SALTO DEE FE
Empower. Enable. Excel

2021

STATE OF PERFORMANCE MANAGEMENT

How companies are responding to the impact of COVID-19 on PMS and Employee Productivity

ABOUT US

We help organisations solve complex people problems and leapfrog to their next phase of growth.

Founded on Science Based Simplicity

Salto Dee Fe Consulting (SDF) is a business enabling consulting firm that works at the intersection of Strategy & Execution and Business & Human Resources.
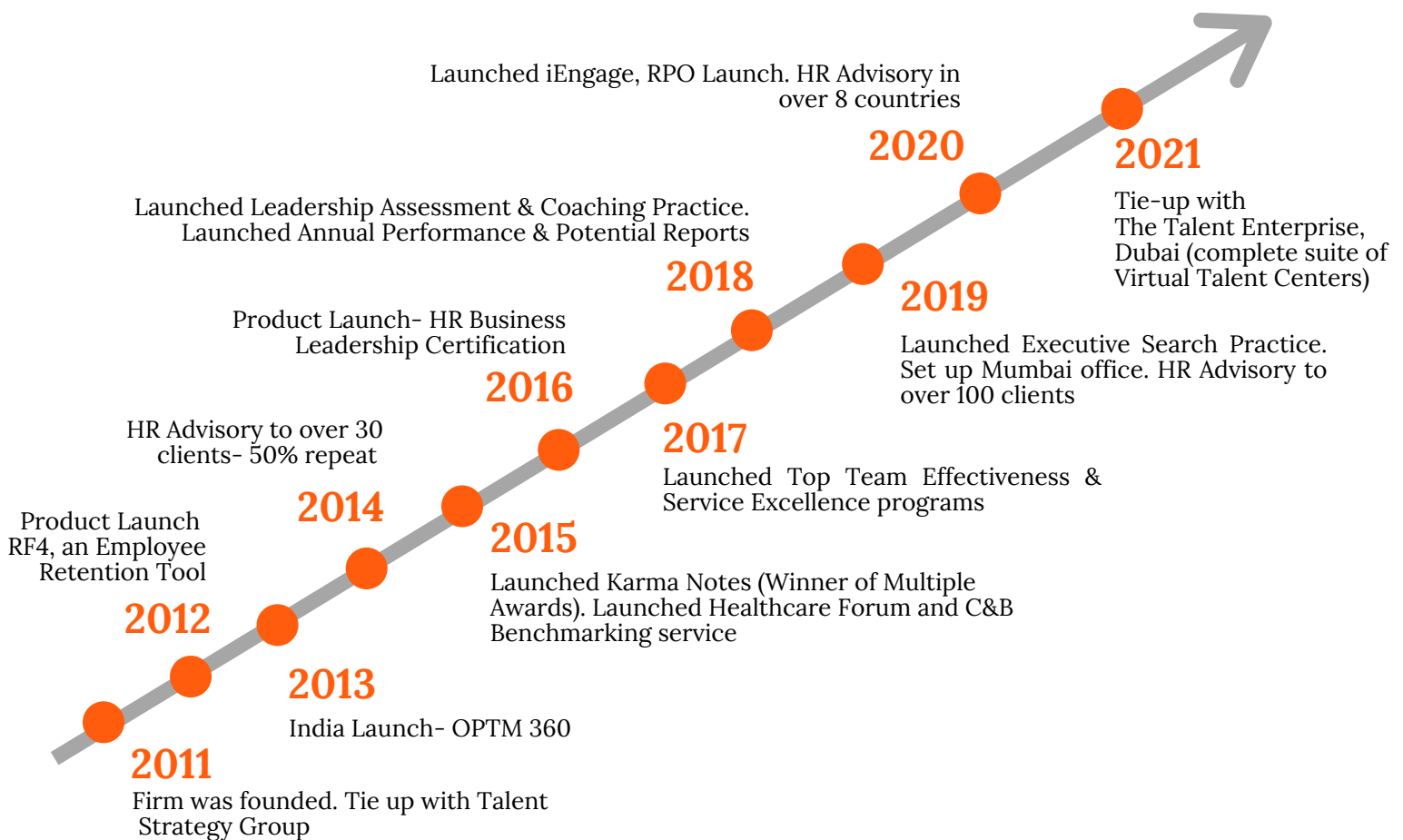
Qualitative-Quantitative Approach

We do this by co-creating bespoke solutions that are scientifically validated and enable organizations to meet their business objectives.

