Figure, 05.12.2023

Contemporary Performance Management Practices 2023

Presented by A/Prof. Dr. Aleksandra Klein, Vlerick Business School

2023, 90 Baltic organizations participated in *Contemporary Performance Management (PM) Practices* survey

Organized for the third time as an international research project, …

- Project team from **4 research partners**

- **Academic lead** (incl. today's presenter)

Aleksandra Klein
A/Professor
Vlerick Business School
(+KU Leven), SSE Riga

✉ aleksandra.klein@vlerick.com

Isabella Grabner
Professor
WU Vienna

✉ isabella.grabner@wu.ac.at

… this pan-Baltic survey shows the status quo and potential of PM

- **Covered topics**
  - **Current** performance evaluation process and the use of **contemporary** performance evaluation practices
  - Focus on the **core group** of employees
  - Female representation and **gender equality** policies
  - **New work reality**'s impact (e.g., flexible hours, remote working)
- **Survey respondents**
  - HR managers and PM specialists
  - Representing **90 organizations** from the **Baltics** (EE, LV, LT) from more than 11 different industries

Agenda

1	Role of Performance Management in Modern Organizations
2	Core Group: Performance Evaluation Process
3	Core Group: Contemporary Performance Evaluation Practices
4	Facing New Work Reality
5	Q&A

Agenda

1	**Role of Performance Management in Modern Organizations**
2	Core Group: Performance Evaluation Process
3	Core Group: Contemporary Performance Evaluation Practices
4	Facing New Work Reality
5	Q&A

Performance evaluation plays a crucial role in performance management process

The Four Phases of a Performance Management Cycle

01 Planning

Organizational goal setting, employee goal setting, creating a development plan, and a job description review.

02 Monitoring

Establishing processes that determine progress (training, etc.) and hosting regular check-ins between leaders and employees.

03 Reviewing

Once or twice a year, measuring progress on a longer timeframe and asking the employee to complete 360° feedback.

04 Rewarding

Salary increases, bonuses, extra vacation time, promotions, etc. Because good work should always be recognized.

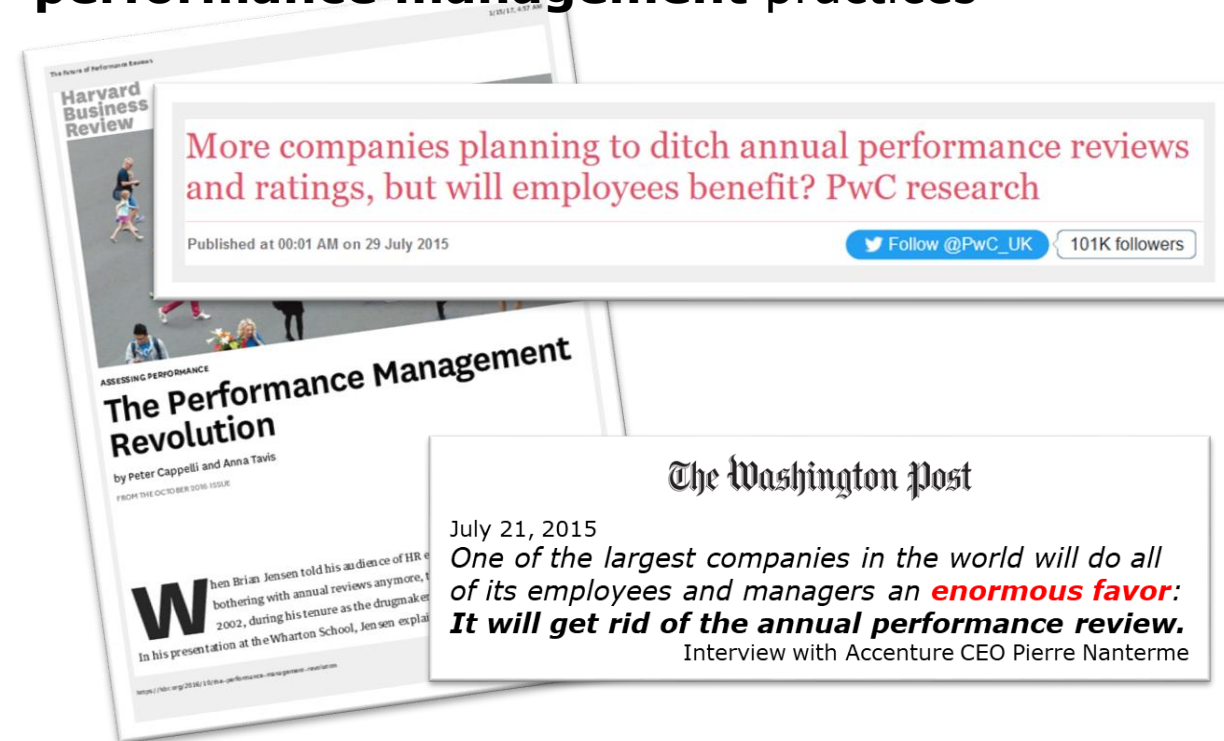The moment of truth...

Performance Reviews

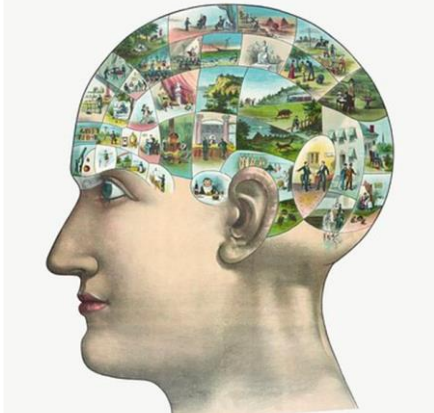# Despite the "good intentions", major organizations in the mid-2010s started ditching their PE practices

While both management research and practice agree on the **importance** and the benefits **of effective performance management process for businesses**...
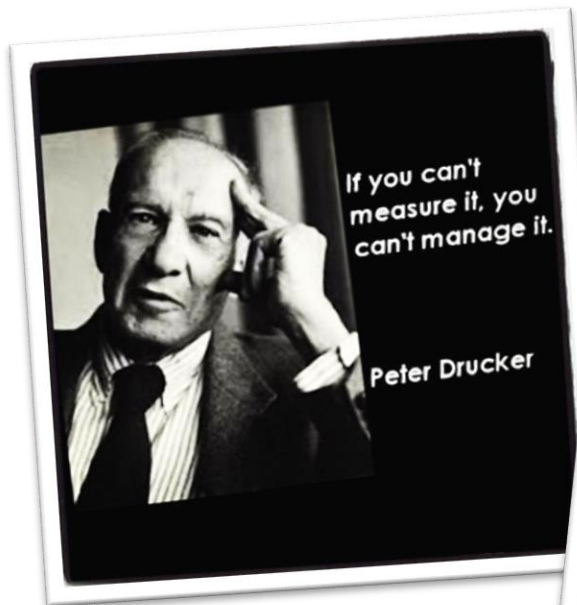
...more and more **companies** are **reluctant to use** or keep their established **performance management** practices
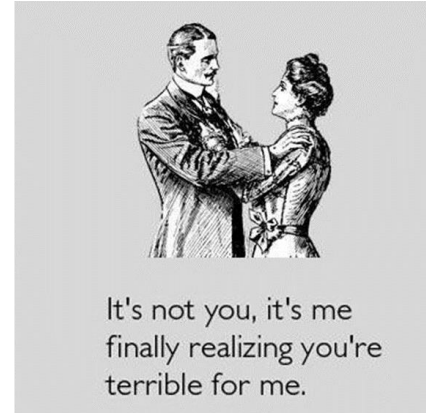

If you can't measure it, you can't manage it.

Peter Drucker

Performance management: Why keeping score is so important, and so hard

Raffaele Carpi, John Douglas, and Frédéric Gascon

Effective performance management is essential to businesses. Through both formal and informal processes, it helps them align their employees, resources, and systems to meet their strategic objectives. It works as a dashboard too, providing an early warning of potential problems and allowing managers to know when they must make adjustments to keep a business on track.

McKinsey & Company, 2017

Harvard Business Review

More companies planning to ditch annual performance reviews and ratings, but will employees benefit? PwC research

Published at 00:01 AM on 29 July 2015

Follow @PwC_UK · 101K followers

ASSESSING PERFORMANCE

The Performance Management Revolution

by Peter Cappelli and Anna Tavis

FROM THE OCTOBER 2016 ISSUE

When Brian Jensen told his audience of HR executives that bothering with annual reviews anymore, 2002, during his tenure as the drugmaker. In his presentation at the Wharton School, Jensen explained.

The Washington Post

July 21, 2015
One of the largest companies in the world will do all of its employees and managers an *enormous favor**:* **It will get rid of the annual performance review.**
Interview with Accenture CEO Pierre Nanterme

And it is understandable why...

Human nature

- Gender bias
- Favoritism
- Recency bias
- Halo effect

It's not you, it's me finally realizing you're terrible for me.

Very personal

- Evaluator sets the tone
- Evaluatee is in the shadow

THATS JUST LIKE

YOUR OPINION MAN

It's an opinion

- Subjective measure t o capture true performance

LEADERSHIP & MANAGING PEOPLE

Let's Not Kill Performance Evaluations Yet

by Lori Goler, Janelle Gale, and Adam Grant

FROM THE NOVEMBER 2016 ISSUE

Harvard Business Review

87%
of **Facebook employees** wanted to keep performance ratings.

"The reality is, even when companies get rid of performance evaluations, ratings still exist. Employees just can't see them. Ratings are done subjectively, behind the scenes, and without input from the people being evaluated."

The Performance Management Revolution

The focus is shifting from accountability to learning.

BY PETER CAPPELLI AND ANNA TAVIS

THE DREADED PERFORMANCE REVIEW...

NOT THE ANNUAL RATINGS GAME AGAIN!

fuel 50

Old School Performance
- Top-Down Automation
- Focus backwards – what has been done
- Promotes vertical growth thinking
- Annual, at best quarterly
- Evaluative

Next-Gen Performance
- Employee driven, self-directed growth
- Focus forward – what needs to be done
- Promotes lateral growth thinking
- Continuous conversations
- Empowering

Our survey covers the major contemporary performance evaluation practices, inter alia

Strategic Performance Management

- Strategic fit of performance evaluation (PE) process with organizational objectives and its effectiveness

Formal Performance Reviews

- Characteristics of the formal PE process, including frequency, information sources, etc.

Alternative Rater (AR) Feedback

- Role of alternative raters (e.g., peers, subordinates, clients, etc.) in performance evaluation process

Calibration Committee (CC)

- Implementation of CCs (groups for discussing, justifying, and potentially adjusting performance assessment) in the PE process

Agenda

1	Role of Performance Management in Modern Organizations
2	**Core Group: Performance Evaluation Process**
3	Core Group: Contemporary Performance Evaluation Practices
4	Facing New Work Reality
5	Q&A

Core Group: Performance Evaluation Process

Performance evaluation process, incl. performance measurement and review processes, for the largest core group of mid-level employees.

