PERFORMANCE MANAGEMENT IN AUSTRALIAN ORGANISATIONS: CURRENT PRACTICE AND FUTURE PLANS

A REPORT ON THE STATE OF PLAY

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EXECUTIVE SUMMARY

THE STUDY

The study draws on survey data obtained in May 2021 from 163 AHRI HR professionals on current and planned performance management practices in Australian organisations, particularly to gauge continuity and change in performance management practice prior to and during COVID and plans for change in practice use in 2022-23. With a view to maximising data consistency and comparability, the survey instrument specified 17 performance management practices. While not disclosed to participants, ten of these were classified as 'traditional' practices. While the remaining seven were categorised as 'new' practices, also referred to elsewhere as 'cutting edge' or 'performance management 2.0' practices. Respondents were asked to provide quantitative data on the practices specified and their organisation's performance management system (PMS) overall, as well as qualitative information on the impact of COVID on their organisation's approach to performance management and on current and planned responses. A small number of respondents also agreed to participate in a follow-up interview for case study purposes.

KEY FINDINGS

Finding 1: Tradition practices remain prevalent, if not predominant.

Some traditional practices continue to be used extensively, with over 70% using performance planning discussions, self-assessment, and rating scales, and over 40% using cascaded goals and 360-degree feedback. A significant minority of organisations who were not using particular traditional practices at the time of the survey had plans to introduce them within two years, with rater training, deep competency assessment, team assessment, cascaded goals, and peer feedback being most prominent in these plans. This suggests that change in the Australian context is essentially cautious and evolutionary in nature and that claims of the demise of traditional performance in this context are premature.

Finding 2: Innovation is underway, albeit very selectively.

While Australian organisations continue to lag well behind the extensive uptake of 'cutting edge' practices in the US before COVID, there are some signs of selective change. Two non-traditional practices, namely ongoing feedback and development coaching, are either already used or slated for introduction within two years. Conversely, the uptake of five other 'new' practices, namely ratingless reviews, greatly simplified ratings, crowd-sourced feedback, electronic performance monitoring and use of AI for performance management, remains low at present although plans are afoot to increase the use of electronic monitoring, evidently in response to the changes wrought by the pandemic.

Finding 3: Size matters – in complex ways.

While better placed to maintain a multi-faceted PMS, large organisations seem to be more tradition-bound and less agile than their smaller counterparts. Small organisations are far less likely to embrace traditional resource-intensive practices such as rating scales, but they are no less innovative than are the largest organisations in taking up newer practices. While large oganisations are more active in using some new practices (simplified ratings, electronic monitoring, AI use), small organisations are just as innovative as large organisations when it comes to the use of ongoing feedback, career coaching and ratingless reviews. In the case of ratingless reviews, small organisations are actually more innovative.

Finding 4: Sector matters, with the mix of practices in not-for-profits (NFPs) being surprisingly complex.

Relative to other sectors, NFPs make particularly high use of a number of traditional practices (performance planning discussions, self-assessment, peer feedback) as well as several new practices (development coaching, ratingless reviews, electronic monitoring and AI). Conversely, NFPs are relatively averse to some traditional practices (rating scales, rater training, calibration meetings and team assessment) and also to some newer practices (greatly simplified ratings and crowd-sourced feedback). Publicly-traded firms are most active in the use of both traditional and new practices, followed by privately-owned firms in most instances. Public sector organisations also have a relatively high incidence of most old and new practices, though their usage of some practices (peer feedback, ratingless reviews, crowd-source feedback, electronic performance monitoring and use of AI) is noticeably lower than in other sectors.

Finding 5: Whether the practice is traditional or new, workforce coverage is generally high.

Of the ten traditional practices, nine were applied on average to at least half of the workforce, with rating scales, self-assessment, performance planning discussions, deep competency assessment, cascaded goals and calibration meetings covering the vast majority of workers. Most revealing though was the extensive coverage of new practices in those organisations in which they were being used, most notably ongoing feedback, ratingless reviews, greatly simplified ratings and developmental coaching. When organisations take up these new practices, they do so quite holistically.

Finding 6: Few practices are perceived as being highly effective in their own right.

Except for ongoing feedback, no practice – traditional or new – was rated as being particularly effective in improving employee performance. Practices with the lowest perceived effectiveness were rating scales, rater training and use of AI for performance management. Since they speak to both old and new practices, these less than positive perceptions suggest that there are underlying shortcomings with PMS in Australian organisations that go beyond the use/misuse of particular practices per se.

Finding 7: Performance management systems effectiveness is not rated highly.

Respondent perceptions point to ongoing shortcomings at the level of the system as well as regarding specific practices. While a majority agreed that their existing PMS was helpful in

identifying individuals' performance strengths, weaknesses and development needs and in supporting learning and development, only a minority believed that it supported business outcomes, drove reward outcomes, distinguished adequately between employees performance-wise, helped to make legally-defensible HR decisions, and supported good succession planning, performance counselling, and staffing strategies.

Finding 8: There is some evidence that the use of new practices boosts performance management system effectiveness.

When new practices are in use, perceived PMS effectiveness is higher on some key outcome criteria relative to that in organisations where the practice is not used. The specific PMS criteria in which new practice use appears to make a positive difference are: impact of firm performance, connection to reward management, employee development and legally defensible outcomes.

Finding 9: COVID-induced disruption is having a variegated impact on PMS continuity and change.

In some cases, old habits have persisted, even if only by default. In others, performance management has been side-lined in the face of an existential organisational challenge and/or the imperative to prioritise employee wellbeing and support. In a minority of cases, COVID has presented an opportunity to either initiate or accelerate PMS transformation.

Finding 10: COVID appears to be setting the stage for accelerated change in PMS principles and practices.

Consistent with the quantitative survey data, the qualitative responses suggest that the disruption brought about by COVID may have created conditions conducive to greater receptivity to the principles and practices of the 'new performance management' – less bureaucracy, less paperwork, less retrospectivity, less ritual, less judgementalism, and less hierarchy; more inclusivity, more problem-solving, more forward planning, more developmentalism, and more technology-enabled data management.

1. BACKGROUND TO THE STUDY

1.1 AIMS

In early 2021, AHRI partnered with academics from the University of Sydney Business School to examine current performance management practices in Australian organisations and how these practices might change over the next two years. Specifically, the study aimed to (1) generate and analyse practitioner supplied data on the current (2021) state of play of performance management practices in Australian organisations; (2) gauge the nature and extent of plans for change in these practices over the next two years (2022-23); and (3) develop a select number of case studies on continuity and change in these practices from the immediate pre-COVID period to the immediate post-COVID years.

1.2 PERFORMANCE MANAGEMENT: DEBATES AND DEVELOPMENTS

Human resource practitioners and academic researchers worldwide subscribe to the view that how employee performance is managed is a potentially critical contributor to human resource effectiveness. Yet, while there are considerable bodies of published material on how performance is managed in other developed countries, in the Australian context there is a frustrating dearth of accessible information. The peak UK HR organisation, the Chartered Institute for Personnel and Development, regularly publishes detailed survey-based results on performance and reward management practices in that country (https://www.cipd.co.uk/knowledge/strategy/reward/surveys). Similar studies are produced on a regular basis by practitioner bodies in the USA. In Australian, however, there is nothing of comparable quality available in the public domain – and this has been the case since the publication of the results of the last Australian Workplace Industrial Relations Survey in 1995. While consulting firms do undertake regular surveys of HR practice in Australia, the results of these surveys tend to be strictly proprietary, with detailed data rarely if ever made available to academic researchers or peak professional bodies such as AHRI. The most recent published academic studies relating to the Australian context and based on survey data are those by Nankervis and Stanton (2009) and Nankervis, Stanton and Foley (2012) and these are now chiefly of interest for the purpose of historical comparison.

Yet anecdotal evidence abroad indicates that past performance management practices in particular are now being questioned, criticised and transformed in unprecedented ways. One common criticism of the traditional approach to managing performance is that its top-down and bureaucratic nature is out of synch with today's organisational and social context. Technological disruptions associated with the internet, social media, the explosion in the volume of information available online, the rise of robotics and artificial intelligence, app-based information management, crowdsourcing of ideas, solutions and funding, rapid shifts in consumer demand and employee expectations and the globalisation of capital, consumer and labour markets, are transforming workplaces in ways unimaginable even a decade ago. In many of today's organisations, managers and employees regard performance review as an outdated annual ritual or chore with little

connection to other HR functions or business objectives and outcomes. A 2015 PwC study of developments in performance management in 27 of Australia's largest listed companies reported that two-thirds of these companies saw performance management chiefly as a compliance exercise rather than as a strategic enabler (Grogan et al 2015).

For these and other reasons, some critics argue that the performance rating and review model is irrevocably broken (Adler at al, 2016); that it should be abandoned in favour of greater attention to improving manager-employee trust and communication. However, it can also be argued that placing greater emphasis on two-way trust and openness represents an evolutionary change in purpose and process, rather than a revolutionary departure from past practice. Rumours of the imminent death of performance ratings and reviews abound, but claims of the demise of performance management per se may, to say the least, be premature.

Recent (though pre-COVID) research evidence from abroad indicates that organisations are indeed beginning to adopt non-traditional approaches to these practices while academics are openly debating options and alternatives (Bititci et al 2018; DeNisi and Murphy, 2017; Pulakos and Battista eds., 2020). For instance, a survey-based study published in 2016 (Ledford, et al, 2016) indicated that US organisations have already embraced a range of non-traditional practices, including on-going feedback, ratingless reviews and crowd-sourced feedback.

Regrettably, we know too little about comparable developments in the Australian context pre-COVID. Nor do we yet have credible evidence on how the current pandemic may be influencing local performance management practices, particularly via work from home, on-line work and, more generally, the adoption of robotics and artificial intelligence.

This project seeks to help remedy this gap in our knowledge base.

1.3   METHODOLOGY

To this end, the study draws on survey data provided by AHRI professional members and case-specific interview data provided voluntarily by a select number of a survey respondents. Members of AHRI with responsibility for performance practices in their organisations were requested to complete the on-line survey covering current practices and planned changes, as well as to indicate their willingness to assist in the preparation of case studies of current and planned practices. The project proposal received approval from the University of Sydney Human Research Ethics Committee in February 2021 (#2021/159), survey data gathering occurred in May and case study interviews occurred in August.

The first phase of the research – the survey phase – involved collecting anonymized data from AHRI professionals via a brief online survey able to be completed in approximately 20 minutes. The survey instrument sought to capture information on respondent and organisational demography, current performance management practices, including incidence, workforce coverage and perceived effectiveness of these practices, as well as perceived effectiveness of the organisation's overall performance management system. The survey also sought quantitative information on planned/anticipated changes to existing practices as well as qualitative information on the impact of the pandemic on current and planned practice.