Practitioners' Experience & Consultants' Expertise

We are exclusive partners of TSG - The Talent Strategy Group (New York). TSG is globally respected for their Thought Leadership in Talent Management based on science-based simplicity.

OUR JOURNEY

2011
Firm was founded. Tie up with Talent Strategy Group

2012
Product Launch RF4, an Employee Retention Tool

2013
India Launch- OPTM 360

2014
HR Advisory to over 30 clients- 50% repeat

2015
Launched Karma Notes (Winner of Multiple Awards). Launched Healthcare Forum and C&B Benchmarking service

2016
Product Launch- HR Business Leadership Certification

2017
Launched Top Team Effectiveness & Service Excellence programs

2018
Launched Leadership Assessment & Coaching Practice. Launched Annual Performance & Potential Reports

2019
Launched Executive Search Practice. Set up Mumbai office. HR Advisory to over 100 clients

2020
Launched iEngage, RPO Launch. HR Advisory in over 8 countries

2021
Tie-up with The Talent Enterprise, Dubai (complete suite of Virtual Talent Centers)

TABLE OF CONTENTS

EXECUTIVE SUMMARY

The research draws interesting insights about different performance management aspects like setting goals, feedback mechanism, employee satisfaction with existing performance management system, etc. across organizations in India and compares it with insights from 2020 to generate trends. It also presents insights about the impact of COVID-19 on various aspects like productivity and rewards systems across India.

SATISFACTION WITH EXISTING PERFORMANCE MANAGEMENT SYSTEM

44%

of respondents were not satisfied with existing Performance Management System

↑600 bps

6 percentage point increase in satisfaction with existing performance management compared to 2020, where 50% of the respondents were not satisfied

OBJECTIVE OF PERFORMANCE MANAGEMENT SYSTEM

Achieving Business Goals   **25%**
Alignment to Business goals   **19%**

25% of respondents believe that 'Achieving Business Goals' is the primary objective of a Performance Management System, followed by 'Alignment to Business Goals' (19%).

GOAL SETTING AND FEEDBACK

28% respondents have quarterly goal setting- a 4 percentage point increase compared to last year

30% respondents receive quarterly feedback on goals- a 7 percentage point increase compared to last year

Goal setting discussions and feedback frequency is increasing to realign PMS with the continuously changing business context in current times

IMPEDIMENTS

Major impediments in performance management process:

Inappropriately set Goals	**45%**
Manager's ability/willingness to have difficult conversations	**61%**
Difficulty in measuring behavioral components	**34%**

CHANGES IN PERFORMANCE MANAGEMENT SYSTEM

68%

of the respondents were ready for continuous feedback

AREAS OF IMPROVEMENT IN PERFORMANCE MANAGEMENT

Top 3 areas of improvement are:

1. Skilling managers on giving constructive feedback during reviews
2. Introducing ongoing feedback in appraisals
3. Making the process more transparent

IMPACT OF COVID

36%

of respondents reported an increase in productivity due to COVID-19

There has been a significant impact on rewards:

1. **9%** have no annual increments, while 13% have deferred it

2. **12%** have their bonuses cut or deferred

3. **24%** have their promotions deferred till the situation is normal

IMPACT OF REWARDS COMPONENTS' RESPONSES ON EMPLOYEE PRODUCTIVITY

INCREASE IN PRODUCTIVITY

|	
Go with the planned **increments** for the cycle	**35%**
No change in **bonus** payouts	**39%**
No impact on **promotion** decisions	**69%**
Long term incentives plan remains the same	**45%**

DIP IN PRODUCTIVITY

Selective **increments** for critical skill staff	**40%**
Deep cuts in **bonus payouts** or No Bonus at all	**40%**
No impact on **promotion** decisions	**60%**
Defer staff **increments** by three to six months	**40%**

BACKGROUND

The year 2020 has been a roller-coaster ride for all, as organizations are faced with overwhelming, competing challenges and uncharted waters due to the COVID-19 pandemic. Throughout this crisis, coping and keeping up with the ever-shifting situation have taken precedence for many organizations and with markets opening up, a top priority for many organizations across the globe has been to address their talent questions, including how to attract, measure performance, reward and retain talent with the right capabilities and to optimize hybrid teams [1].