In participating companies, the core group of employees is critical for their value creation

The next two chapters – 2 and 3 – include questions that are related to the performance evaluation process for **the largest core group of mid-level employees** that survey participants have chosen when filling out the survey, and who:

- Are critical to the creation of the company's products and/or services
- Share similar characteristics
- Are formally assessed using the same performance evaluation process

On average, the core group in companies participating in the survey:

- Includes >47% of all employees
- Brings >19% of annual turnover

For the core group, the PE process is *rather* effective in many aspects, providing motivation, feedback, transparency,…
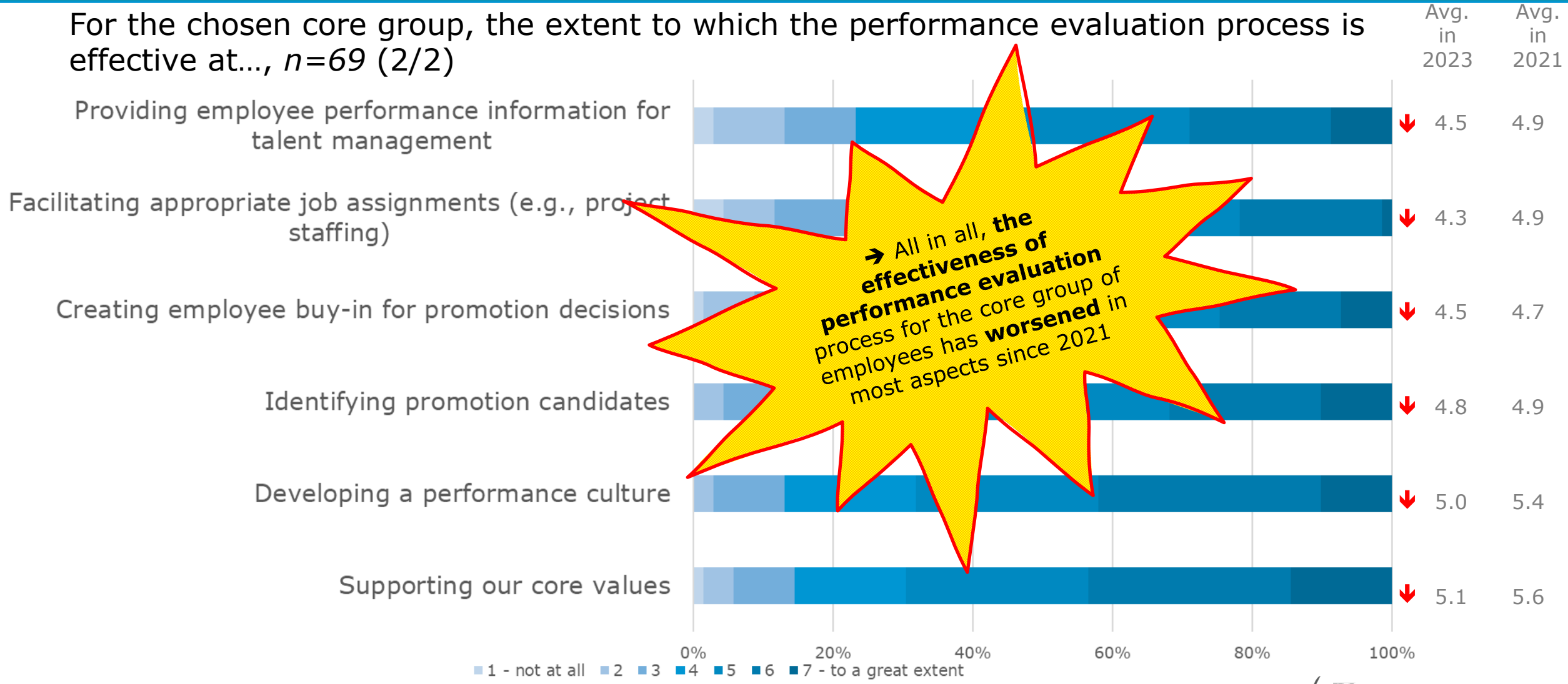
For the chosen core group, the extent to which the performance evaluation process is effective at…, *n=69* (1/2)

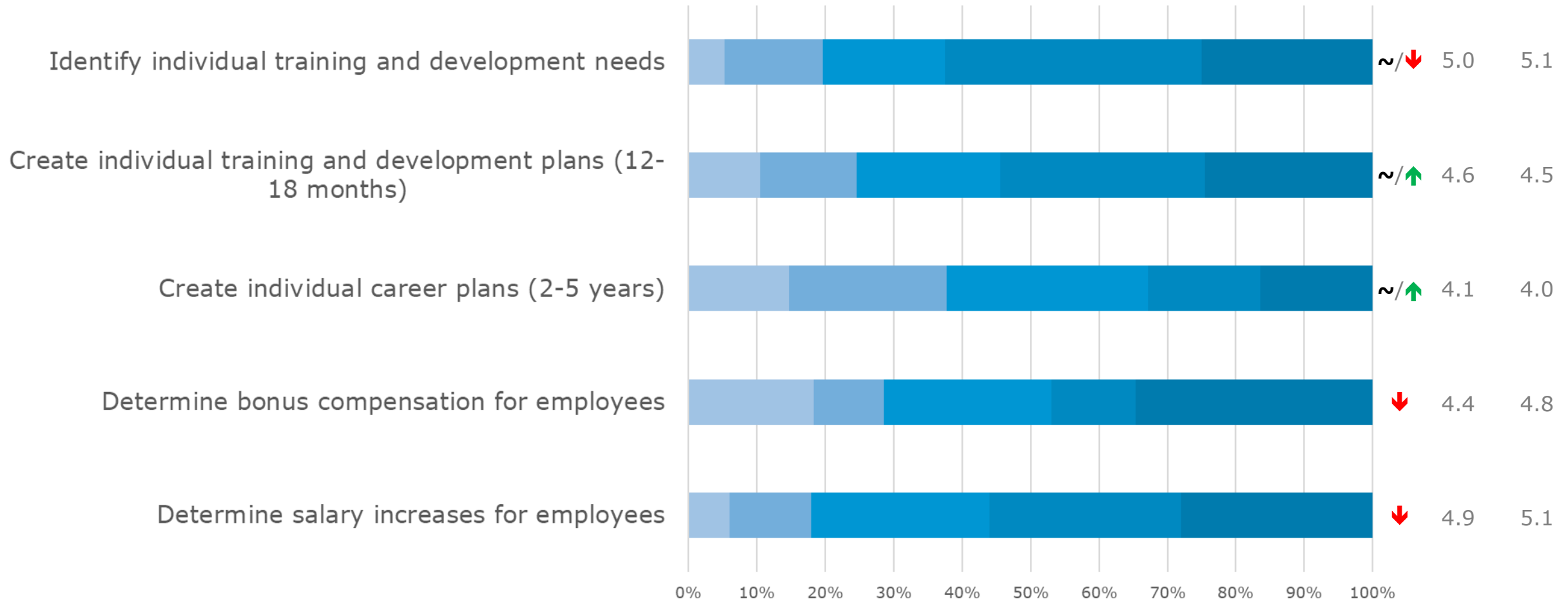|	Avg. in 2023	Avg. in 2021
Motivating performance	↓ 4.9	5.3
Increasing consistency of performance evaluations across supervisors	~/↑ 5.1	5.0
Facilitating timely and high-quality feedback to employees	↓ 4.8	5.3
Providing performance information for compensation and personnel decisions	↓ 4.8	5.0
Increasing perceptions of fairness	↓ 4.6	5.0
Mitigating bias in performance assessments	↓ 4.7	5.1
Increasing transparency in the performance evaluation process	↓ 5.1	5.3

Scale: 0% – 100%

■ 1 - not at all ■ 2 ■ 3 ■ 4 ■ 5 ■ 6 ■ 7 - to a great extent

For the chosen core group, the extent to which the performance evaluation process is effective at…, *n=69* (2/2)

	Avg. in 2023	Avg. in 2021
Providing employee performance information for talent management	↓ 4.5	4.9
Facilitating appropriate job assignments (e.g., project staffing)	↓ 4.3	4.9
Creating employee buy-in for promotion decisions	↓ 4.5	4.7
Identifying promotion candidates	↓ 4.8	4.9
Developing a performance culture	↓ 5.0	5.4
Supporting our core values	↓ 5.1	5.6

→ All in all, **the effectiveness of performance evaluation** process for the core group of employees has **worsened** in most aspects since 2021

0%   20%   40%   60%   80%   100%

■ 1 - not at all   ■ 2   ■ 3   ■ 4   ■ 5   ■ 6   ■ 7 - to a great extent

The information from the formal performance reviews for the core group is especially useful for talent development and salary increases, …

For the chosen core group, the extent to which the information obtained from the formal performance reviews is used to…, *n=69* (1/2)
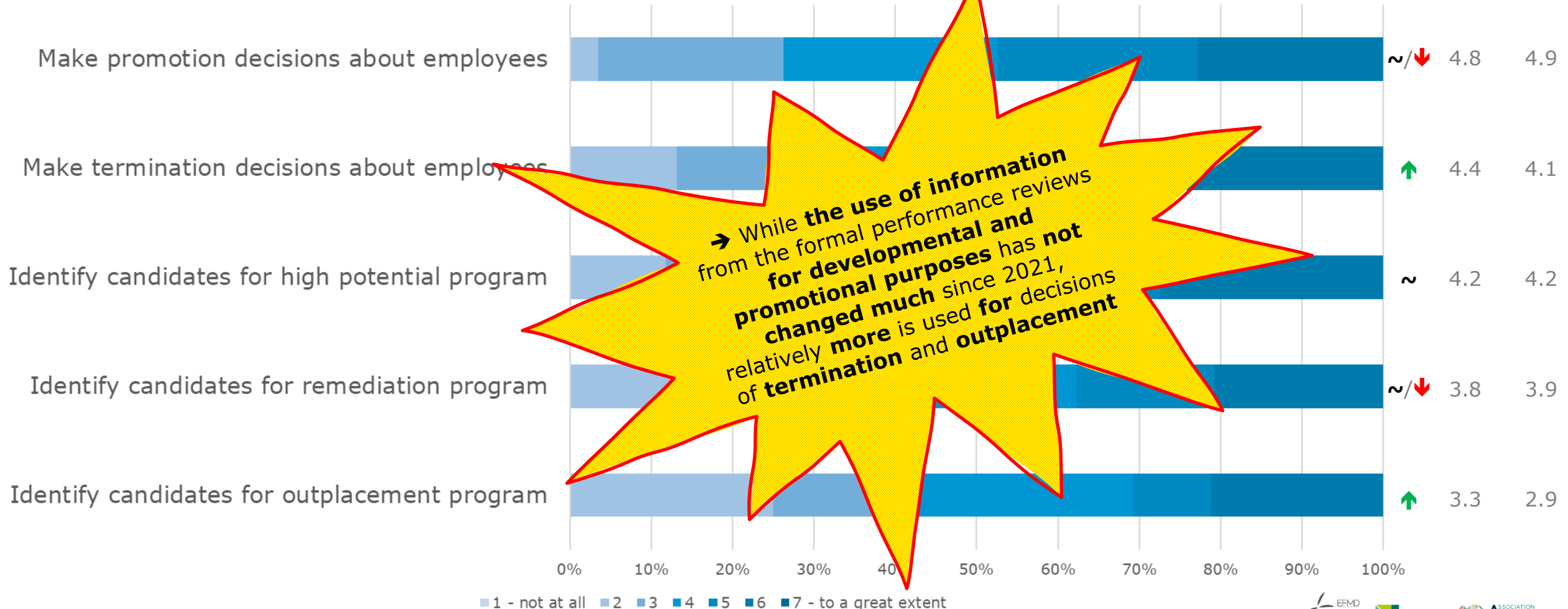
	Avg. in 2023	Avg. in 2021

		Avg. in 2023	Avg. in 2021
Identify individual training and development needs	~/↓	5.0	5.1
Create individual training and development plans (12-18 months)	~/↑	4.6	4.5
Create individual career plans (2-5 years)	~/↑	4.1	4.0
Determine bonus compensation for employees	↓	4.4	4.8
Determine salary increases for employees	↓	4.9	5.1

0%   10%   20%   30%   40%   50%   60%   70%   80%   90%   100%

■ 1 - not at all ■ 2 ■ 3 ■ 4 ■ 5 ■ 6 ■ 7 - to a great extent

... and – still – least used for termination and outplacement practices

For the chosen core group, the extent to which the information obtained from the formal performance reviews is used to..., *n=69* (2/2)

	Avg. in 2023	Avg. in 2019
Make promotion decisions about employees	~/↓ 4.8	4.9
Make termination decisions about employees	↑ 4.4	4.1
Identify candidates for high potential program	~ 4.2	4.2
Identify candidates for remediation program	~/↓ 3.8	3.9
Identify candidates for outplacement program	↑ 3.3	2.9

➔ While **the use of information** from the formal performance reviews **for developmental and promotional purposes** has **not changed much** since 2021, relatively **more** is used **for** decisions of **termination** and **outplacement**