Survey respondents were asked to indicate which of 17 specific practices their organisation currently

used or planned to use within the next two years. Of these 17 specific practices, we classified ten as 'traditional' in nature and seven as 'new', although to avoid social desirability bias this distinction was not signalled in the survey instrument itself. In defining 'new' practices' we drew primarily on the definition of 'cutting edge' practices applied by Ledford, Benson and Lawler (2016) in their study of emerging practices in US organisations, including ratingless reviews, ongoing feedback and crowd-sourced feedback. Some commentators also refer to the suite of new practices as 'Performance Management 2.0'. The specific practices we have categorised as either traditional or new are as follows:

Traditional Practices

1. Use of rating scales to assess employees' individual performance over a regular performance cycle (e.g. 12, 6 or 3 monthly)

2. 360 feedback for performance reviews: Formal system that collects performance data from peers, subordinates, managers and sometimes customers

3. Use of self-assessment for performance reviews

4. Use of peer-to-peer feedback for performance reviews

5. Assessment of employee competencies: Assessment criteria include deep capabilities (e.g. composure) not just task-specific behaviours and results

6. Performance planning discussions between manager and employee

7. Training raters' capability to have effective performance management conversations

8. Calibration meetings in which managers discuss the performance of large pools of employees and determine rewards allocation

9. Cascaded goals: Goals that are aligned from executives to front-line employees

10. Assessment of team or unit performance in addition to, or in place of, individual assessment

New Practices

1. Ratingless performance reviews: Employees do not receive a numerical or verbal rating during performance reviews

2. Ongoing feedback: Manager – subordinate performance reviews, check-ins or other meetings to discuss employee performance and/ or development occur at least four times a year, not just annually

3. Managers draw on performance reviews to provide employees with career development coaching

4. Crowd-sourced performance feedback: Incorporates systematic use of social media feedback or recognition as part of performance assessment

5. Greatly simplified ratings: You use ratings, but use only an overall summary rating scale with three or fewer scale points

6. Electronic performance monitoring: Use of software and technology to understand employee productivity and performance (e.g. monitoring time on screen, monitoring employee communication platforms)

7. Use of artificial intelligence / robotics to support any aspect of performance management

The second stage of the study – the case study stage – involved the development of a smaller number of anonymized organisational case studies of current, planned and anticipated changes to performance management practice.

Participation in these stages was wholly voluntary. We made provision at the end of the survey for respondents to indicate their willingness to participate in a follow-up interview. They were advised that the information provided would be used in aggregate form only and solely for the purposes of professional information sharing and academic research and teaching. No company or individual names were be used in any research presentations or reports.

The survey population comprised members of AHRI employed as HR professionals with responsibility for performance management practices in their current organisation. Academic, student and consultant members of AHRI are excluded from the survey since they did not meet the aforementioned requirement.

At the time survey invitations were issued, AHRI had some 30,000 members Australia-wide, of whom and estimated 25,000 met the selection criteria described above. The online survey remained open for four weeks and generated a total of 163 usable responses. Of those completing the survey 15 indicated a willingness to participate in the follow-up interviews.

1.4   SIGNIFICANCE

Notwithstanding the study's modest sample size, the study's results and findings stand to assist both practitioner and academic knowledge of the changing nature and impact of performance management in the Australian context. Specifically:

1. The study contributes to remedying the current deficiency of scholarly empirical evidence on current practices and planned changes to performance management practices in Australian organisations.

2. It is the first scholarly study document the impact of COVID on these practices and anticipated short- to mid-term post-COVID changes to these practices in Australia.

3. It is the first study since Nankervis, Stanton and Foley (2012) to gauge Australian HR professional's perception of the strategic alignment and efficacy of these practices.

4. It provides up-to-date information of the impact of artificial intelligence on these practices in Australia.

5. It provides the Australian HR profession with reliable and valid information for benchmarking and planning purposes in performance management.

6. It has immediate and direct relevance to learning and development in the HR field. The survey information and case study content stand to enrich both university-level learning content and learning content for professional development purposes.

2   RESPONSE SAMPLE

2.1   SPATIAL DISTRIBUTION

Of the 163 usable survey responses, respondents from NSW and Victoria comprised about a quarter each, while respondents from Queensland constituted just under 22%. Almost three-quarters of respondents' organisations were metropolitan-based, with just under 25% being located in regional areas.

STATE	FREQ.	PERCENT
NSW	40	24.8
VIC	42	26.1
QLD	35	21.7
SA	13	8.1
WA	13	8.1
TAS	5	3.1
ACT	12	7.5
NT	1	0.6
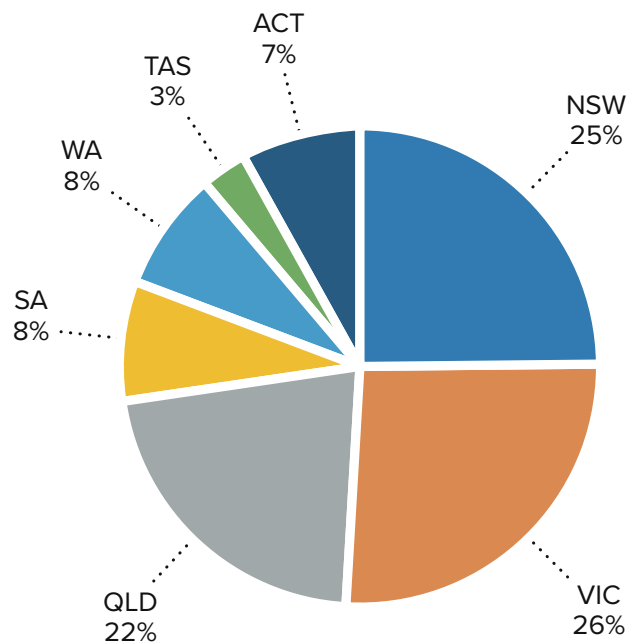
AREA	FREQ.	PERCENT
Metro	124	76.1
Regional	35	21.5
Remote	4	2.5
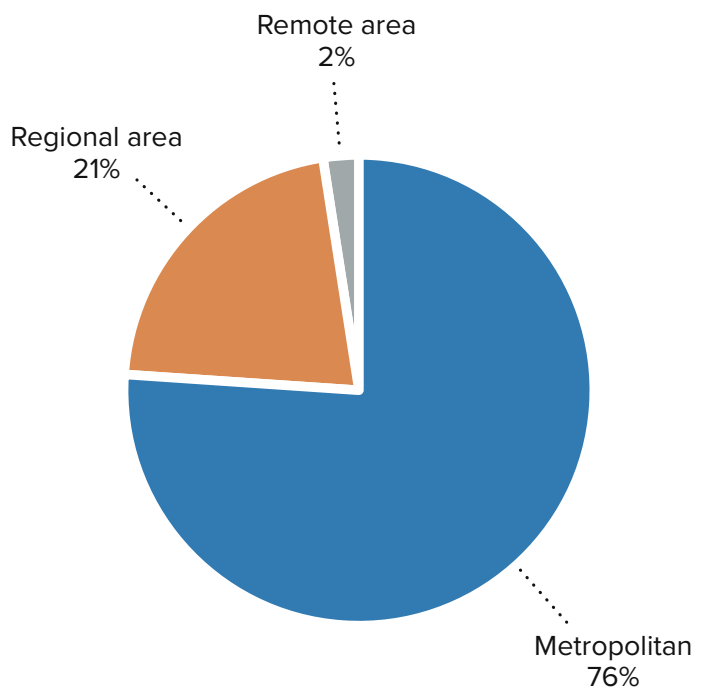
2.2 ORGANISATIONAL SIZE

In terms of workforce size, 34.4% of respondent organisations had less than 100 employees, while just under a quarter had a workforce of 100 to 499, 13.5% had 500 to 999 employees and 28.2% had 1,000 or more employees. This distribution suggests a sample response bias favouring SMEs and underrepresenting larger firms.

ORG_SIZE	FREQ.	PERCENT
1-99 workers	56	34.4
100-499	39	23.9
500-999	22	13.5
1000+	46	28.2

1000 or more workers 28%

1-99 workers 34%

500-999 workers 14%

100-499 workers 24%
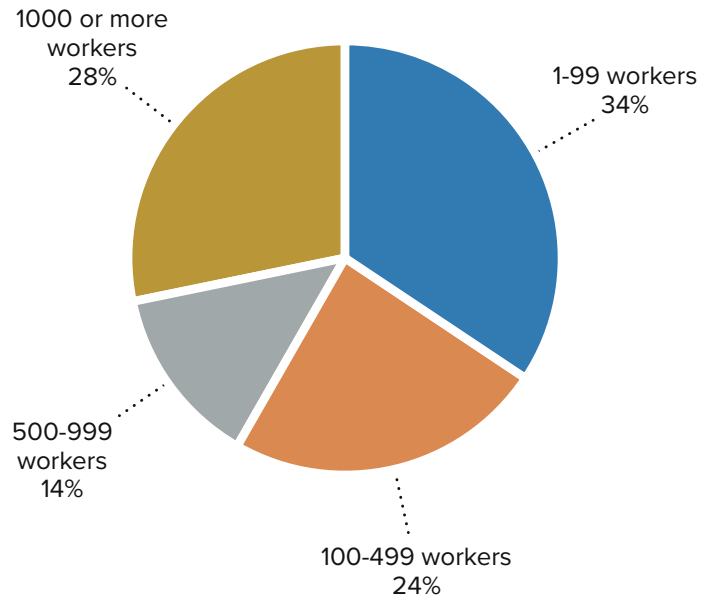
2.3 SECTOR

SECTOR	FREQ.	PERCENT
Not-for-profit	48	29.6
Public	44	27.2
Private— privately owned	61	37.7
Private— publicly owned	9	5.6

Private-publicly owned 6%

Not-for-profit 30%

Privately owned 38%
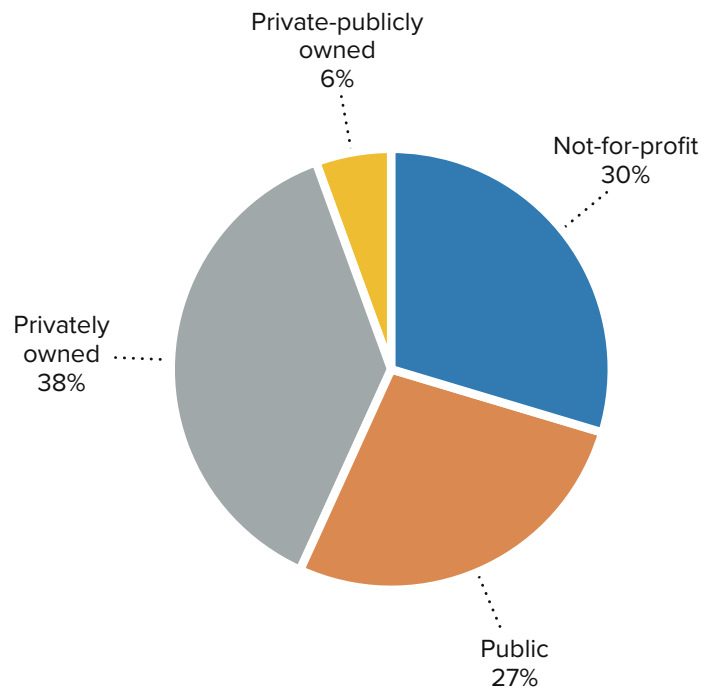
Public 27%

Just over a quarter of respondent organisations were publicly owned and almost 30% were NFP. Unlisted for-profit firms comprised 37.7% of the total, while listed firms comprised just 5.6%. Consistent with the above data on organisational size, this sectoral profile is indicative of a significant underrepresentation of listed companies and an overrepresentation of NFPs and privately owned firms.

2.4 INDUSTRY

Consistent with Australia's service-based economy, the industries with the strongest sample presence were health care and social assistance (18%), professional, scientific and technical services (10%), public administration and safety (9%), and education and training (10%), with construction being next highest (9%). Beyond these predominant categories, the sample was widely dispersed across multiple industries.