One of the tactical areas that play a crucial role for all organizations to succeed in any model of work is an effective Performance Management System (PMS) [2]. Performance management systems exist in every organization, ranging from loosely organized approaches in smaller firms to detailed, documented, and bureaucratic functions in many large companies [3]. When a large percentage of the workforce went to work from home due to the global pandemic, leaders and HR teams had to rethink almost every aspect of the employee lifecycle. Performance management is no exception. From the performance appraisal to the performance review meeting with an underperforming individual, to reward the high performers, all aspects of performance management have gone remote for many organizations [4].
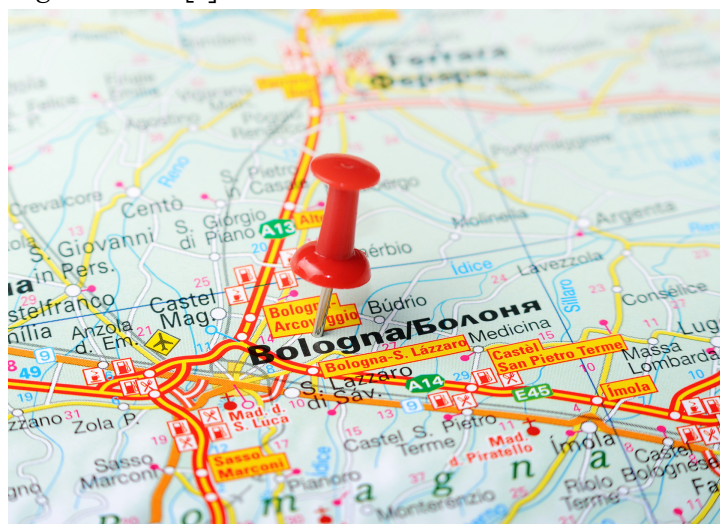
Thus, this study of performance management can provide invaluable insights and help understand how organizations are changing their approach to measuring and managing performance. The fundamental question now is how to rate performance in a rapidly evolving business cycle which is shifting towards an agile way of working.

Since the area of performance management is rapidly evolving, we aim to understand current trends in Performance Management Systems across India and find out changes that organizations are undertaking, or plan to undertake, to improve their Performance Management systems.

This survey highlights the processes, policies, and structure of the Performance Management systems in organizations. We have also focused on understanding and involvement of employees in the performance management process, their satisfaction level, and the break-up of these factors across various industries and organizational levels of employees. In the wake of the COVID-19 pandemic, we have focused on its impact on the organizations' productivity and reward policies.

SDF's Expertise in this area

Salto Dee Fe has previously undertaken a study on the 'State of Performance Management System' in 2017, 2019, 2020, and a 'High Potential Survey' in 2018 to identify how organizations manage their high potential employees. We have also anchored discussions at forums like SHRM across geographies. We have also displayed our thought leadership at multiple forums across India and abroad, with a focus on leveraging HR to create winning organizations. With our experience and expertise, we have helped many organizations revamp their Performance Management Systems.

We hope that our study will help you overcome some of these challenges and play a role in making the Performance Management System effective.
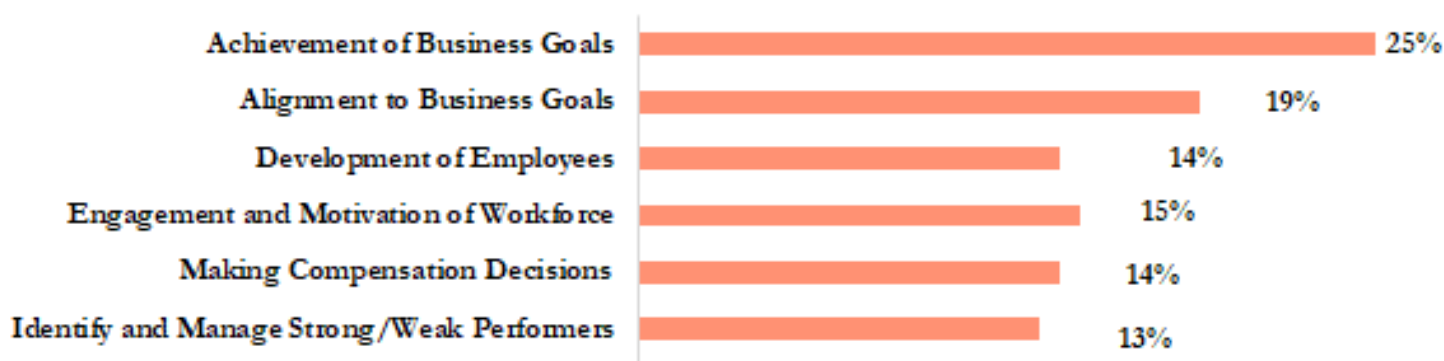
OBJECTIVE OF PERFORMANCE MANAGEMENT SYSTEM