■ 1 - not at all ■ 2 ■ 3 ■ 4 ■ 5 ■ 6 ■ 7 - to a great extent

More than a half of respondents use forced distribution to evaluate the core group of employees

For the chosen core group, **use of forced distribution** to evaluate these employees, *n=69*
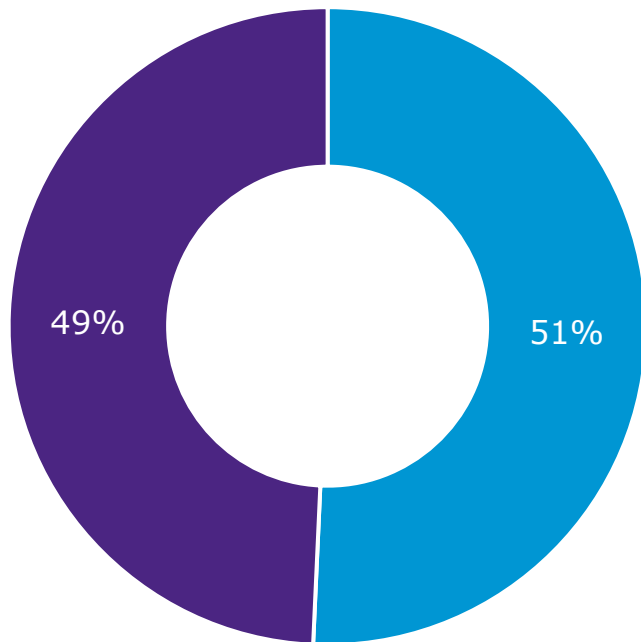
■ Yes ■ No

- **Comparing with 2021 & 2019**, when **31% & 41%** of participating companies, respectively, were using **forced distribution for the core group**, latest results demonstrate a considerable **increase in the use of forced distribution**

- This can indicate that some **companies returned** to the time-proven, efficient, yet, often **biased** forced distribution
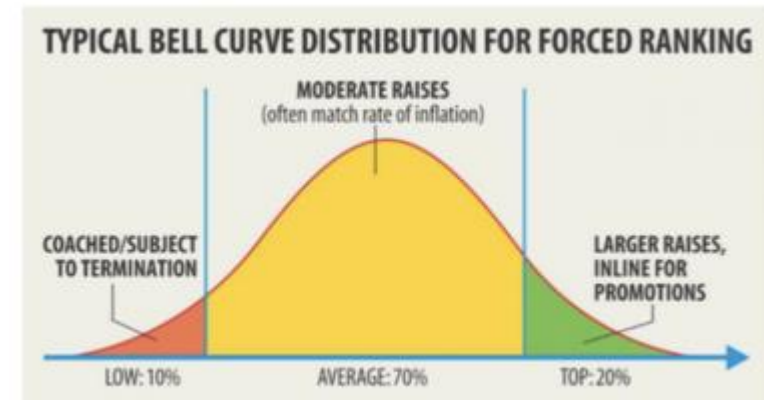
TYPICAL BELL CURVE DISTRIBUTION FOR FORCED RANKING

Agenda

1	Role of Performance Management in Modern Organizations
2	Core Group: Performance Evaluation Process
3	**Core Group: Contemporary Performance Evaluation Practices**
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Core Group: Contemporary Performance Evaluation Practices – Alternative Raters

Alternative raters are individuals who provide formal feedback about an employee's performance other than the employees' direct supervisor.

This feedback is formally collected in a structured way and incorporated into the employees' performance review and/or used in other decisions (e.g., promotions or bonuses).

<45% of surveyed firms use alternative raters, who are usually selected by supervisors

Use of alternative raters for the chosen core group of employees, *n=69*

Who selects alternative raters for the chosen core group, *n=30*

Yes No
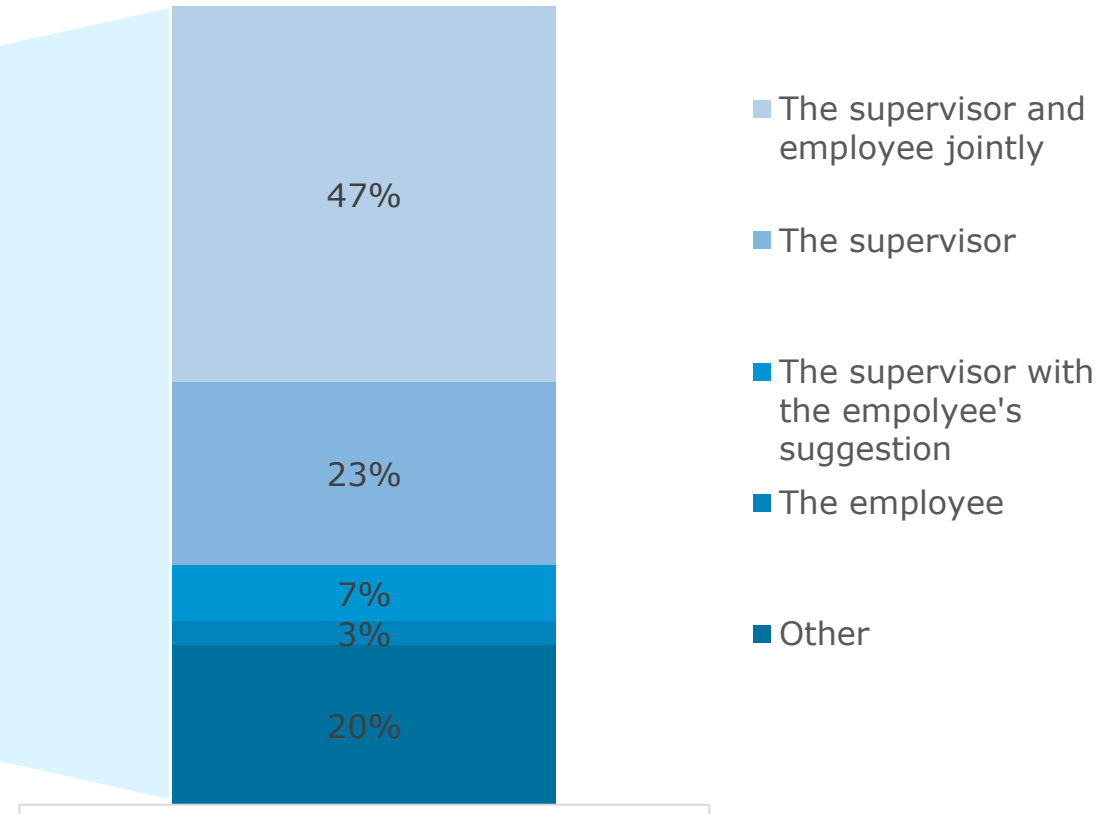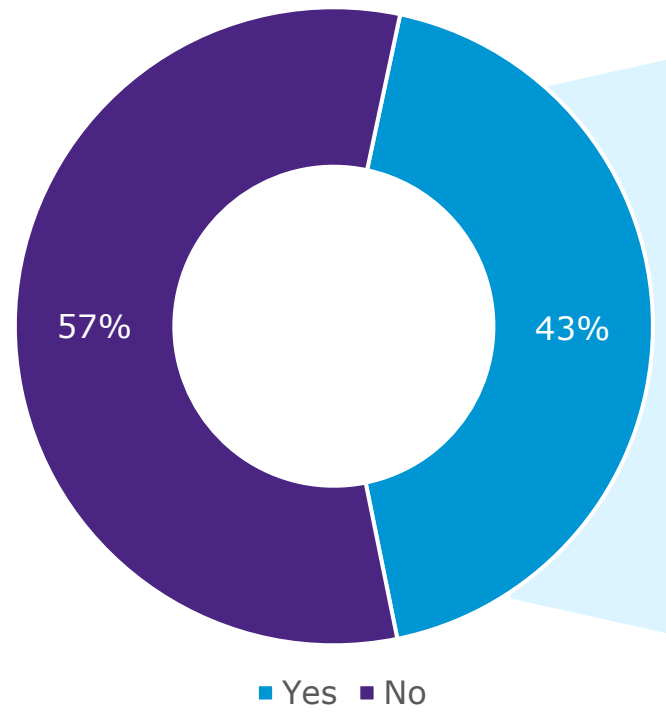
There is a declining trend since 2019/21

The supervisor and employee jointly

The supervisor

The supervisor with the empolyee's suggestion

The employee

Other

>40% of respondents using ARs demand employees to complete self-assessment for their performance reviews

The extent to which providing feedback is voluntary, *n=30*

Most common in 2021 (n=59): Subordinates 2, Peers 2, Employees' self-assessments 4, Managers above the direct supervisor 2, Direct supervisor's peers 2, Customers 2, Suppliers 0, Others 0

Legend:
- 4 - Mandatory, alternative raters must provide the requested formal feedback
- 3 - Technically voluntary, but strongly encouraged and with frequent reminder
- 2 - Voluntary, but with some encouragement and friendly reminders
- 1 - Completely voluntary, with no follow up
- 0 - Not used as alternative raters

In case of ARs, they usually do not use any metrics and supervisors decide whether to integrate their reviews or not

WU VIENNA **V** VLERICK BUSINESS SCHOOL

Are ARs asked to provide formal performance feedback on the performance metrics as the direct supervisor? *n=30*
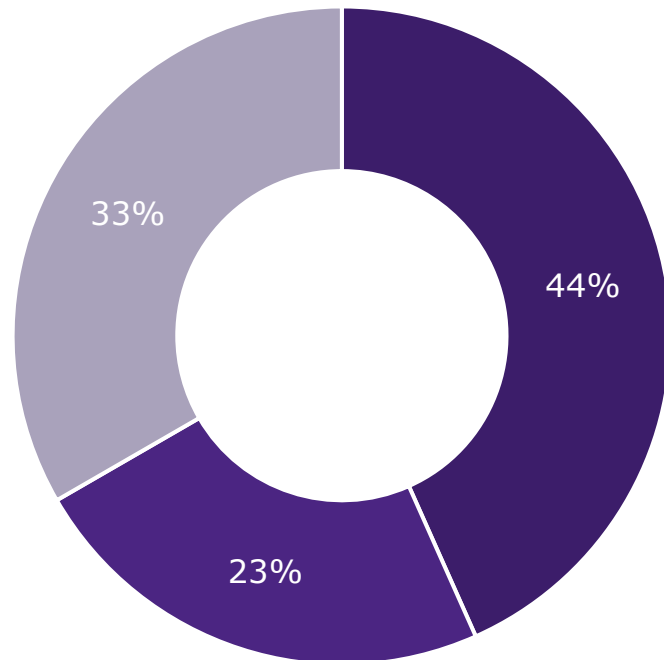
- ■ No, alternative raters do not use metrics
- ■ Yes, alternative raters use the same metrics
- ■ Yes, but alternative raters use different metrics