INDUSTRY	FREQ.	PERCENT
1. Accommodation and Food Services	3	1.9
2. Information Media and Telecommunications	4	2.5
3. Administration and Support Services	3	1.9
4. Manufacturing	6	3.7
5. Agriculture, Forestry and Fishing	3	1.9
6. Mining	1	0.6
7. Arts and Recreation Services	4	2.5
8. Professional, Scientific and Technical Services	16	9.9
9. Construction	14	8.6
10. Public Administration and Safety	15	9.3
11. Education and Training	16	9.9
12. Rental, Hiring and Real Estate Services	2	1.2
13. Electricity, Gas, Water and Waste Services	3	1.9
14. Retail Trade	2	1.2
15. Financial and Insurance Services	5	3.1
16. Transport, Postal and Warehousing	3	1.9
17. Healthcare and Social Assistance	29	17.9
18. Wholesale Trade	2	1.2
19. Other Services (please specify)*	31	19.1

*OTHER SERVICES (as specified by the respondents):
Advertising and Marketing, Business Processing Outsourcer, Cleaning, Consulting, Government, Health, Heritage interpretation, International Trade, Law, Legal, Local Government, Management Consulting, Mental Health, Military, Multi-lateral international organisation, Other – Public Service, Religious, Religious Governance, Religious Institution, Religious services, Rental and Hire of Forklift Equipment, Social housing, Staffing, Supply Chain, Tourism, Welfare, Disability, local government, outsourced manpower.

3 PRACTICE INCIDENCE AND COVERAGE

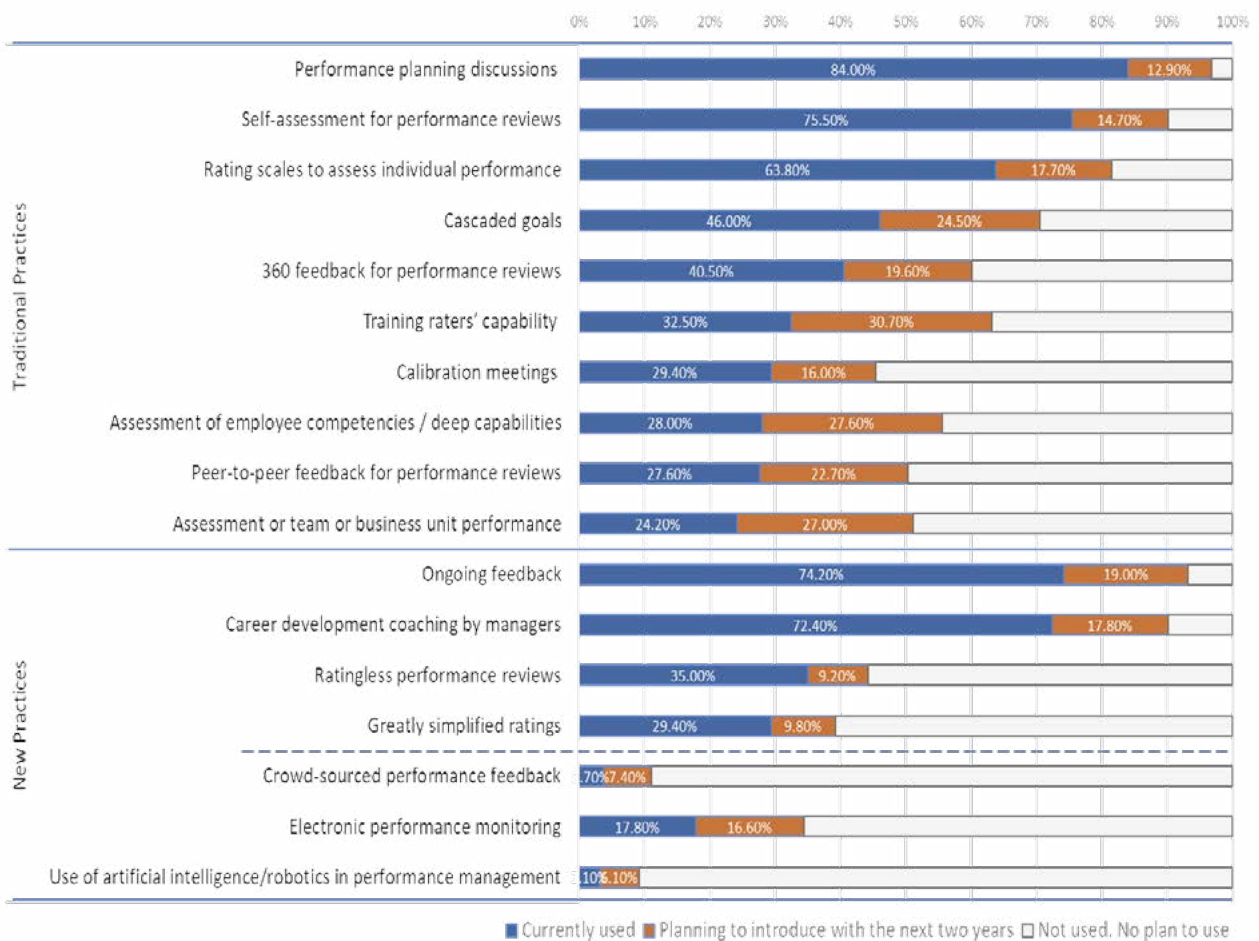## 3.1 PRACTICE INCIDENCE AND PLANNED USE: 'TRADITIONAL' AND 'NEW'

Our response data are particularly revealing of the state of flux in PMS configuration in Australian organisations represented in the sample.

Regarding 'traditional' methods, a clear majority of respondents' organisations used performance planning discussions (84%), self-assessment (75.5%), and rating scales, (63.8%) while a substantial minority used cascaded goals (46%), and 360-degree feedback (40.5%). The five other traditional practices were in current use in less than a third of respondent organisations: rater training (32.5%), calibration meetings, (29.4%), deep competency assessment (28%), peer feedback (27.6%) and team/business unit assessment (24.2%).

However, a significant minority of organisations who were not using some of these traditional practices at the time of the survey had plans to introduce them within two years. The traditional practices featuring most prominently in these plans were rater training, (30.7% planning to introduce), deep competency assessment (27.6%), team assessment (27%), cascaded goals (24.5%), and peer feedback (22.6%). It is noteworthy that, since the 1990s, practices such as these have commonly been prescribed as remedies for the problems frequently found in traditional top-down annual rating and review systems. Again, these results suggest that practice change in Australian organisations lags behind that in the US and other large western economies. The impression we are left with is that change in the Australian context is essentially cautious and evolutionary in nature. On the basis of this survey evidence, claims of the demise of traditional performance are, to say the least, premature – at least in the Australian context.

The results do suggest, though, that more substantial innovation may be underway, at least with respect to some non-traditional practices. Of these, two are already in common use or are planned for introduction within two years: ongoing/continuous feedback (74.2% using plus 19% planning to introduce) and development coaching. (72.4% using plus 17.8% planning to adopt). Yet, only a minority reported using other non-traditional practices such as ratingless reviews (35%), and greatly simplified ratings (29.4%). Further, only 3% were using crowd-sourced feedback.

The results also show that Australian organisations have been relatively slow to adopt technology-based approaches to performance management, although there are some indications that the pace may be picking up. Just 3 per cent of respondent organisations were using artificial intelligence as part of their PMS in 2021, although 6 per cent said they intended to do so. Likewise, while only 17.8 per cent were using electronic performance monitoring in 2021, an almost equal number indicated that they planned to adopt the practice within the ensuing two years – perhaps as a response to COVID and remote working.

Practice	Currently used	Planning to introduce with the next two years
Traditional Practices		
Performance planning discussions	84.00%	12.90%
Self-assessment for performance reviews	75.50%	14.70%
Rating scales to assess individual performance	63.80%	17.70%
Cascaded goals	46.00%	24.50%
360 feedback for performance reviews	40.50%	19.60%
Training raters' capability	32.50%	30.70%
Calibration meetings	29.40%	16.00%
Assessment of employee competencies / deep capabilities	28.00%	27.60%
Peer-to-peer feedback for performance reviews	27.60%	22.70%
Assessment or team or business unit performance	24.20%	27.00%
New Practices		
Ongoing feedback	74.20%	19.00%
Career development coaching by managers	72.40%	17.80%
Ratingless performance reviews	35.00%	9.20%
Greatly simplified ratings	29.40%	9.80%
Crowd-sourced performance feedback	1.70%	7.40%
Electronic performance monitoring	17.80%	16.60%
Use of artificial intelligence/robotics in performance management	10%	5.10%

■ Currently used ■ Planning to introduce with the next two years ☐ Not used. No plan to use

3.2 US-AUSTRALIAN COMPARISONS IN PRACTICE USAGE

Use of the Ledford, Benson and Lawler (2016) descriptors for nine 'cutting edge' and traditional practices allows us to compare the aggregate incidence of these nine practices in US organisations (2015) and those in Australia (2021). In Australia today, the incidence of all nine of these practices continues to lag well behind the usage levels reported for US organisations six years earlier. Of the three 'cutting edge' practices analysed by Ledford, Benson and Lawler (2016), it is only in the use of ongoing feedback that current usage in Australian organisations comes remotely close to that in the US in 2016, although the usage gap is lowest for ratingless reviews and greatly simplified ratings. Conversely, the largest usage gaps are those for three of the non-cutting-edge practices, namely calibration meetings, competency assessment and cascaded goals.

	USA (2015) (N=244)	AUST. (2021) (N=163)	USAGE GAP
'CUTTING EDGE' PRACTICES:			
Ratingless performance reviews	51%	35%	16%
Ongoing feedback	97%	74%	23%
Crowd-sourced performance feedback	27%	4%	23%
OTHER PRACTICES:			
Greatly simplified ratings	44%	29%	15%
Cascaded goals	85%	46%	39%
360-degree feedback	63%	41%	22%
Assessment of team or unit performance	54%	24%	20%
Assessment of competencies	75%	28%	47%
Calibration meetings	78%	29%	49%