A Performance Management System should be able to align the performance of employees to the business goals while highlighting the potential developmental areas for the employees.

The survey found that Achievement of Business Goals was the primary objective of Performance Management system (25% respondents) followed by Alignment to Business goals (19%).

This shows an inclination towards using the Performance Management system more for strategic purposes, rather than as just a tool for gauging employee performance and deciding compensation.

Fig. 1 : Primary Objective of Performance Management System

Achievement of Business Goals	25%
Alignment to Business Goals	19%
Development of Employees	14%
Engagement and Motivation of Workforce	15%
Making Compensation Decisions	14%
Identify and Manage Strong/Weak Performers	13%

Fig. 2: Objective of PMS vs Organization Size

We have divided the objectives as Strategic (Achievement of Business goals, Alignment of Business goals and Development of Employees) and Transactional (Managing Strong/Weak performers, Engagement or Motivation of Workforce and Making Compensation Decisions). According to the respondents, small organizations tend to give more importance to Strategic objectives as compared to Transactional objectives. The gap in importance given widens as the size of the firm increases, with Large and Medium firms giving more importance to Transactional objectives as compared to Strategic objectives.

■ Strategic   ■ Transactional

	Strategic	Transactional
Small	59%	41%
Medium	33%	67%
Large	30%	70%
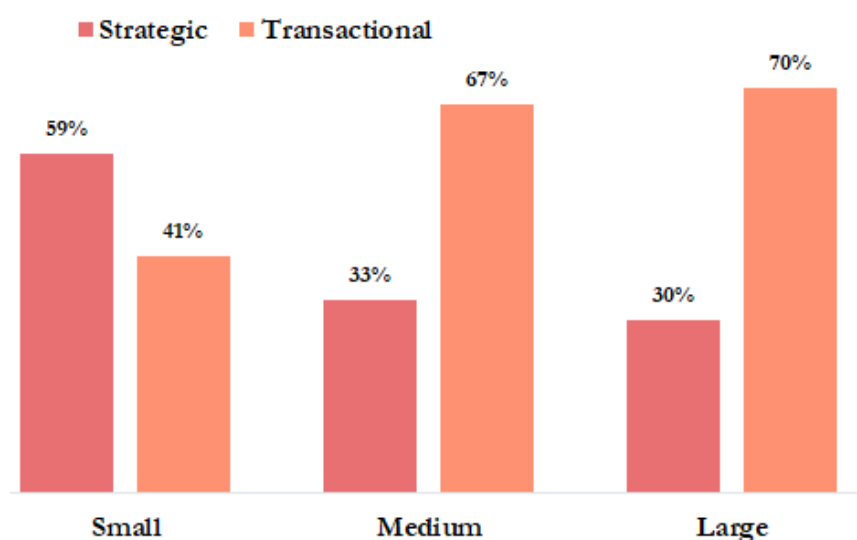
Our point of view: Performance Management is a powerful tool to build organizational capability and align business goals through increased employee productivity. It can be leveraged through specific measures such as setting limited but bigger goals, managing high and low performers, increasing transparency and accountability of managers for creating a positive employee experience.

GOAL SETTING

All the 142 respondents said that they have a goal-setting discussion at least once a year.