To what extent do the supervisors include AR formal feedback in the employees' final performance assessments? *n=30*
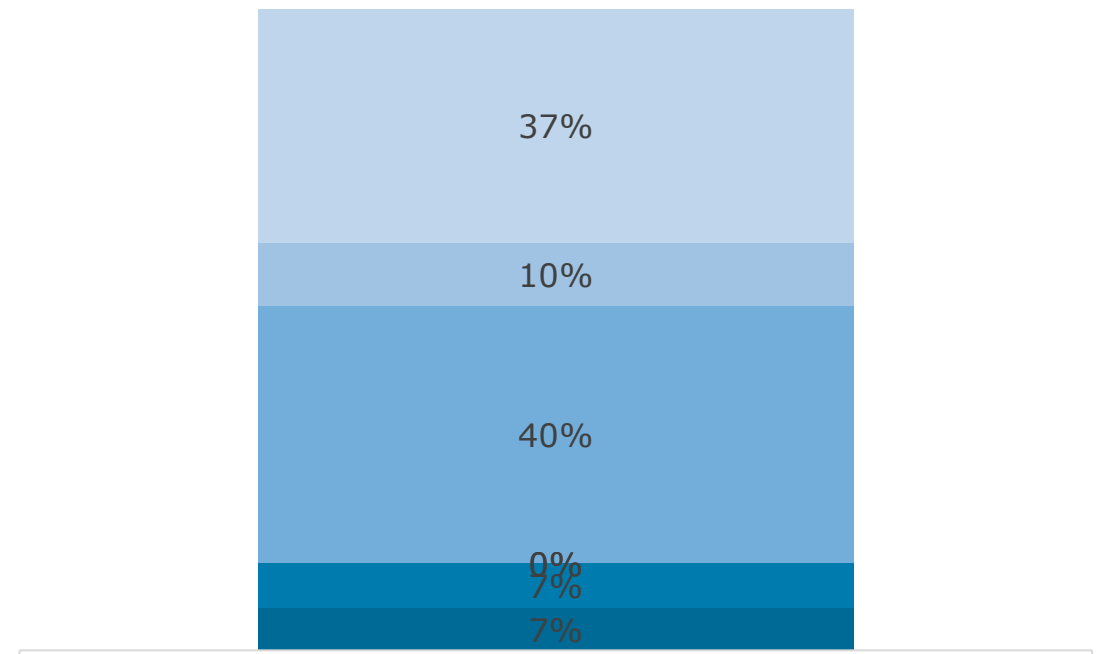
■ 1 - not at all ■ 2 ■ 3 ■ 4 ■ 5 ■ 6 ■ 7 - to a large extent

Core Group: Contemporary Performance Evaluation Practices – Calibration Committees

Calibration committees are groups formed for the purpose of "calibrating" (i.e., discussing, justifying, and potentially adjusting) performance assessments. Calibration committees convene to calibrate supervisors' assessments of their direct reports, and make adjustments (either up or down), where necessary, before final performance assessments are disseminated to employees and/or used in other decisions (e.g., promotions or bonuses).

Although the use of CCs is still comparatively rare, most organizations using them have done so for at least four years

For the chosen core group, whether calibration committees are used, *n=69*

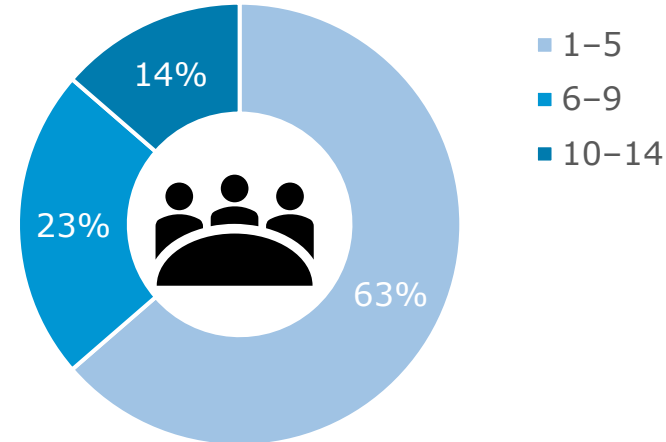Who selects alternative raters for the chosen core group, *n=22*

- Yes
- No

- 10 and more years
- 7–9 years
- 4–6 years
- 1–3 years

68%
32%

18%
14%
32%
36%
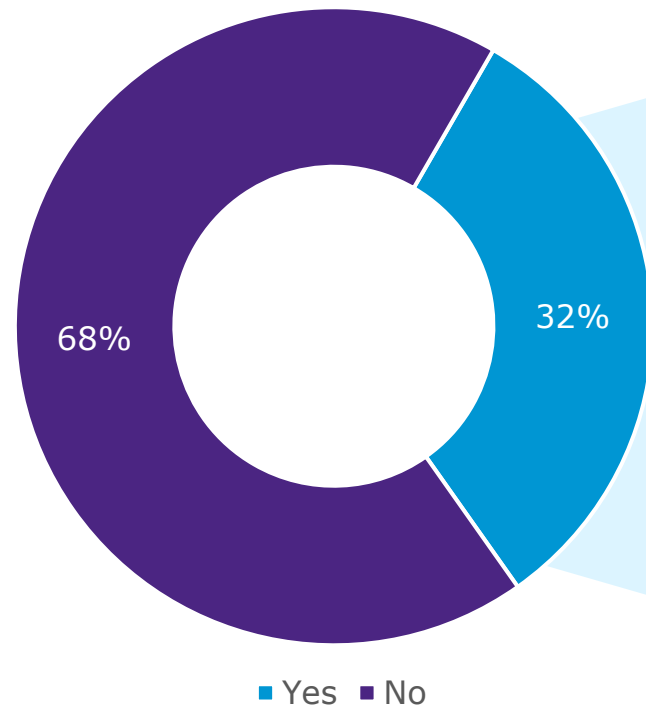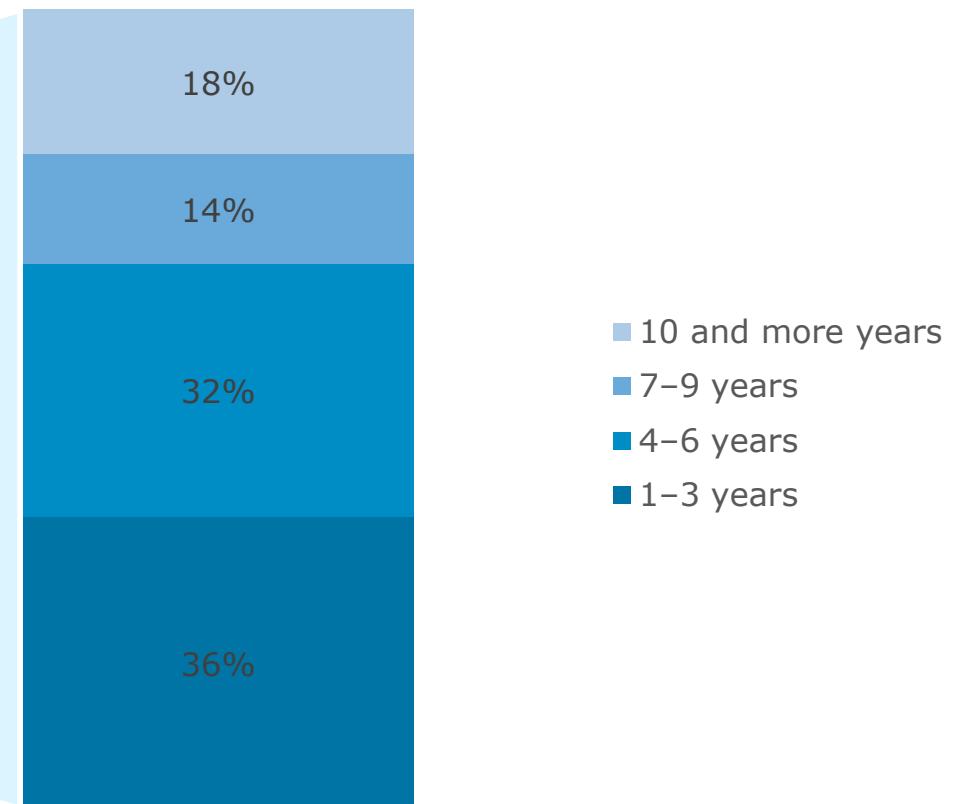
Since 2021, CC use **rose** by 12 pp.

CC characteristics vary a lot across thoso organizations that use them

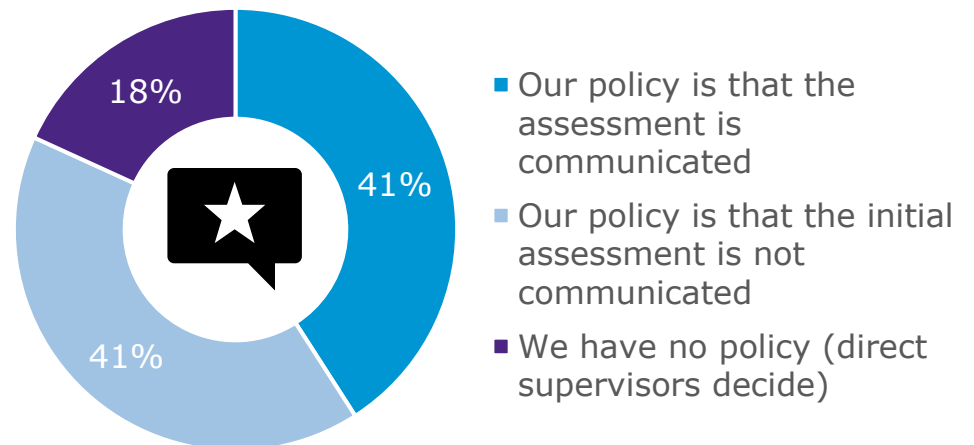**Number of assessments discussed in a CC each period, *n=22***

- less than 10
- 10–14
- 15–19
- 20–29
- 30–49
- 50–99
- 100–249
- 250 or more

5% 4% 4%
5%
23%
18%
9%
32%
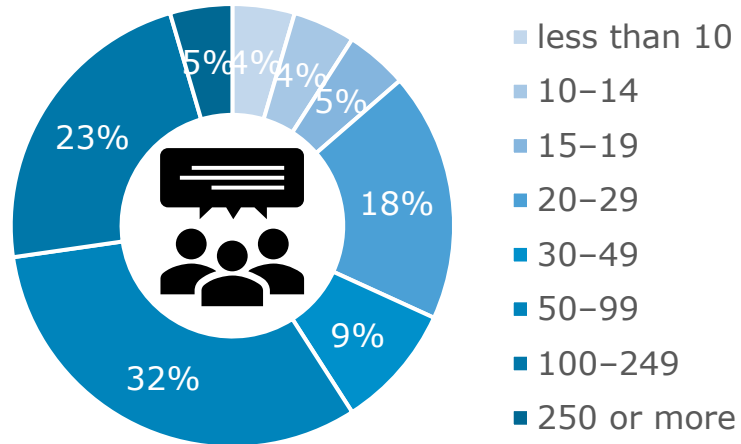
Number of members on a calibration committee on average, *n=22*

- 1–5
- 6–9
- 10–14

14%
23%
63%

Evaluatees know CC composition, *n=22*

41%
59%

■ Yes ■ No
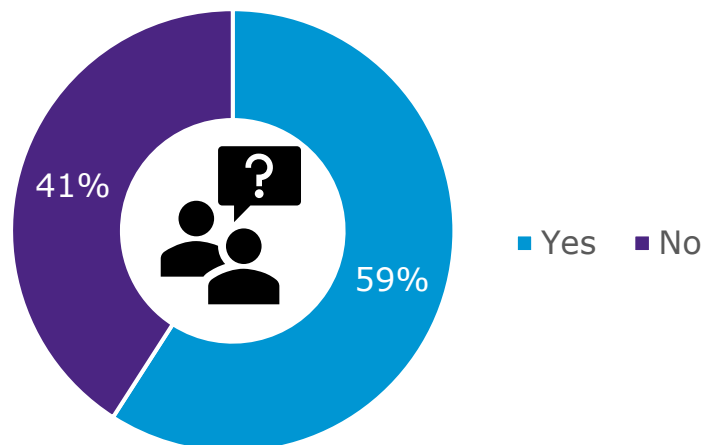
Assessment shared prior CC, *n=22*