3.3 INCIDENCE BY ORGANISATIONAL SIZE

Does workforce size make a difference to the practices used? To clarify this question, we compared mean practice incidence in organisations with less than 100 employees with usage in organisations with over 1,000 employees, again distinguishing between traditional and new practices.
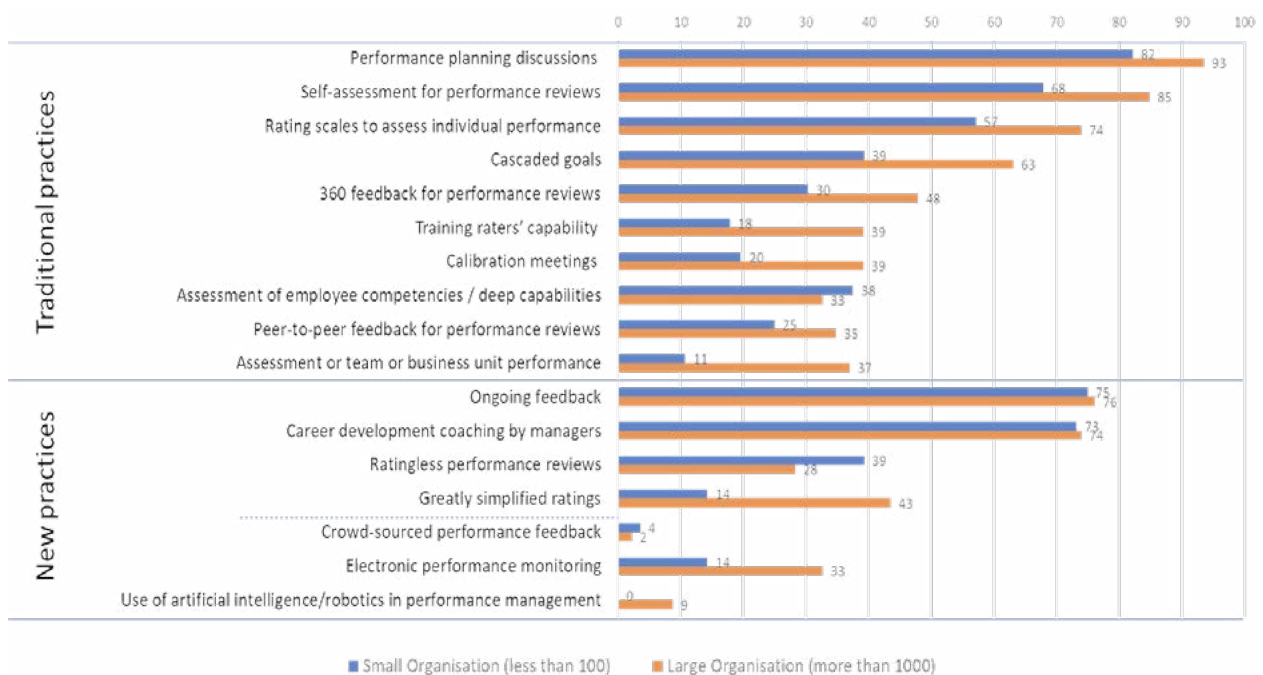
Numbers – percentage of the organisations that currently use the practice (for example, 82% of small organisations are using 'performance planning discussion' while 93% of large organisations are using it).

Regarding traditional practices, except for deep competency assessment, large organisations are, on average, much more likely to use these practices, compared to small organisations. There are a number of plausible explanations for this positive correlation between traditional practices and greater workforce size. First, large organisations have more resources to run a complex PMS. Second, large organisations have greater need to run complex PM systems. Third, large organisations can spread the overhead cost across many employees (low per-person cost). Fourth, and perhaps most speculatively, large organisations are likely to also be older and more historically path dependent, meaning that they are likely to be less agile and able to move away from traditional methods as quickly as smaller, younger organisations.

The relationship between organisational size and the use of new practices is markedly different. Large oganisations are more active in some areas: simplified ratings, electronic monitoring, AI use. However, in the adoption of some new practices (ongoing feedback, career coaching and ratingless reviews), small organisations are just as innovative as large organisations. The size difference is negligible in the case of ongoing feedback and career coaching. In the case of ratingless reviews, small organisations are actually more active than large organisations. Again there are likely to be multiple reasons for the relatively high uptake of newer practices amongst smaller organisations. On paper, at least, newer practices like ratingless reviews, development coaching and ongoing feedback appear to be particularly compatible with the closer and more personal workplace relationships that characterize smaller firms and NFPs and the more limited resources likely to be available to the HR function in SMEs.

Given these results, it is reasonable to conclude that while small organisations are far less likely to embrace traditional practices, they are no less innovative than are the largest organisations in taking up newer practices.

"Consulting Engineers" exemplifies this pattern of SME innovation.

CASE STUDY

CHANGES TO IMPROVE PERFORMANCE CONVERSATIONS AND JOB MANAGEMENT AT "CONSULTING ENGINEERS".

"Consulting Engineers" (real name anonymised) is a small, privately owned company, specialising in project engineering, consulting engineering and industrial design with offices in metropolitan and provincial Queensland. Consulting Engineers was started in the mid-2000s by a group of engineers who aspired to deliver customised design solutions in project engineering. They subsequently expanded into consulting, design, drafting and engineering service, with a focus on the resources sector.

The firm's 50-strong workforce comprises highly experienced engineers, designers and project managers, who oversee the core functions, as well as graduates, trainees and interns to perform routine engineering design and drafting works. The firm's talent is much sought after by bigger competitors and it has made use of individual secondments to capitalise on this demand. The firm now has two engineering divisions: 1. Consulting (office based); and 2. Projects (client-site based).

Maintenance work and professional labour hire

Throughout the pandemic, Consulting Engineers has been able to sustain its business by focusing on unavoidable maintenance work. This has left it better placed than other professional service providers reliant on large project work.

The engineers in the firm's Projects Division work mostly with big companies and are thought of as 'boutique labour hires'. This model provides greater flexibility and better career progression in the firm's relatively flat organisational structure as well as ready access to senior leaders.

Preference for informality, flexibility and a focus on development

The firm does not have any direct annual performance appraisal or review in place, with line managers generally preferring performance data to be presented visually rather than in written form. They typically favour ratingless reviews, performance planning discussion between managers and staff, career coaching and cascaded goals. These practices help connect employee capability, identify individual strengths/weaknesses and training needs and development. While the pandemic has temporarily limited the firm's capacity to invest in staff development, the overall approach provides flexibility and choices to both managers and staff as well as having a positive influence on business outcomes.

Facilitating performance discussions – the "Five Conversations Model"

The firm's primary performance management issue is improving job management in professional service provision to clients, particularly to ensure that consulting jobs are delivered on time and on budget. To this end, the firm is moving to institute more regular – quarterly – performance discussions inspired by the "Five Conversations Model" developed by Dr Tim Baker in his book, *The End of the Performance Review*, first published in 2013.

These conversations include: 1. Climate Conversation; 2. Strengths and Talents conversation; 3. Opportunities for Growth; 4. Learning and Development; and 5. Continuous Improvement. The model emphasises the importance of staff having role clarity, understanding their accountability and personal responsibility, and seeing the connection between their performance goals and objectives and the firm's overall business strategy.

The model enables the mind mapping of each conversation to discuss burning issues, identify and develop individual capabilities, focus on goals setting, provide timely and constructive feedback, and identify opportunities for growth and continuous improvement. Conversations with new hires typically centre on key questions relating to how the staff member is settling in, the quality of communication within their team, and how the manager can best communicate with and support them.

3.4   INCIDENCE BY SECTOR

Are there differences between sectors in the pattern of old/new practice use? To address this, we compared the mean incidence of each of ten traditional and seven new practices across four sectors: not for profit, public sector, privately-owned firms, and publicly-traded firms.

In general, publicly-traded firms are most active in the use of both traditional and new practices. While the usage rate tends to be lower than that for listed firms, practice use in private firms is also relatively high by comparison with other sectors, the notable exceptions being cascaded goals and 360-degree feedback, to which private firms seem to be relatively averse.

Public sector organisations also have a relatively high incidence of most old and new practices, though their usage of some practices (peer feedback, ratingless reviews, crowd-source feedback, electronic performance monitoring and use of AI) is noticeably lower than in other sectors.

The "Regional Health Care" case illustrates the PMS challenges faced by a large public sector organisation during the pandemic.

CASE STUDY

PMS UNDER PANDEMIC PRESSURE AT "REGIONAL HEALTH CARE"

Regional Health Care (a fictitious name) is a large public organisation providing health care and social assistance in regional Queensland with more than 1,000 workers.

The emergency response: flexible staffing

COVID has placed a strain on the organisation's staffing, work allocation and performance management practices. The disruption has resulted in acute skills shortages in some areas of health care and compelled some staff to work from home, with Regional Health Care required to make significant changes to HR practices at short notice in order to cover the resulting challenges. The organisation implemented a policy of 'staff mobility' (i.e. functional flexibility) to meet the high demand for front line health workers. This enabled staff with transferrable skills to be temporarily redeployed to areas of high need while maintaining service quality. This emergency response has

been a success, with the organisation being able to maintain access to staff at all times, including those working from home. However, as detailed below, the pivot to flexible staffing has place the organisation's PMS under strain.

The Pre-COVID PMS

Regional Health Care's pre-existing PMS was traditional in nature and seemingly effective. The approach, which included strategically-aligned performance criteria, performance standards for each layer in the leadership pipeline, regular ratings, on-going feedback from managers, rater training and performance planning discussions, was reportedly effective in identifying individuals' strengths/weaknesses and training and development needs, comparing staff performance and linking performance assessment to succession planning.

A system under pressure

However, the disruptions caused by COVID resulted in performance reviews being modified due to concern over staff fatigue linked to long and irregular working hours. Steps were taken to reduce the amount of time line managers' had to devote to performance management issues.

The pandemic also exposed shortcomings in the organisation's HR practices, including the PMS. Firstly, 'poor workforce design' meant that tasks and responsibilities were designed too rigidly to cope with the increased uncertainty, high work pressure, budget cuts and sudden surge in skill shortages. Secondly, with each manager's span of control typically exceeding seven direct reports', supervisory effectiveness diminished. Overloaded managers struggled to make effective decisions and often lost control over their subordinates. In turn, employee performance stood to be compromised by a lack of direction. Thirdly, overall performance suffered because of the increased reliance on temporary staff to back-fill for employees seconded to the COVID response, a problem exacerbated further still by the need to replace temporary staff themselves due to them being redeployed to provide emergency health care elsewhere in the system.

Challenge and response

The switch to a flexible staffing arrangement certainly put Regional Health Care's PMS under severe pressure and it had to make urgent changes to its HR practices to manage the challenges associated with complex work scheduling and rosters, short-term role change, and realignment of individual goals/KPIs. System-wise, the main impact was the need to postpone development and launch of a revised PMS due to managers and employees alike being overwhelmed and exhausted.

While change is on hold, Regional Health Care continues to plan for the introduction of an online PMS in 2022-23. It is also aiming to introduce AI/big data over the next two years to enhance the functionalities and robustness of its revised PMS, help improve operational efficiency, remove system redundancies and restore staff performance and wellbeing to pre-pandemic levels.

Most surprising here, however, is the relatively strong showing of NFPs. Relative to other sectors, these make particularly high use of a number of traditional practices (performance planning discussions, self-assessment, peer feedback) as well as several new practices (development coaching, ratingless reviews, electronic monitoring and AI). Conversely, NFPs are relatively averse to some traditional practices (rating scales, rater training, calibration meetings and team assessment) and also to some newer practices (greatly simplified ratings and crowd-sourced feedback).

