Banking Group

November 2016

Roundtable discussions

The discussion generated by these three presentations can be captured in a number of key themes, which we have outlined below.

Ratings ripe for change

- The self-fulfilling nature of ratings – with people pigeonholed as “ordinary” and living down to down – is seen as ripe for change. The question is ‘what next’? How can organisations provide the optimal context to release the potential of “ordinary” workers? How can we reduce the emphasis on superstars, and rather than developing different skillsets? The new performance management approach gives cause for hope but how many firms are really adopting the core elements?

Management Capabilities

- The use of guided conversations for evaluation purposes, the prime way to reshape performance management, can only work if managers throughout the organisation understand the context and are prepared to give commitment to the time needed to undertake this approach. This may require substantial mindset shifts within the managerial cadre but there was agreement that this was an issue which could not be ducked. This would mean a real emphasis on developing a performance culture – with all managers focused on getting people to do things that release their potential on a daily basis. At the heart of this would be ensuring that all managers are well trained to deliver these approaches.

Reward Mechanisms

- How can reward be made fairer? The new style performance management puts the responsibility for rewards squarely with managers. The discussion turned to the choices within this, in particular the balance between team versus individual recognition and reward. Some companies are moving towards greater use of team-based approaches to ensure stronger collaboration and end-to-end working. However, getting the balance between team and individual rewards remains a difficult and delicate issue.

Differentiation and Segmentation

- Segmentation – how is it possible to differentiate performance management to accommodate different workforces within the same organisation, perhaps going at different speeds? The new performance approaches suggest ways in which organisations to be adaptable and flexible in such contexts.

Conclusions

In conclusion, the demand for new ways to manage performance is becoming increasingly urgent, not least as Tom Skilbeck argued, the rise of the millennials in the workplace and their need for fast, relevant and developmental feedback. Our thanks to all the delegates at the workshop for sharing their thoughts into how this might happen. Our aim is to run further workshops on this and a number of related HR issues to highlight and assess where progress can continue to be made.

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