18%
41%
41%

- Our policy is that the assessment is communicated
- Our policy is that the initial assessment is not communicated
- We have no policy (direct supervisors decide)
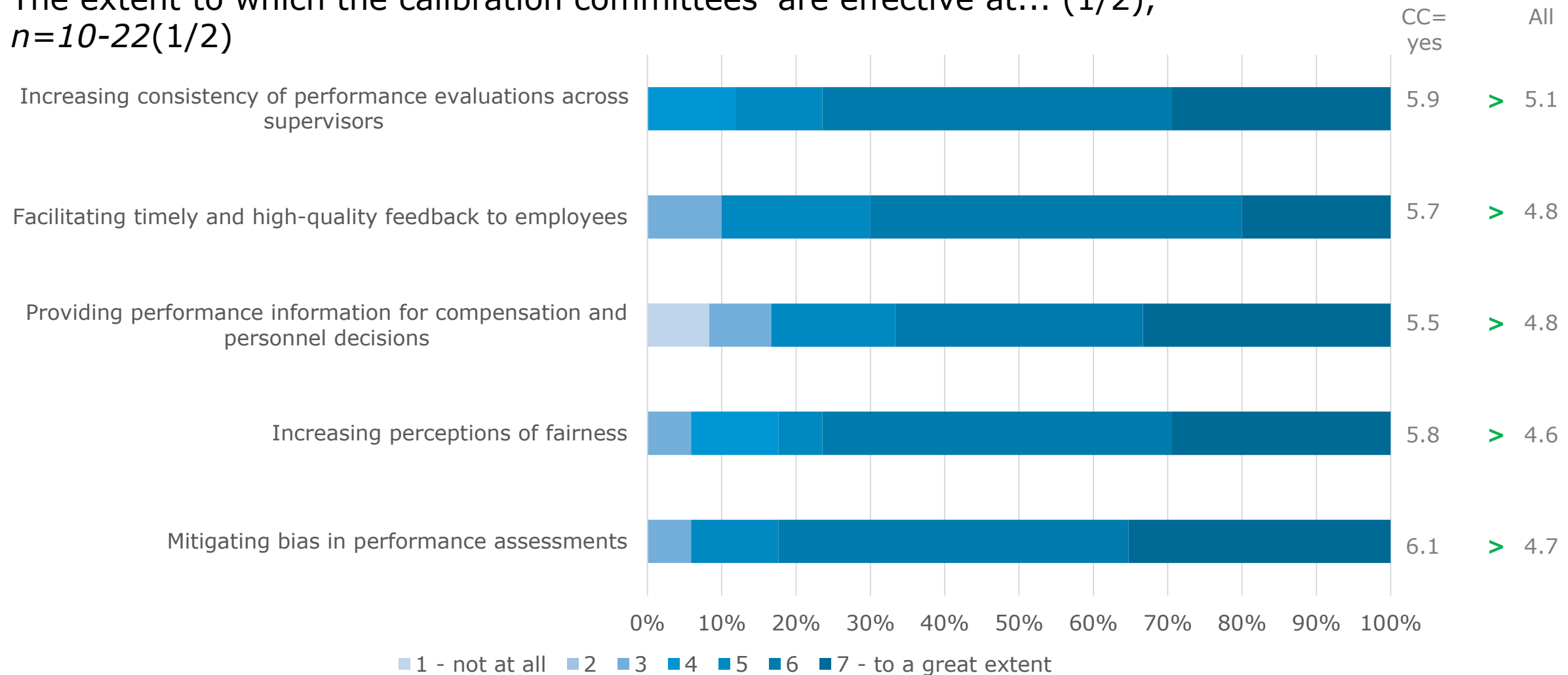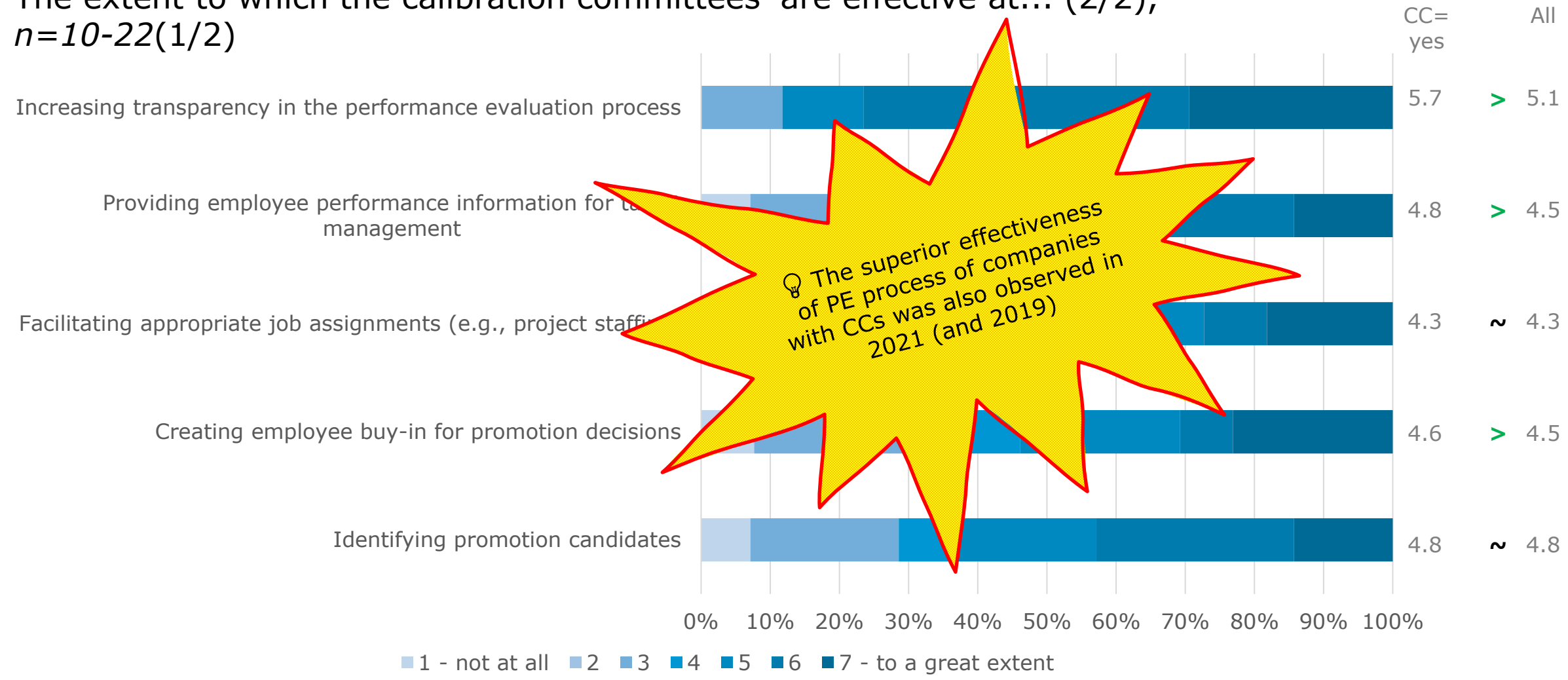
Compared to all the survey participants, companies with CCs have more effective performance evaluation process...

The extent to which the calibration committees' are effective at... (1/2), *n=10-22*(1/2)

	CC= yes		All
Increasing consistency of performance evaluations across supervisors	5.9	>	5.1
Facilitating timely and high-quality feedback to employees	5.7	>	4.8
Providing performance information for compensation and personnel decisions	5.5	>	4.8
Increasing perceptions of fairness	5.8	>	4.6
Mitigating bias in performance assessments	6.1	>	4.7

Legend: ■ 1 - not at all ■ 2 ■ 3 ■ 4 ■ 5 ■ 6 ■ 7 - to a great extent

... in almost all surveyed aspects or report similar level performance evaluation process effectiveness

The extent to which the calibration committees' are effective at... (2/2), *n=10-22*(1/2)

	CC= yes		All
Increasing transparency in the performance evaluation process	5.7	>	5.1
Providing employee performance information for t... management	4.8	>	4.5
Facilitating appropriate job assignments (e.g., project staffi...)	4.3	~	4.3
Creating employee buy-in for promotion decisions	4.6	>	4.5
Identifying promotion candidates	4.8	~	4.8

💡 The superior effectiveness of PE process of companies with CCs was also observed in 2021 (and 2019)

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

■ 1 - not at all ■ 2 ■ 3 ■ 4 ■ 5 ■ 6 ■ 7 - to a great extent

Agenda

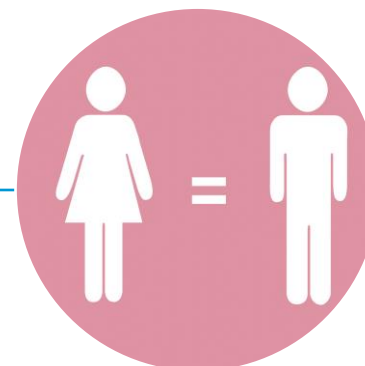|	
1	Role of Performance Management in Modern Organizations
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4	**Facing New Work Reality**
5	Q&A

To understand how companies tackle the gender inequality issues during the pandemic, we have looked into:

New work

Gender equality

New Work Environment

New work environment implies flexibility and balanced and healthy work conditions, implying changes in the way people work and communicate with their colleagues.

This section will focus on the **changes in work settings and performance evaluation practices** driven by the new work reality.
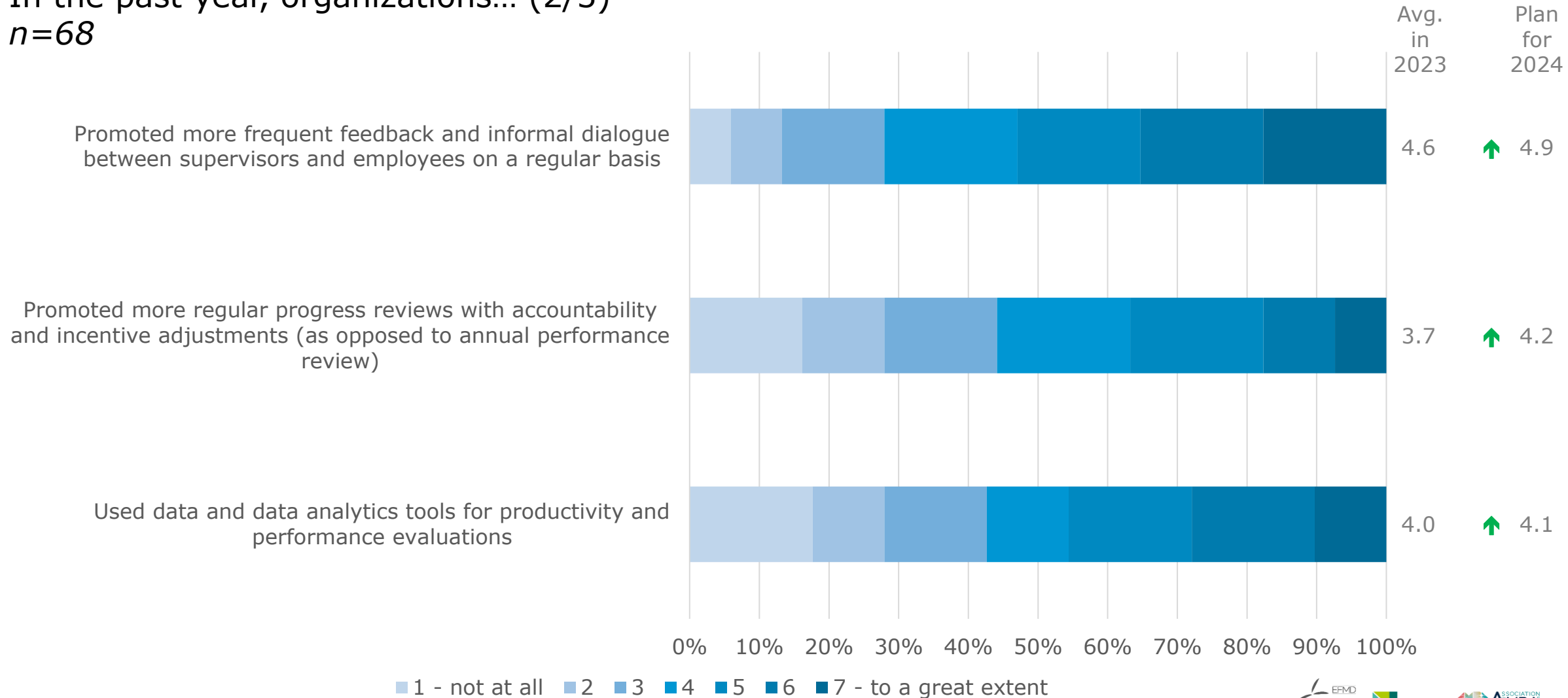
New work policies embrace flexibility and well-being and came here to stay