While these sectoral differences can be attributed partly to underlying differences in organisational size, they also indicate two other factors very clearly. First, the range of old and new practices in use is significantly greater in traded firms in the for-profit sector. This sector clearly still favours PMS complexity. Second, the NFP sector is anything but a laggard when it comes to the use of practices both old and new. Indeed, NFPs appear to be level-pegging with the for-profit sector in the adoption of some of the key 'Performance Management 2.0' practices.
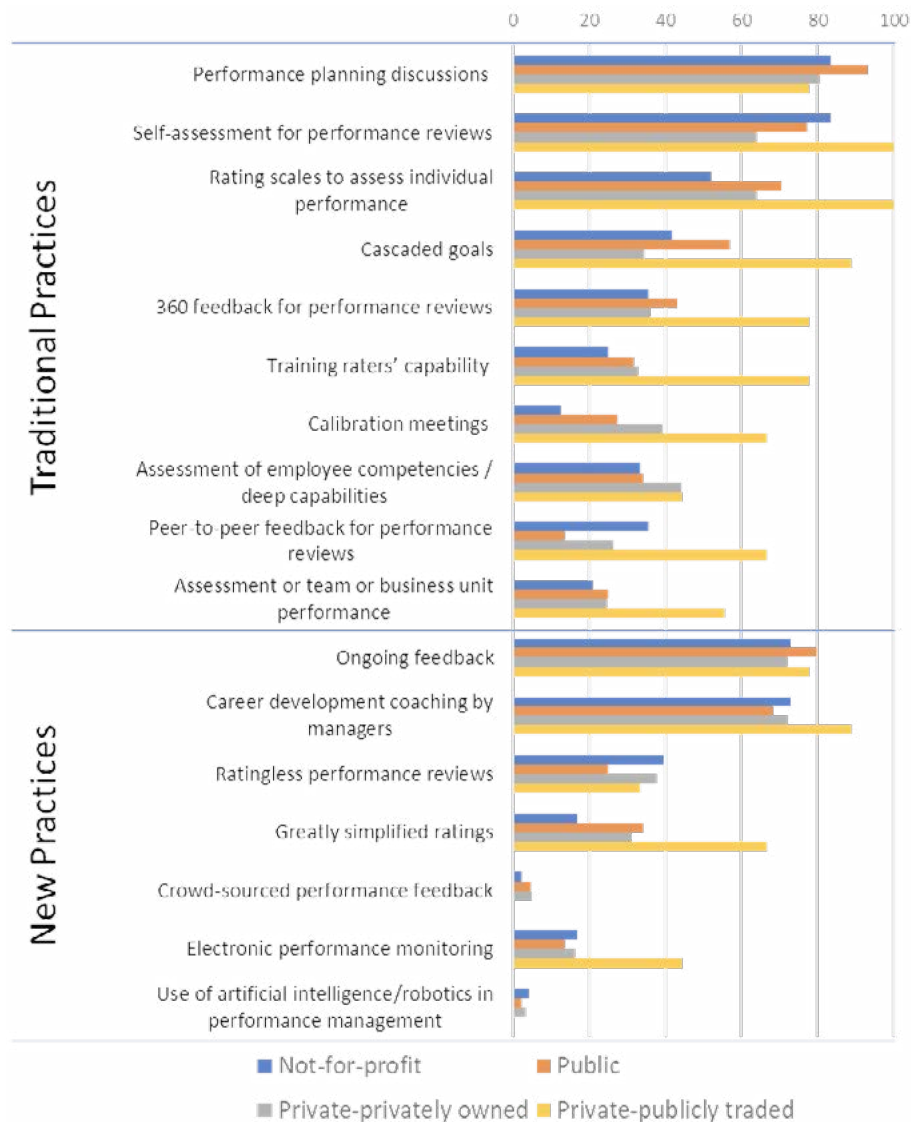
The case of Animals Australia highlights just how innovative a small NFP can be in transforming its whole approach to performance management.

ANIMALS AUSTRALIA – A NOT-FOR-PROFIT INNOVATOR

Purpose and profile

Animals Australia is a not-for-profit animal protection organisation strategic campaigning to support animal welfare. It is Melbourne-based, operates predominantly across Australia and also has a small number of contractors internationally. The organisation receives no funding from government, is wholly dependent on donations, and currently raises funds via a relationship management team and campaigns. Its revenue-raising has remained consistent throughout the pandemic.

Established in 1980, the organisation now has some 40 people, mostly full-time with some part-time and casual staff as well as contractors and freelancers. The staff of Animals Australia are varied and creative, consisting of graphic designers, technology (e.g. developers), animal welfare experts, advocates and campaigners and copywriters, working together to support a more humane and caring approach to animal welfare. HR is overseen by a small 'People and Culture' team covering the full gamut of HR: payroll, recruitment, performance management, work cover, workers compensation, health, safety and well-being, and workplace relations.

Successful transition to remote working

Animals Australia's response to the challenges associated with the COVID-19 crisis has been decidedly proactive. Technological innovation and adoption prior to COVID-19 made the organisation resilient to disruption, leaving it well equipped with the tools and technology to help staff to work from home during the pandemic. Pre-pandemic investment in online platforms has allowed it to effectively connect its employees with operating systems needed to perform key tasks remotely. This has been reinforced by a well-crafted employee communication strategy aimed at building staff confidence and sense of shared purpose and fostering trust.

The transition from office to remote working was smooth and efficient. This was made possible due to the workforce "showing leadership and sense of control rather than being responsive" to changing work conditions requiring to work remotely. Most employees were intrinsically motivated to adopt the organisational approach to remote working. According to Animals Australia's People and Culture Director, with this organisational support, remote working contributed to "more motivated and more productive" workforce, as well as maintaining employee well-being.

Workforce well-being was a priority for the organisation during the pandemic. A greater focus on flexibility, greater autonomy and encouragement of self-growth were identified as key driving principles of effective remote working. These principles were embedded in the organisation's refreshed approach to performance management. Autonomy was seen as involving a "sense of agency for individuals to build well-being linkages" and

enabling workers to contribute effectively from home.

Flipping performance management

For this NFP, COVID-19 has been a catalyst for a major change of approach to performance management. Hierarchy and box ticking have given way to autonomy, flexibility, forward-thinking and a developmental focus. These shifts in thinking have been realised via the introduction of new approach inspired by Flow Theory and the Strengths model and which prioritises a self-reflective process that helps employees to manage their performance and career development proactively. This new approach includes assigning coaches and mentors to develop a relationship with individual employees and supporting "empowerment and autonomy" to enable individuals to assess and use their strengths to the optimal level. Self-reflection helps to clarify the value that the individual brings to this process.

Animals Australia has a suite of new performance management practices to provide flexibility and choices to both managers and staff. These include ratingless reviews, 360-degree feedback, self-assessment, career coaching and competency assessment. The assessment thus far is that these innovations are making a significant contribution to connecting employee capability and contribution much more closely to positive organisational outcomes.

Over the next two years, Animals Australia plans to continue evolving their approach. What this will include depends on organisational need and an evaluation of the new system. It is also considering introducing team assessment as well as considering the role of AI/big data approach to recruitment, selection and development.

Accentuating intrinsic motivation and team work

Accompanying the refreshed approach to performance management is a strong emphasis on intrinsic motivation, with pay seen very much as a hygiene factor. Pay is not linked to individual short-term performance; rather, pay progression is driven by a competency framework emphasising responsibility and accountability. Pay levels are determined via internal benchmarking (alignment with the competency framework) and external market benchmarking rather than via an industry award or enterprise agreement.

Work at Animals Australia is also largely team- and project-based. While this downplays the importance of individual performance it also necessitates a carefully-crafted approach to integrating the diversity of individual capabilities into project planning and execution, which makes role categorisation much more difficult and determining salary ranges and remuneration more complex.
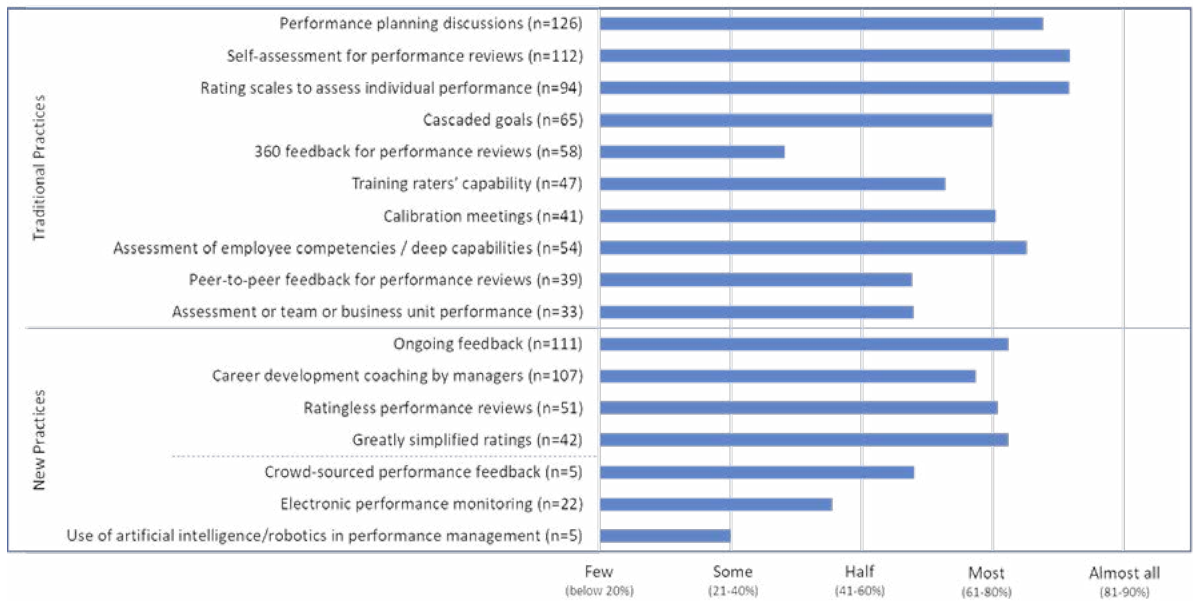
Spotlight on successful change

COVID-19 had been the catalyst for planned and positive change to Animal Australia's

approach managing employee capability, contribution and wellbeing. The philosophical underpinnings of this success include conferring greater autonomy on employees, supporting them to work remotely during the pandemic and signalling its intention to allow remote working to continue post-pandemic. Managers have been encouraged to "let go" of the desire to control and monitor employees and allow employees to drive performance discussions and action planning. At the same time, employees have been empowered to accept greater autonomy and responsibility. Accompanied by the adoption of a suite of non-traditional performance management practices, these shifts in underlying values have generated positive effects on staff morale, motivation and performance.
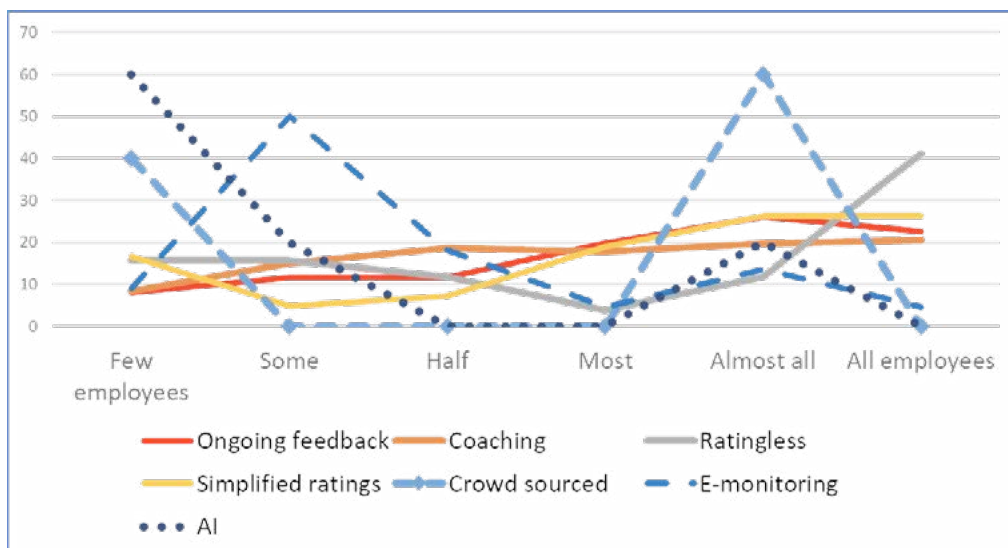
3.5 WORKFORCE COVERAGE BY PRACTICE USED

For those practices that were in use, respondents were asked to indicate the proportion of the workforce covered by each practice and these responses were used to calculate coverage means. Of the ten traditional practices, nine were applied on average to at least half of the workforce. The exception was 360-degree feedback, where coverage extended to only a minority of employees on average. Several traditional practices had mean coverages extending to 60%-80% of employees. These included rating scales, self-assessment, performance planning discussions, deep competency assessment, cascaded goals and calibration meetings.

Perhaps most revealing here, though, was the extensive coverage of new practices in those organisations in which they were being used. Where ongoing feedback, ratingless reviews, greatly simplified ratings and developmental coaching were in use, on average, they were being applied to a clear majority of employees. Further, in the few organisations that had adopted crowd-sourced feedback, the practice was applied to around half of the workforce. Where electronic monitoring was in use, on average, it also applied to a substantial minority of employees. Of the new practices, it was only the use of AI that was confined to a small minority (around 20% on average). With this one exception, these results indicate that in those organisations where new practices are in use, workforce coverage tends to be quite extensive. When organisations do turn to Performance Management 2.0, they seem to do so quite wholeheartedly and holistically.

Chart showing coverage of Traditional Practices and New Practices across categories: Few (below 20%), Some (21-40%), Half (41-60%), Most (61-80%), Almost all (81-90%).

Traditional Practices:
- Performance planning discussions (n=126)
- Self-assessment for performance reviews (n=112)
- Rating scales to assess individual performance (n=94)
- Cascaded goals (n=65)
- 360 feedback for performance reviews (n=58)
- Training raters' capability (n=47)
- Calibration meetings (n=41)
- Assessment of employee competencies / deep capabilities (n=54)
- Peer-to-peer feedback for performance reviews (n=39)
- Assessment or team or business unit performance (n=33)

New Practices:
- Ongoing feedback (n=111)
- Career development coaching by managers (n=107)
- Ratingless performance reviews (n=51)
- Greatly simplified ratings (n=42)
- Crowd-sourced performance feedback (n=5)
- Electronic performance monitoring (n=22)
- Use of artificial intelligence/robotics in performance management (n=5)

However, it is necessary to exercise caution when using data on mean coverage, since averages can either mask or be influenced by abnormalities in response distribution. To explore this further, we examined response frequency by coverage category (six categories, from 'few employees' to all 'employees') for each of the new PM practices. For two seemingly well-established practices (ongoing feedback and coaching) the frequency distribution across the coverage categories was relatively even. However, for three other new practices that were less-well established / experimental in nature (crowd-sourced feedback, electronic monitoring and AI-based PM) the coverage responses were bipolar. These practices cover either only a few employees or almost all employees. As such, for these practices, the simple averages of coverage are apt to disguise a more complex pattern; one of small scale experimentation versus wholesale coverage.

Line chart showing coverage distribution across categories: Few employees, Some, Half, Most, Almost all, All employees. Series: Ongoing feedback, Coaching, Ratingless, Simplified ratings, Crowd sourced, E-monitoring, AI.

4 PRACTICE AND SYSTEM EFFECTIVENESS

4.1 PERCEIVED EFFECTIVENESS OF EACH PRACTICE USED

Where a practice was used, we asked respondents to indicate how effective the practice was in improving employee performance: "Please rate the overall effectiveness of each of these practices in improving employee performance" (5 point scale: 'extremely ineffective', 'somewhat ineffective, 'neither effective nor ineffective', 'somewhat effective', 'extremely effective'). Responses were used to calculate means for perceived effectiveness of each practice used.

Except for ongoing feedback, no practice – traditional or new – was rated as being particularly effective in improving employee performance. On average, responses were below 'somewhat effective'. Ongoing feedback stood out as the only practice rated as being 'somewhat effective'. Practices with the lowest perceived effectiveness were rating scales, rater training and use of AI for performance management.

Since they speak to both old and new practices, these less than positive perceptions suggest that there are underlying shortcomings with PMS in Australian organisations that go beyond the use/misuse of particular practices per se. Possible systemic factors in play here might include poor system configuration and practice mix, poor communication of system details and processes, misalignment between performance criteria applied and organisational strategic priorities, inadequate stakeholder training and learning validation, inadequate employee voice and inclusion in system design, administration and review, lack of system trust, and/or lack of perceived system fairness.

Of course, it is also important to remember that these neutral or, at best, lukewarm impressions of practice effectiveness reflect the assessments made by those HR professionals charged with developing and maintaining their organisation's HR strategy and processes. It may be that, in playing down current practice effectiveness, HR professionals are motivated in part by the desire to secure greater organisational resourcing for PMS improvement. It may also be that these results signal an underlying disconnect between the HR function other organisational stakeholders, including line employees, line managers and other members of the organisation's top management team.

Whatever the underlying causes, these perceptions indicate that, in the view of HR professionals, there is ample room for practice and system improvement in the management of performance in Australian organisations.

Traditional Practices
- Performance planning discussions (n=123)
- Self-assessment for performance reviews (n=109)
- Rating scales to assess individual performance (n=92)
- Cascaded goals (n=63)
- 360 feedback for performance reviews (n=57)
- Training raters' capability (n=46)
- Calibration meetings (n=40)
- Assessment of employee competencies / deep capabilities (n=53)
- Peer-to-peer feedback for performance reviews (n=38)
- Assessment or team or business unit performance (n=32)

New Practices
- Ongoing feedback (n=110)
- Career development coaching by managers (n=104)
- Ratingless performance reviews (n=51)
- Greatly simplified ratings (n=42)
- Crowd-sourced performance feedback (n=5)
- Electronic performance monitoring (n=21)
- Use of artificial intelligence/robotics in performance management (n=5)

Neutral — Somewhat Effective — Extremely Effective

4.2 PERCEIVED OVERALL PMS EFFECTIVENESS

To explore perceived effectiveness further, we asked respondents to rate the overall effectiveness of their PMS against the nine specific criteria indicated below. While a majority agreed that their existing PMS was helpful in identifying individuals' performance strengths, weaknesses and development needs (75% agreed or strongly agreed) and in supporting learning and development (63% agreed or strongly agreed), only a minority believed that it supported business outcomes, drove reward outcomes, distinguished adequately between employees performance-wise, helped to make legally-defensible HR decisions, and supported good succession planning, performance counselling, and staffing strategies. Again, the evidence indicates ongoing shortcomings at the level of the system as well as regarding specific practices.

OVERALL PMS EFFECTIVENESS IN AUSTRALIAN ORGANISATIONS
(Percentage of organisations with 'agree' and 'strongly agree')

- Staffing strategies are linked to the outcomes of performance reviews — 32%
- Performance reviews are linked with employee counselling — 46%
- Succession planning is linked to performance management — 42%
- Helpful in making HR decisions legally defensible — 57%
- Helpful in figuring out who performed better than others, and identifying differences between employees — 44%
- Performance reviews result in reward and remuneration outcomes — 46%
- Has a positive influence on business outcomes — 49%
- Performance reviews result in learning and development outcomes — 63%
- Helpful in identifying individuals' strengths/weaknesses and their personal needs of training and development — 75%

Our results regarding perceived system-level effectiveness are consistent with those reported by Nankervis, Stanton and Foley (2012). In that study, from a decade ago, Australian HR professionals, on average, rated system effective in delivering organisational outcomes at 62 out of 100 (2.49 on a four-point scale). In 2021, Australian HR professionals rated system effectiveness at 64 out of 100 (3.21 on a five-point scale).

Taken at face value, then, it is reasonable to conclude that Australian HR professionals continue to harbour significant reservations about the contribution that their PMS makes to the achievement of positive organisational outcomes.

4.3 CORRELATION BETWEEN PERCEIVED PMS EFFECTIVENESS AND USE OF SPECIFIC 'NEW' PRACTICES

To drill down further here, we examined the association between reported system-level effectiveness on each of the above nine criteria and the use / non-use of each new practice. The results show clearly that where new practices are in use, perceived PMS effectiveness is higher on a number of these criteria relative to reported PMS effectiveness in those organisations where the practice is not used. The specific PMS criteria in which new practice use makes a positive difference are: impact of firm performance, connection to reward management, employee development and legally defensible outcomes.

Perceived PMS impact on firm performance is high for organisations that use coaching based PM and electronic monitoring. Further, in organisations using these new practices, the PMS is more likely to be linked to reward decisions.
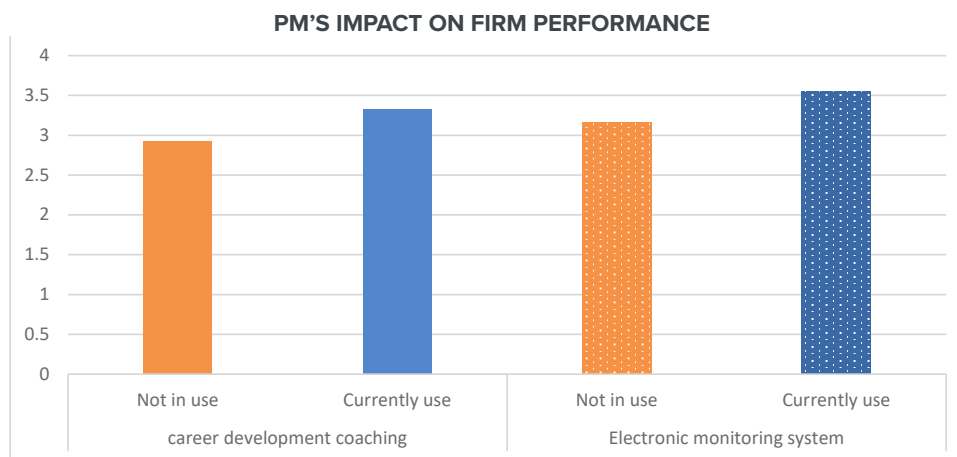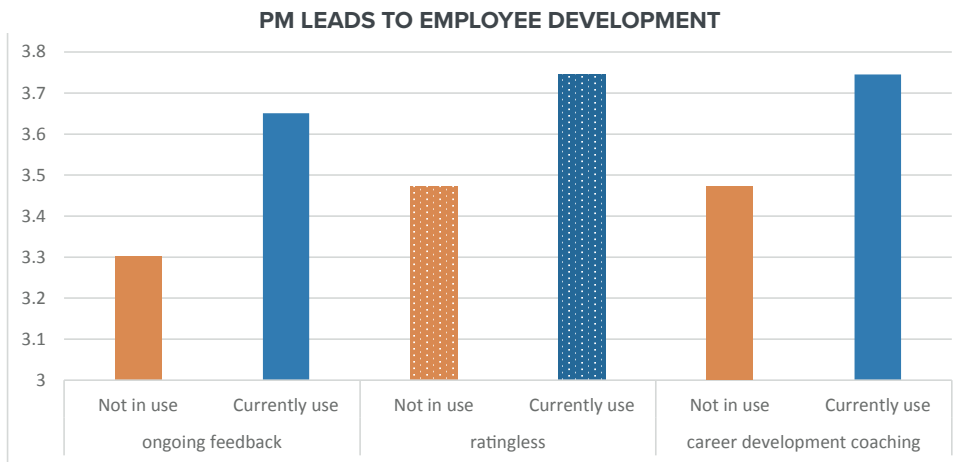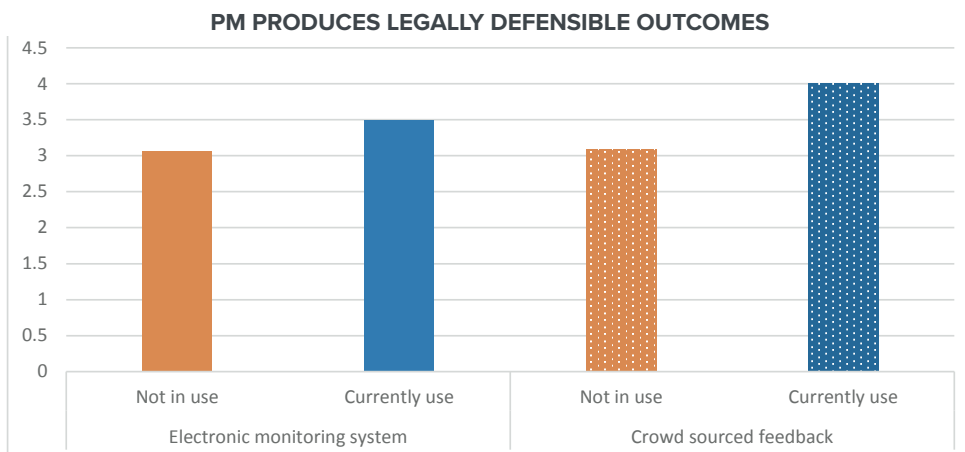