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In the past year, organizations… (1/3)
n=68

	Avg. in 2023	Plan for 2024
Allowed employees to work remotely (at least part of the time)	6.2	~ 6.2
Was flexible when it comes to when people work (i.e., flexible working hours)	5.4	~ 5.4
Provided additional employee benefits (mental health benefits, adjustment in child care leave, etc.)	4.9	~ 4.9

Legend: 1 - not at all 2 3 4 5 6 7 - to a great extent

EFMD EQUIS ACCREDITED   AACSB ACCREDITED   AMBA ASSOCIATION ACCREDITED

Organizations intend to accelerate the frequency of feedback and reviews, underpinning more data-driven PE process
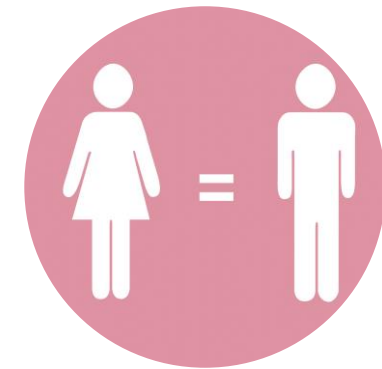
In the past year, organizations… (2/3)
n=68

	Avg. in 2023	Plan for 2024
Promoted more frequent feedback and informal dialogue between supervisors and employees on a regular basis	4.6	⬆ 4.9
Promoted more regular progress reviews with accountability and incentive adjustments (as opposed to annual performance review)	3.7	⬆ 4.2
Used data and data analytics tools for productivity and performance evaluations	4.0	⬆ 4.1

Legend: 1 - not at all 2 3 4 5 6 7 - to a great extent

Yet, more extreme changes in work settings (e.g., compressed workweeks, agile goals, remote monitoring) are not observed

In the past year, organizations… (3/3)
n=68

	Avg. in 2023	Plan for 2024
Was flexible when it comes to how much people work (allowing less hours for less pay)	3.5	~/ ⬆ 3.6
Applied more agile collaborative goals that can transform as conditions change (as opposed to annual goals set by supervisors)	3.3	⬆ 3.9
Allowed employees to have compressed workweeks (e.g., having four-day workweeks)	2.0	⬆ 2.2
Applied productivity monitoring for remote employees	2.0	~ 2.0
Applied different compensation scheme for remote employees	1.3	~/ ⬆ 1.4

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

■ 1 - not at all ■ 2 ■ 3 ■ 4 ■ 5 ■ 6 ■ 7 - to a great extent

Gender Equlity: Status Quo, Policies, PM-Compensation Link
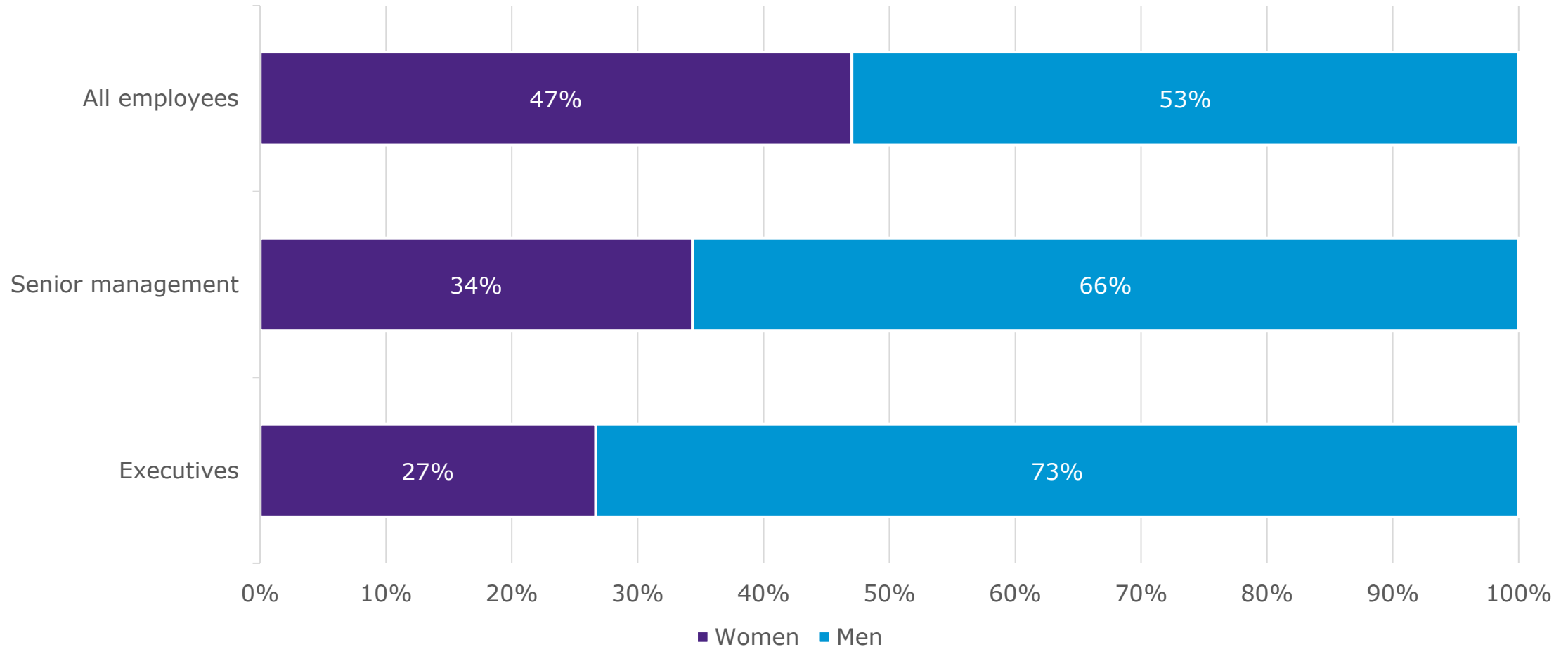
Companies could definitely do more to empower females and support gender equality at work

Policies that the respondent firms have (explicit in writing), *n=90*

Policy	Value
We have an anti-sexual harassment/anti-bullying/anti-violence policy	52
We offer flexible work locations	51
We have a fair remuneration policy or equivalent	50
We offer flexible work hours	
We have an equal opportunity policy or equivalent to ensure gender diversity	
We have a strategy in place or have otherwise acted to close any gender pay gap identified	21
We publish gender segregated pay information	15
We are a Signatory of the Women's Empowerment Principles	3
None of the mentioned policies	3

💡 **Lack of diversity and inclusion promotion** in the workplace is also **rooted in the PE process**, ultimately widening the gender pay gap

How much room does an **organization's performance management** process allow for biases to **differentially affect** the **performance evaluation and compensation decisions** for **women** as compared to **men**?

Modern Management Control Practices used to Reduce Bias used in Organizations

Performance Management Systems

Forced Distributions

Calibration Committees

Multi-Rater Systems

Source: Grabner, Klein, Patterson, & Sedatole (2023)

... and find that these differ across different career levels
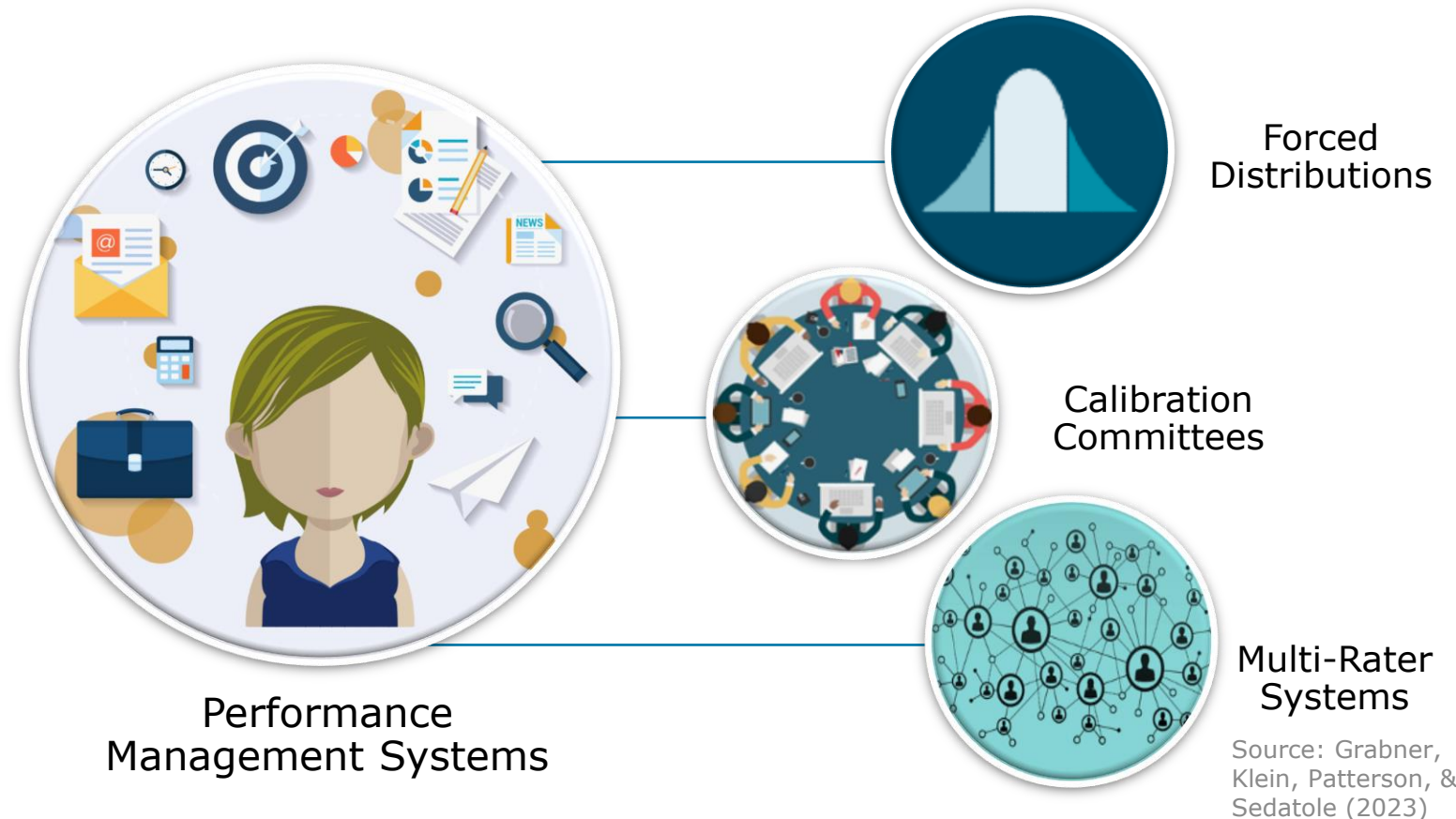
Forced Distribution
- The use of forced distribution increases the gender pay gap (GPG) for both professionals and managers

Calibration Committees
- Only for professionals, CCs have a negative significant effect on the GPG
- Peer CCs hurt female professionals, while other types of calibration committees have no significant effect on the GPG for both professionals and managers

Alternative Raters (Multi-Rater System)
- Self- and external assessments increase and higher- and lower-level raters decrease GPG among professionals
- Assessment by peers increases and self-assessment decreases GPG among managers

Source: Grabner, Klein, Patterson, & Sedatole (2023)

Agenda

1	Role of Performance Management in Modern Organizations
2	Core Group: Performance Evaluation Process
3	Core Group: Contemporary Performance Evaluation Practices
4	Addressing Societal and Environmental Challenges
5	**Q&A**

LET'S CONNECT!

A/PROF. DR. ALEKSANDRA KLEIN
aleksandra.klein@vlerick.com

PROF. DR. ISABELLA GRABNER
isabella.grabner@wu.ac.at

THANK YOU!

The research team appreciates the opportunity to collaborate with companies to examine relevant and timely topics.

If you would be willing to share your insights or discuss a potential collaboration, please do not hesitate to contact us!

Methodology and Demographics of Respondents

Methodology.

This presentation includes a snapshot of the results of the ongoing cooperative research project **Contemporary Performance Evaluation Practices** between **Figure**, **WU** Vienna University of Economics and Business, **Vlerick** Business School, and **SSE Riga**.

The first research co-operation took part in June-August 2019 and concluded with 52 respondents from Latvia and Lithuania. In 2021, the research concluded with 133 respondents from Estonia, Latvia and Lithuania. **This year, 90 organizations from all the Baltics** took part in the survey.

The questionnaire is based on existing research in Management Accounting and HR Management (e.g., Bol et al. 2019, Lawler 2003) on the topic. Participation in the survey is free of charge. All respondents are guaranteed anonymity.

Survey Respondents: Geography. *n=90*
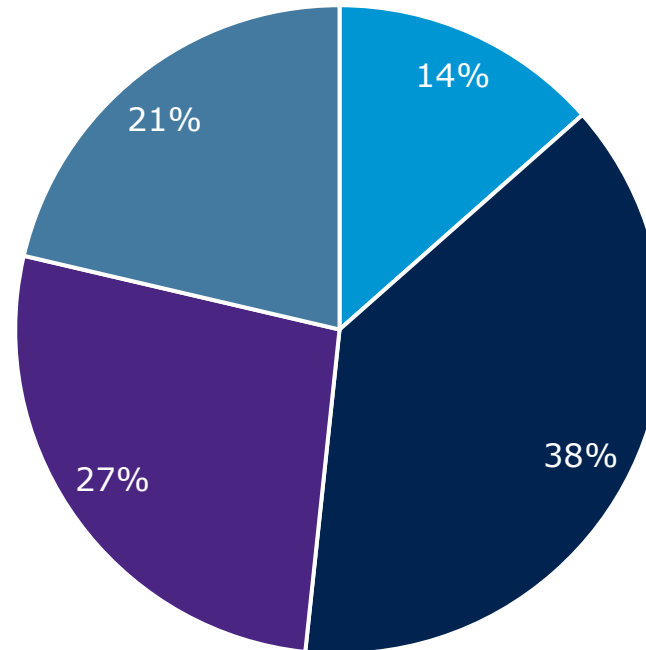

55.56%

22.22%
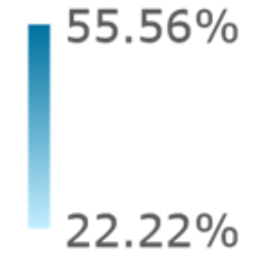
Survey Respondents: Industries. *n=90*

Industries

- IT and Telecommunications
- Production
- Sales
- Financial Services
- Business Services
- Transport and Logistics
- Energy
- Real Estate Management
- Other
- Infrastructure
- Public Sector
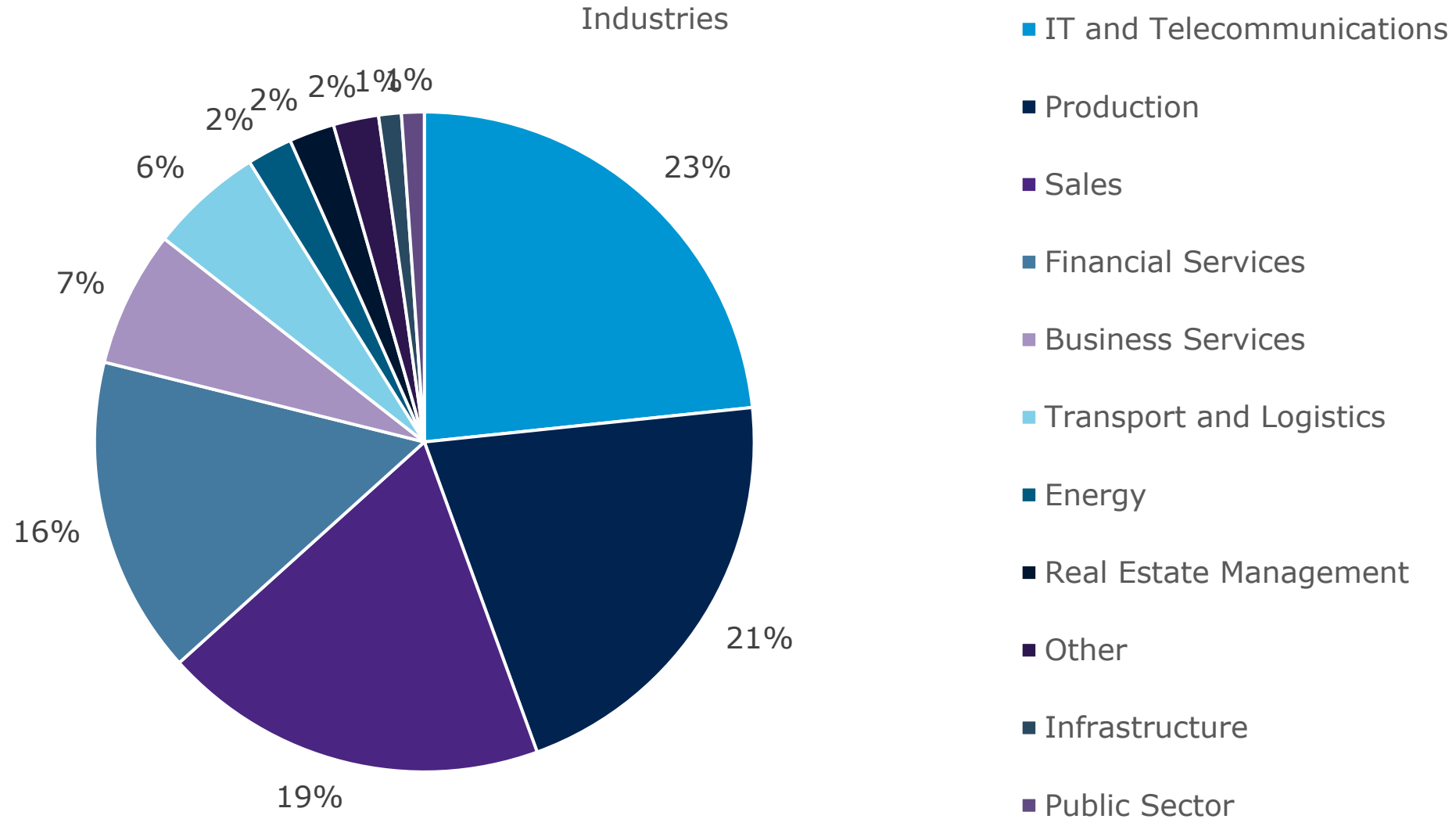
Survey Respondents: Demographics. *n=90*

FTE, *n=90*
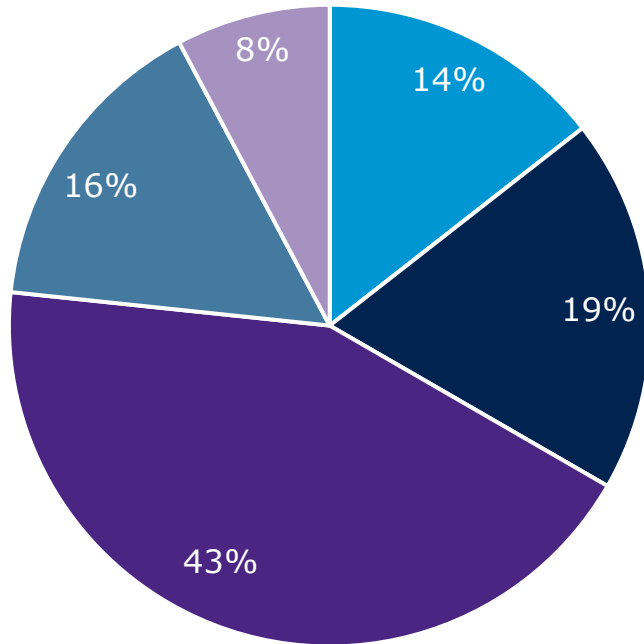
- 1-49
- 50-99
- 100-499
- 500-999
- >1000