Coaching: p=0.03, Electronic monitoring: p=0.077

PM LEADS TO REWARD MANAGEMENT OUTCOMES
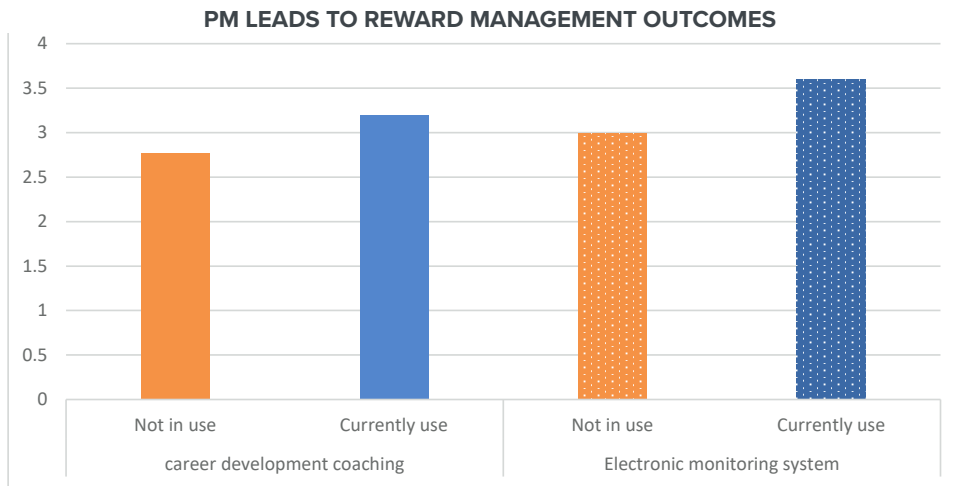
Coaching: p=0.043, Electronic monitoring: p=0.028

PM is more likely to linked to employee development in organisations that use ongoing feedback, ratingless reviews and development coaching.

PM LEADS TO EMPLOYEE DEVELOPMENT

Ongoing feedback: p=0.04, Ratingless: p=0.06, Coaching: p=0.015

Finally, the PMS is more likely to linked to legally defensible outcomes in organisations that do use electronic monitoring system and crowd-soured feedback.

PM PRODUCES LEGALLY DEFENSIBLE OUTCOMES

Electronic monitoring: p=0.06, Crowd sourced feedback: p=0.045

While it is difficult to identify clear patterns of practice-specific influence here, these cross-correlations do support the proposition that organisations that pivot to new practices do experience a range of system-level outcomes superior to those in organisations that do not use newer practices.

'Law Firm' is a case in point.

ACCELERATED CHANGE AT "LAW FIRM"

This privately owned firm, which we will call Law Firm, is based in Melbourne and employs more than 1,000 people. During the pandemic, all of the firm's employees were permitted to work from home but management did not see COVID-19 as a trigger of change in performance management practices. This was underway beforehand. Law Firm had begun to implement a new performance management system prior to the pandemic. Nonetheless, COVID-19 has accelerated the pace of system change, allowing the firm to more readily realise the benefits of the new approach.

Successful pivot to working remotely

The firm's new approach focusses on two key areas: employee well-being and business/commercial resilience. During the pandemic, Law Firm has built support structures to enhance employee well-being and this has been well received by staff. Remote working necessitated resetting work expectations and reporting responsibilities. Targeted conversations have improved the relationship between managers and staff. Employees were extended full support and flexibility to operate from home whilst managing other family commitments. Self-support and HR-led support have helped staff to adapt successfully to the challenges and constraints posed by recurrent pandemic disruptions. The firm has also enhanced business and commercial resilience to assist rapid business recovery and long-term sustainability.

Towards Performance Management 2.0

Rating scales, previously a defining feature of Law Firm's approach, were deemed to be ineffective, bureaucratic, ritualistic, and conducive to competitive rather than collaborative relationships. While the legacy of the old ratings regime lingers, COVID has accelerated the firm's transition to a simpler and more streamlined approach. Form-filling activities have been dramatically reduced to save time and resources. Lean operation strategy is now used to eliminate redundancy and improve processes and this has been supported by the retreat from traditional top-down ratings.

Law Firm's suite of new practices includes self-assessment, simplified ratings, competency assessment and calibration meetings. Calibration meetings are now convened to consider the performance of large pools of employees and determine

rewards allocation. While not yet fully effective, these new practices are assisting the firm to build deep capabilities for the future instead of focussing on retrospective measures like task-specific behaviours and past results.

The firm also refocussed its reward and recognition practices, including bonuses and incentives, to motivate staff experiencing hardship as well as recognise high performers. Additional funds were allocated to encourage the flexibility required of staff working remotely.

Initial steps towards technology-enabled performance management

Technology has been instrumental in reshaping Law Firm's performance management system. Smart technology has enabled managers to monitor time on screen as well as employee communication and staff engagement. It is also experimenting with artificial intelligence (AI) to support aspects of performance management. AI is seen enabling real-time monitoring of performance and instantaneous feedback, with AI-powered performance reviews enabling collection and storage of large amounts of data in a central repository and affording managers much greater scope to compare past and current performance using multiple data sources. However, at Law Firm, these technological innovations are still embryonic.

Results to date and next steps

The changes implemented to date have reduced the administrative burden on managers and staff, as well as maintaining the morale and well-being of staff working remotely. However, the firm's HR director overseeing these changes also acknowledges that the costs associated with system simplification have been considerable, with return on investment still to be fully realised. In some areas, the benefits of change remain some way off, particularly regarding connecting performance management processes more strongly to employee learning and development, HR strategy and planning, and bottom-line outcomes.

But the journey continues. Law Firm is now planning to take system change to the next level by introducing a ratingless review option, performance discussions viewed through 'the lens of talent' and focussed on staff potential, capability and career coaching. These initiatives will allow the firm to place greater emphasis on team collaboration, employee professional development and self-driven career pathways.

Law Firm certainly has not marked time during the pandemic. It began rethinking its approach to performance management and development prior to COVID and the pace of system transformation has accelerated during the pandemic. While many other businesses are under pressure to either cut costs or increase work productivity through innovation, as a professional service provider, Law Firm has chosen to focus on streamlining its performance management system and ramping up its reward and

recognition practices to maintain staff morale, wellbeing, contribution and service quality. One issue that it will now have to face is whether the increased use of bonuses and rewards will be a short-term initiative only or whether it will evolve into a permanent aspect of its post-pandemic HR strategy.

5   IMPACT OF THE PANDEMIC

Respondents were invited to provide open-ended comments on each of three specific questions relating to the effects of COVID on their organisation's approach to performance management. A majority of respondents did so and their input to each question is summarised below.

5.1   WHAT WERE THE BIGGEST BARRIERS TO IMPROVING PERFORMANCE MANAGEMENT IN YOUR ORGANISATION AS A RESULT OF COVID-19?

A small minority of respondents reported that COVID had no effect on either their operations or their prior approach to performance enhancement. Several organisations that had well-established approaches to managing the performance of international teams using digital technology noted that this left them well-placed to manage remotely. In a few cases, the COVID crisis served to accelerate the take-up of new PMS methods and technologies: "Our organisation adapted to COVID-19 very quickly, successfully training our staff to transfer all client facing services to online services from home within 2 weeks. Our organisational performance increased during COVID in some service areas, very effectively." For some, the increased focus on employee wellbeing during lockdown actually improved the performance culture: "In 2020 actually we found that leaders and managers were connecting much more with their people and showing care and checking in, which actually helped our performance management approach."

However, far more respondents highlighted the switch to remote working and consequent loss of 'line of sight' on employee behaviour as a fundamental barrier to effective performance management. In order to cope with the crisis, some in severely affected industries like hospitality and aviation simply suspended systematic performance management altogether, preferring to focus on the wellbeing of retained employees. The signaling from senior management was itself sometimes aversive to a focus on performance improvement: "Management pushed back on giving 'tough' feedback to employees during this period". Faced with an existential crisis, thinking long term about performance improvement became a luxury. Some organisations that had commenced PMS changes pre-COVID put these changes on temporary hold. One respondent characterised the barriers in these terms:

> People feeling overloaded and exhausted by the increased administrative load associated with remote working – i.e. communication is more time consuming when you need to do everything through a screen. Were already treating performance management like a burden prior to COVID, now even more so! Managers not putting in the effort or approaching with the right attitude and this then filters down through their teams.

Monitoring performance remotely posed its own challenges: "The virtual nature of working created a barrier to us being able to monitor performance management conversations and drive accountability for these." Monitoring work time and attendance became a significant challenge. 'Water cooler' moments and informal face-to-face discussions and feedback simply ceased. Use of 360-degree feedback became more problematic: "remote performance management is difficult for some areas. Not enough people see each other's performance to enable effective 360 degree feedback." Some organisations struggled with switching from behavioural monitoring to gauging

performance in terms of outcomes/results: "Good employees work well remotely, however when there are performance problems it's easier for employees to hide these when they are out of view". Quite a number of respondents remarked that their line managers were either unable or unwilling to have difficult conversations remotely: "There was also no time to train managers in the new world of work and they didn't know how to manage performance from a distance." Managers who had avoided difficult conversations pre-COVID continued to do so. Some respondents simply remarked that the adherence to top-down rating, and pen and paper assessment and formal reviews left their organisation ill prepared for adapting its PMS to the requirements of remote working.

Repeated lockdowns and the adoption of hybrid teams between lockdowns also took their toll on PMS effectiveness. One respondent who reported that 2020 had seen an improvement in manager-employee conversations acknowledged that the subsequent experience was less positive:

> "In 2021 this has dropped off a bit and now we have the challenges of having 'hybrid' teams (and so much less regular, informal discussions about performance).   We also did find that to a very small extent poor performance was less likely to be dealt with – easier for managers to avoid the discussion, and people generally felt 'bad' about adding to people's stress levels by calling them on their performance (which is not good for the business)."