Sales, *n=89*

- < 5 MEUR
- 5 - 25 MEUR
- 25 - 100 MEUR
- > 100 MEUR

Source of capital, *n=90*
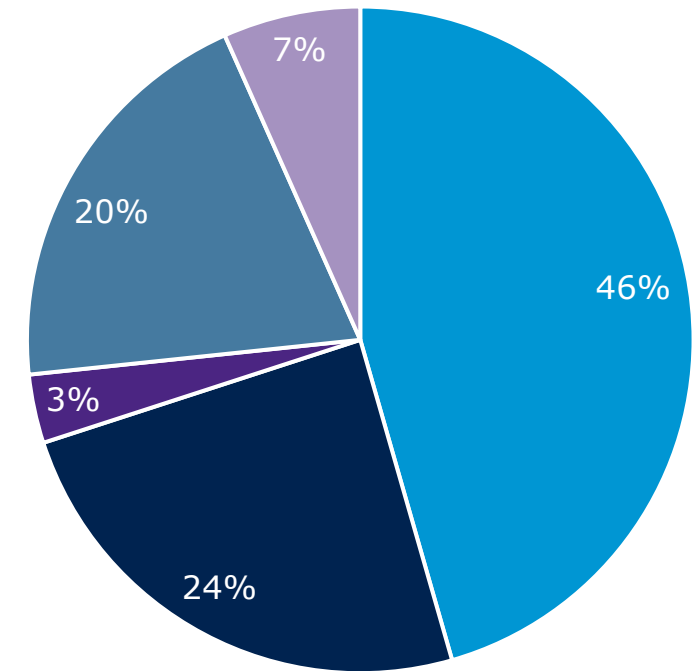
- Foreign capital
- Local private capital
- Mixed capital (local and foreign)
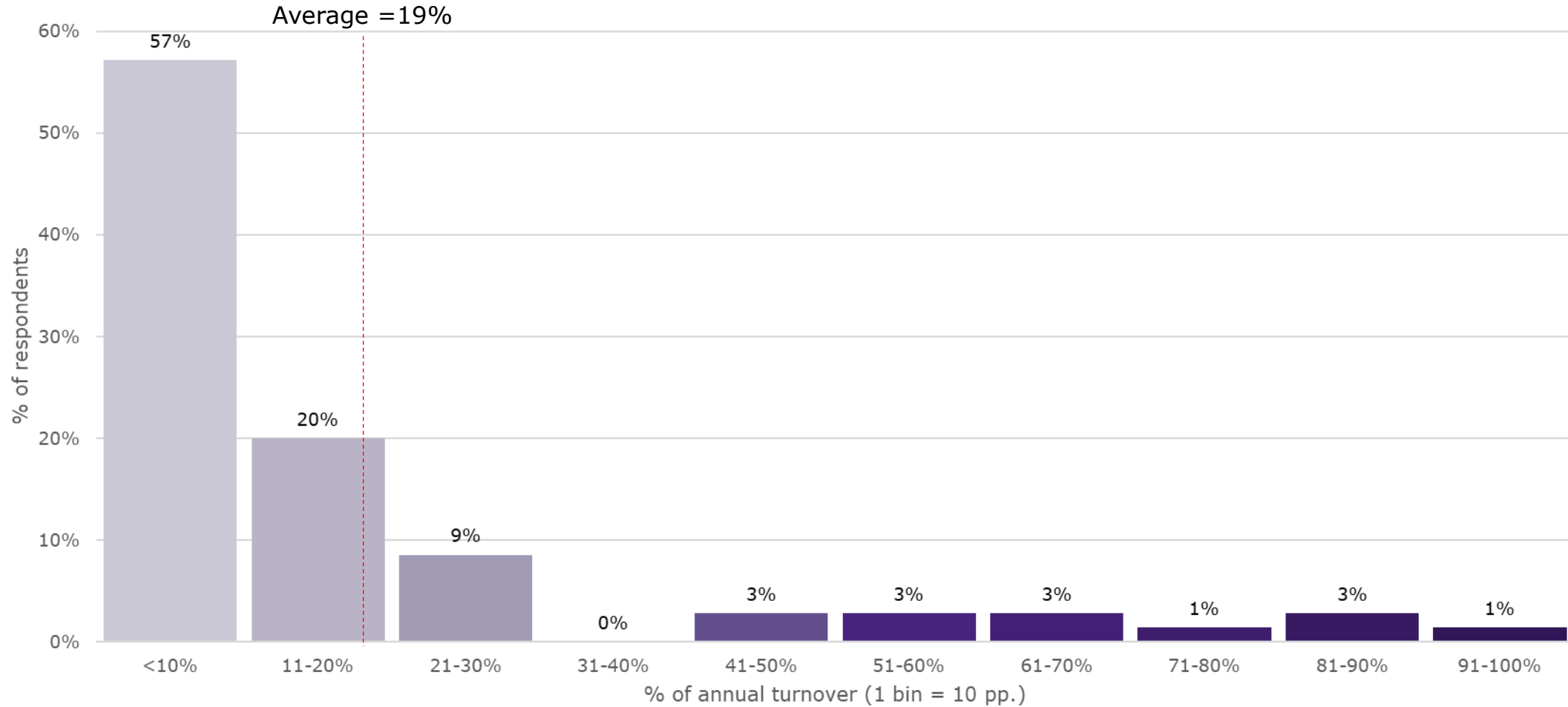- Public company
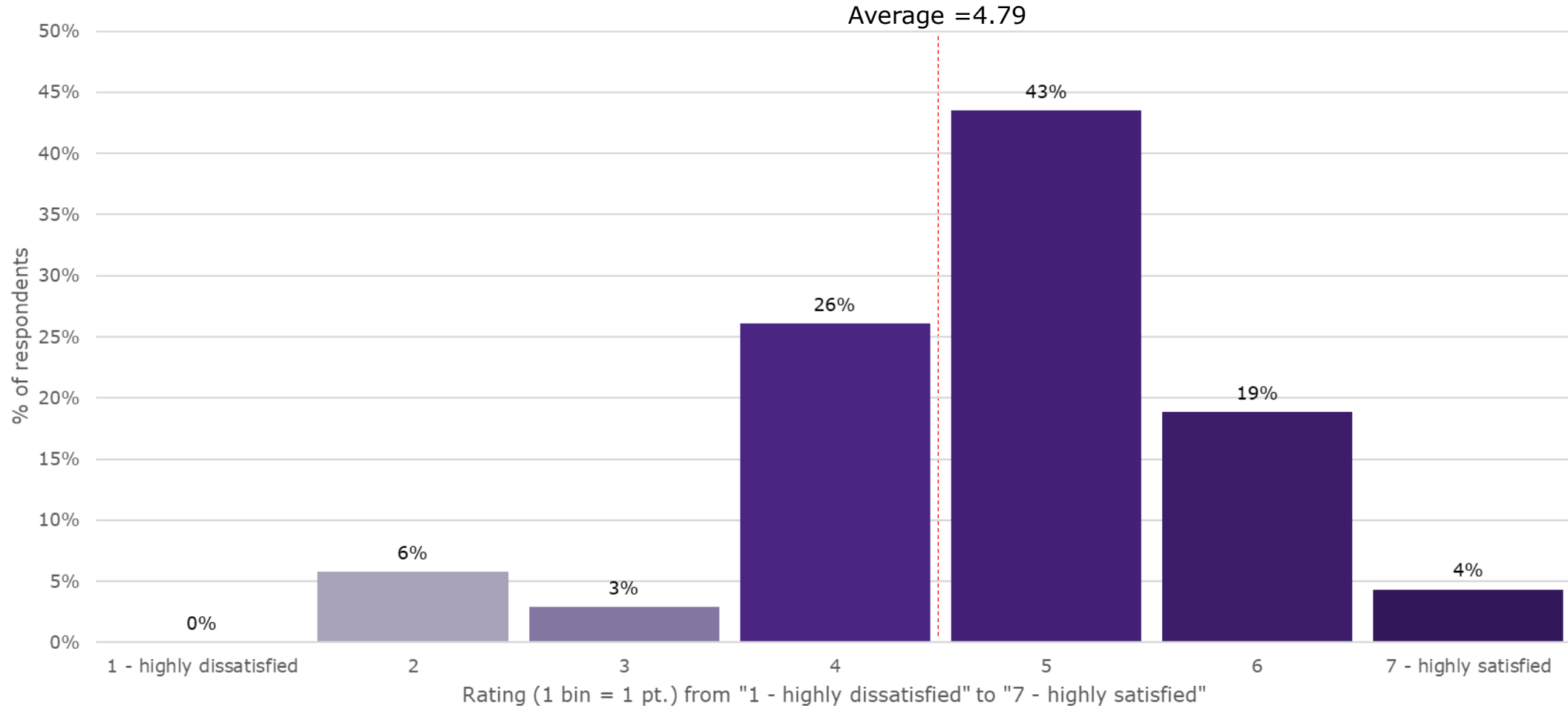- State/local government capital

Core Group

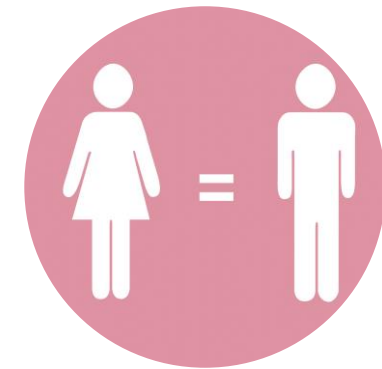# Percentage of employees that are included in this core group. *n=69*
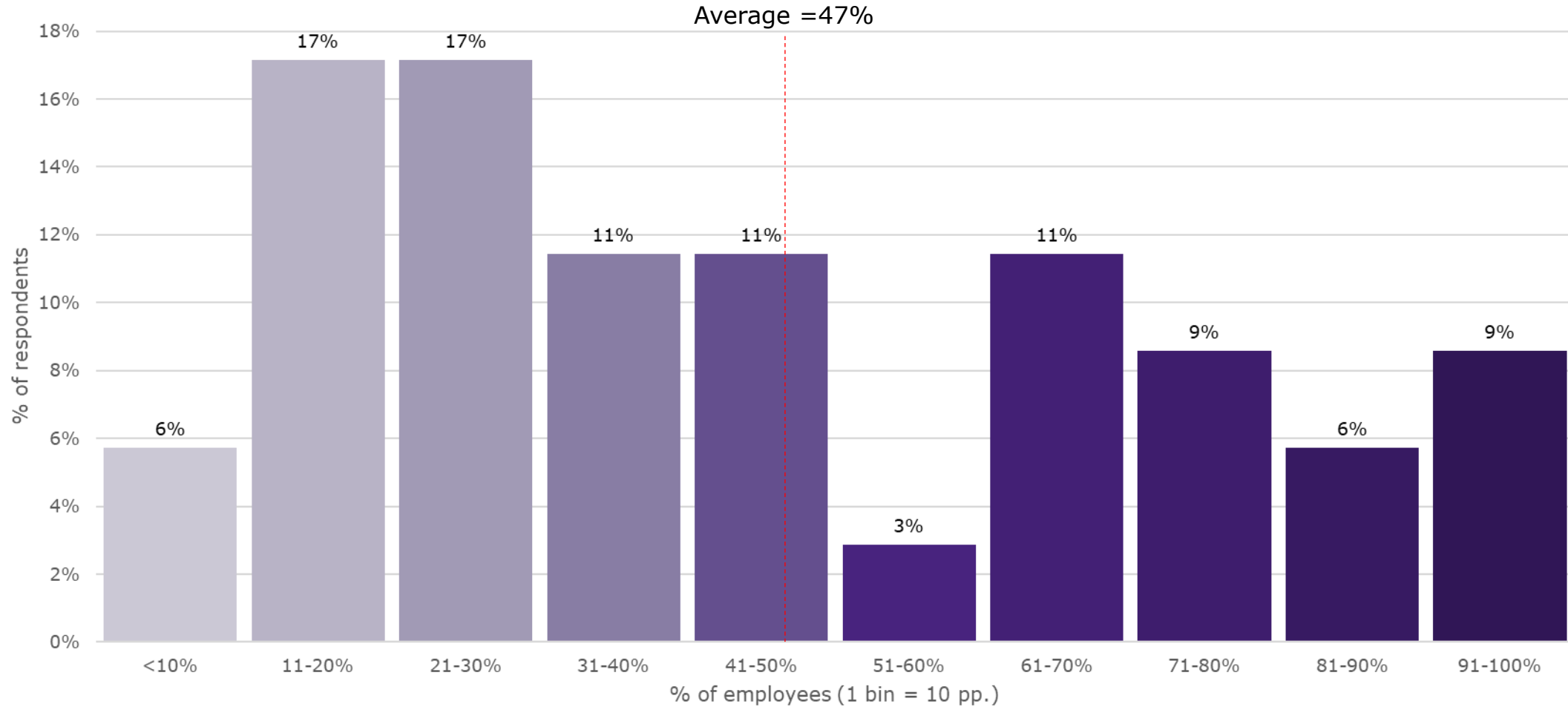
Average annual turnover (in %) for this core group of employees. *n=69*

For the chosen core group, rate your overall satisfaction with the existing performance management practices. *n=69*

Gender Equlity: Status Quo, Policies, PM-Compensation Link

Findings – Forced Distributions
(DV = LogTotalInc)

Professionals

Gender (Male=0)

-0.042***

Forced Distribution

0.176**

Gender*Forced Distribution

-0.046***

Increases the Gender Pay Gap

Managers

Gender (Male=0)

-0.087***

Forced Distribution

0.153*

Gender*Forced Distribution

-0.048**

Increases the Gender Pay Gap

Source: Grabner, Klein, Patterson, & Sedatole (2023)

Findings – Calibration Committees
(DV = LogTotalInc)

Professionals

Gender (Male=0)

-0.042***

Calibration Committee

0.237***

Gender*Calibration Committee

-0.048***

Increases the Gender Pay Gap

Managers

Gender (Male=0)

-0.087***

Calibration Committee

0.248**

Gender*Calibration Committee

0.036

No Significant Impact on the Gender Pay Gap

Source: Grabner, Klein, Patterson, & Sedatole (2023)

Findings – Calibration Committees
(DV = LogTotalInc)

Professionals

Managers

GENDER (Male=0)	-0.046***	GENDER (Male=0)	-0.088***
GENDER * CC_HIGHER	0.000	GENDER * CC_HIGHER	0.081
GENDER * CC_MIXED	0.012	GENDER * CC_MIXED	0.067
GENDER * CC_PEER	**-0.110***	GENDER * CC_PEER	0.008
GENDER * CC_OTHER	-0.058	GENDER * CC_OTHER	0.156

Peer Calibration Committees Increase the Gender Pay Gap

No Significant Impact on the Gender Pay Gap

Source: Grabner, Klein, Patterson, & Sedatole (2023)

Findings – Multi-Rater System
(DV = LogTotalInc)

Professionals

Gender (Male=0)

-0.062***

Multi Rater - Any

0.277***

Gender*Multi Rater - Any

0.004

No Significant Impact on the Gender Pay Gap

Managers

Gender (Male=0)

-0.113***

Multi Rater - Any

0.361***

Gender*Multi Rater - Any

0.021

No Significant Impact on the Gender Pay Gap

Source: Grabner, Klein, Patterson, & Sedatole (2023)

Findings – Multi-Rater System
(DV = LogTotalInc)

Professionals

Gender	-0.064***
Gender * AR Higher	**0.129***
Gender * AR Peers	0.015
Gender * AR Self	-0.095**
Gender * AR Lower Level	0.113***
Gender * AR External	-0.055*

Self- and external assessments increase and higher- and lower-level raters decrease GPG

Managers

Gender	-0.116***
Gender * AR Higher	0.256
Gender * AR Peers	-0.135*
Gender * AR Self	0.129*
Gender * AR Lower Level	-0.093
Gender * AR External	0.010

Assessment by peers increases and self-assessment decreases GPG

Source: Grabner, Klein, Patterson, & Sedatole (2023)