5.2   TO WHAT EXTENT HAS COVID-19 LED TO CHANGES IN YOUR ORGANISATION'S APPROACH TO PERFORMANCE MANAGEMENT?

Somewhat surprisingly, a majority of respondent indicated that the disruption caused by the pandemic had had no significant impact on their organisation's approach to performance management, with some HR professionals expressing frustration that ineffective pre-existing practices remained unchanged. In some cases, performance management was simply placed in a state of suspended animation during the crisis. In a few instances, COVID reportedly made a bad PMS even worse: "It has made the organisation more passive and less responsive to dealing with under performance". Similarly, another respondent remarked: "It has made it worse, performance management is near on non-existent as long as managers and subordinates work remotely".

In other organisations that had begun to move away from traditional practices prior to 2020, further change was put on hold throughout 2020: "A full review was commenced prior to COVID – the main impact was the delay in developing and launching the refreshed package. This was done intentionally to reduce the impact on change fatigue." For some, the switch to remote working necessitated the abandonment of previous long-term project and KPIs in favour of short-term priorities and check-ins.

A few respondents noted that while PMS change had recently been introduced, COVID was not the driver. In one case, the pre-COVID change process was reversed to facilitate a sharper focus on results delivered while working remotely:

> It [change] was already happening but we moved away from a traditional PM system with ratings, SMART objectives, contestability etc about 3 years ago. Overall the business impact has been neutral or even positive. However with more staff working remotely there is a need to change and go back to more objective (OKR) based performance management.

Conversely, in quite few organisations, there are clear indications that remote working has shifted the PMS dial, with some increasing the pace of change away from systems that were either

ineffectual or ill adapted to the digital world. Some have already consigned the annual top-down paper ritual to the scrap heap of history or have bought forward plans to do so. Some have shifted the focus of performance assessment from behavioural inputs and time service to measurable results, goal-setting, and "outcomes based management". For some, the emphasis has been on system streamlining and simplification: "Given it [2020] was an extraordinary year with significant change, simplification was a principle applied in response – less form-filling and less ratings (1 overall rating as opposed to 5 ratings)". Some have started to adopt technology-enabled solutions, including online and cloud-based data-gathering, multisource feedback and regular online check ins.

But the major impact to date appears to be less on PMS practices than on performance management values, relationships and plans. Some organisations are using the increased focus on wellbeing conversations to build greater trust between managers and employees and to shift from 'tell and sell' conversations about past performance to conversations and joint planning aimed at performance development and enhancement. Some respondents reported that while change had not yet begun, plans were in train to leverage the experience of remote working to shift both manager and employee attitudes regarding performance management to accentuate mutual responsibility and accountability: "Trust and accountability are cultural traits this organisation aspires to and COVID-19 provided an opportunity to employees to connect more with these traits…" One organisation even substituted the term 'Personal Accountability' for 'Performance Management' in its staff communications. A significant minority of respondents observed that the pandemic experience had made managers and employees more receptive to PMS change: "It reinforced the importance of regular performance and development discussions outside of the 'formal' reviews."

Surprisingly few responses mentioned changes in the organisation's approach to performance pay. In one case, an executive team directive to suspend performance-based pay appears to have encountered negligible resistance:

> This occurred without much resistance from employees given COVID and people's general gratitude to be gainfully employed during that period. People also got a pay increase to offset the buyout of bonuses from contracts and, again, highly unusual in the context of 2020 with so many businesses struggling. Would say the implementation of changes was highly successful for these reasons

5.3 HOW SUCCESSFUL/UNSUCCESSFUL HAVE THESE CHANGES BEEN TO DATE AND, WITH THE BENEFIT OF HINDSIGHT, WHAT COULD/SHOULD HAVE BEEN DONE DIFFERENTLY?

Organisations for which COVID had presented an opportunity to transform prior practices tended to report positive outcomes. In one case, the transformation to a digital system was reportedly dramatic:

> This has been a huge step forward – anything would have been from where we were, which was haphazard application of a very backward looking review process. The online system enables the view of where an employee is now, where they need to develop, and to align employee goal planning into the larger organisational goals within the platform – an employee can see how their goals link to the bigger picture. There is also a 1:1 conversation tool for manager and employees to engage regularly, with information from

this stored in the system. The system enables peer to peer feedback as well as to others within the organisation, and also has a direction for people to respond to a manager's request on feedback re a specific employee. We also have a 'self-reflection' as part of our preparation for performance where the employee reviews set questions re their goals/work achievements and learning. This all forms a huge repository of relevant contemporaneous information for a 'reviewer' to consider at the time of running the review. Focus is on self-directed development, buying into to company goals and contextualising employee performance through various forms of feedback.

This is still our first 12 months, so lots of learning, but this is enhancing conversations and focus on what people can contribute, and what that looks like in the successes. Interestingly we won't be calling this performance management – this is all about performance development. if we continue to develop our people, the management side of performance becomes less of a focus – you are creating a clarity around purpose and expectations with an effective system supporting this. Thank goodness for COVID! It made us move to this ahead of where we might have been without it.

In the case of "Human Capital Australia" the switch to a digital mode has been dramatic – and seemingly highly effective.

CASE STUDY

THE PANDEMIC-INDUCED DIGITAL REVOLUTION IN PERFORMANCE MANAGEMENT AT "HUMAN CAPITAL AUSTRALIA"

Human Capital Australia (not its real trading name) is small publicly-owned HR consultancy firm located in metropolitan Victoria with a workforce numbering less than 100.

The paper-based pre-pandemic backdrop

The firm's traditional performance management approach was quite ineffective, with line managers using a time-consuming and cumbersome paper-based system that had become an end in itself. The approach contributed little to continuous improvement and support for employees to optimise their capabilities through professional development and feedback. The paper-based system limited supervisors' ability to differentiate reliably between employees in terms of performance levels and to enforce individual accountability for underperformance. In response, the firm began making plans to digitise its PMS.

Digitising performance management

When COVID-19 hit, the firm accelerated the digital transformation. This led to the development of a digital platform for line managers and employees to document, report and archive data into a repository whilst keeping employees engaged when working remotely. This self-directed review system now helps contextualise the employee's

performance against the backdrop of information on ongoing feedback and interactions between managers and employees regarding past, present and future performance. In turn, this enables real-time tracking of employee skills sets, up-skilling needs, and career progression plans and actions.

Digitalization is reportedly empowering employees in several important ways:

1. Employees can now check their work progress regularly, monitor their performance, report any challenges and adjust their goal planning to ensure alignment with organisational goals.

2. The digital PMS has enabled employees to initiate and create regular 1:1 conversations with their manager, as well record and archive the manager's feedback to help gain consensus and agree on initiatives to improve performance.

3. The online platform has created a channel through which employees can obtain peer-to-peer feedback.

4. The system also integrates a 'self-reflection' review tool to enable employees to engage in analysis and self-evaluation of their performance and formulate plans for performance development.

While the digitisation process remains a work in progress, the online platform has already enriched performance conversations. These now focus around 'what employees can contribute' and 'how employees experience the firm's successes'. The HR manager at Human Capital Australia reports that the dialogue is moving away from the traditional annual rating and review ritual to discussion characterised informal and on-going interactions about recent contributions and challenges and exchange of ideas for future improvement and development. The central features here are (1) preparation informed by 'self-reflection' where the employee reviews a set questions regarding their goals/work achievements and learning objectives; and (2) shifting the focus from past appraisal to future development. The logic here accentuates the close nexus between staff development and employee productivity: *'if we continue to develop our people, the management side of performance becomes less of a focus – you are creating a clarity around purpose and expectations with an effective system supporting this'.*

In these ways, the digitisation transformation is helping to bring greater clarity to the role and to the employee's 'purpose and expectations'.

COVID as catalyst for digital transformation

In the words of its HR manager, Human Capital Australia went through a 'crisis' to initiate and implement digitization of its PMS and did so in the face of anticipated hurdles and resistance from both employees and managers. This digital shift is seen as a huge step forward from a *"haphazard application of a very backward-looking review process… to a highly integrated digital PMS…Thank goodness for Covid! It made us move to this*

ahead of where we might have been without it".

Human Capital Australia's digital PMS certainly appears to be living up to expectations. It is ushering in a very different performance management culture based on self-assessment, peer-to-peer feedback, career coaching, competency assessment, performance planning discussion sand on-going feedback. The new approach is helping to identify employees' strengths/weaknesses, and their training and development needs. The initial evidence also indicates that it is positively affecting staffing strategies, linking them more closely to business outcomes.

Success breeds success. Over the next two years, the firm is planning to introduce other practices, including 360-degree feedback, calibration meetings, team-based rewards and executive-level discussions about performance management outcomes.

However, in most other cases where PMS change was underway, the view was that while outcomes to date (May 2021) were encouraging, it was still too early to draw confident conclusions regarding overall effectiveness. In some instances, while remote working had galvanised positive change, the subsequent return to the office had caused a loss of momentum.

While few expressed regrets about the initiatives taken, some indicated that they would have liked to have seen a faster pace of change away from traditional methods and values. Some also reported encountering resistance to change and apparent lack of internal alignment and coordination : "Limited success, strong objections on time commitments required from managers, strong demands from C-suite to improve performance with urgency, and lack of financial support for systems investment." Another respondent noted: "Slow changes with some reluctance to introduce change from company directors and employees reluctant to offer peer to peer feedback."

5.4   WEIGHING UP THE COVID FACTOR

All in all, on the basis of the qualitative response data, it is reasonable to conclude that the pattern of PMS continuity, change and stasis during COVID is immensely varied. In some cases, previous practices have persisted, even if only by default. In others, performance management has been side-lined in the face of an existential organisational challenge and/or the imperative to prioritise employee wellbeing and support. In a minority of cases, COVID has presented an opportunity to either initiate or accelerate PMS transformation and while the early indications are encouraging, in most such cases the change process has yet to be fully rolled out, making it difficult to draw conclusions as to the success of otherwise of these initiatives.

Nevertheless, consistent with the quantitative survey data, the qualitative responses do suggest that the disruption brought about by COVID may have created conditions conducive to greater receptivity to the principles and practices of the 'new performance management' – less bureaucracy, less paperwork, less retrospectivity, less ritual, less judgementalism, and less hierarchy; more inclusivity, more problem-solving, more forward planning, more developmentalism, and more technology-enabled data management.

6   GENERAL CONCLUSION

Captured at what now appears to be the false dawn predating the arrival of the COVID Delta variant, these results provide a snapshot of performance management practice at a moment of profound disruption and potential transition. The sudden, sustained and repeated shifts to lockdown and remote working have, arguably, set the stage for an imminent and profound shakeout in traditional performance management practice. While traditional practices still predominate, particularly in large for-profit organisations, there are distinct signs of imminent and emergent change, with SMEs and NFPs leading the way. While it would certainly be premature to announce the demise of the practices that have dominated employee performance management for the last 20-30 years, like the virus itself, change is definitely in the air. It remains to be seen how rapid and comprehensive the change will be but if the results of this study are any guide, the main vehicles of change are likely to be organisations for which the newer, less hierarchical and more inclusive practices are a more natural fit.

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