The majority of the respondents (28%) had their goal-setting discussions on a quarterly basis. While (23%) had bi-annual goal-setting discussions, Fig. 3 shows the change in goal-setting frequency between the years 2020 and 2021. In 2020, 24% of the respondents had quarterly goal-setting discussions while 30% had Biannual discussions [5]. We can see the trend that organizations are moving from Bi-annual goal setting to quarterly discussions. **This is an indication of the focus on realignment of PMS with the continuously changing business context in current times**.
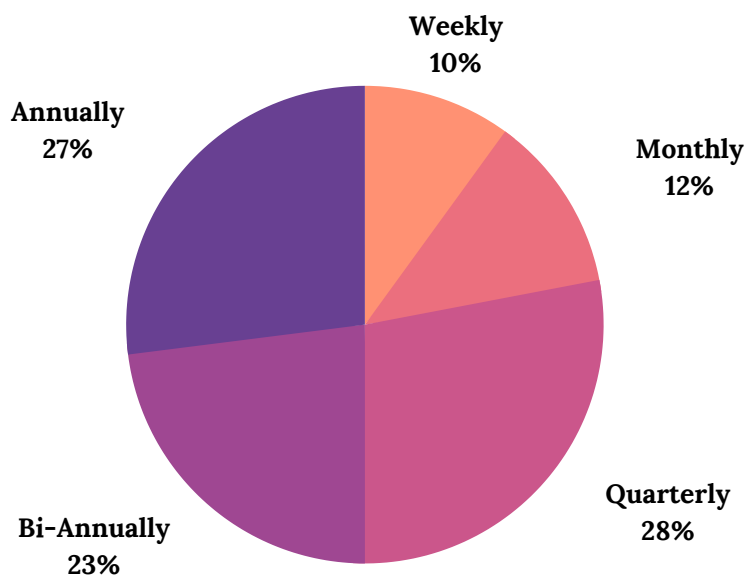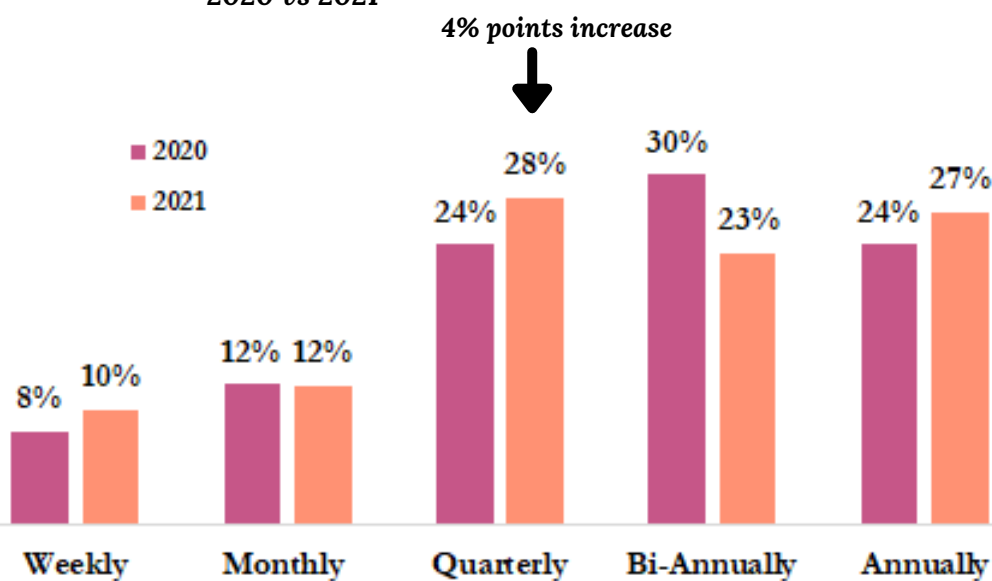

Fig. 3: Goal Setting Frequency

*Fig. 4: Goal Setting Frequency 2020 vs 2021*

4% points increase

Our point of view:

The rapidly evolving business environment demands organizations to be dynamic to external forces; which can be achieved through regular and frequent alignment of employee goals with business goals. Goal Setting discussion should be simple, quick and include actionable insights on current performance and future improvement areas.

Fig. 5: Number of Goals

Among the respondents, 61% of the organizations were setting 5 or fewer goals for an individual, while the same in our 2020 survey was 69% goals [5].

Thus, though not conclusive, there is a slight shift towards setting more goals for individuals with higher frequency (comparing the trends of frequency with number goals).
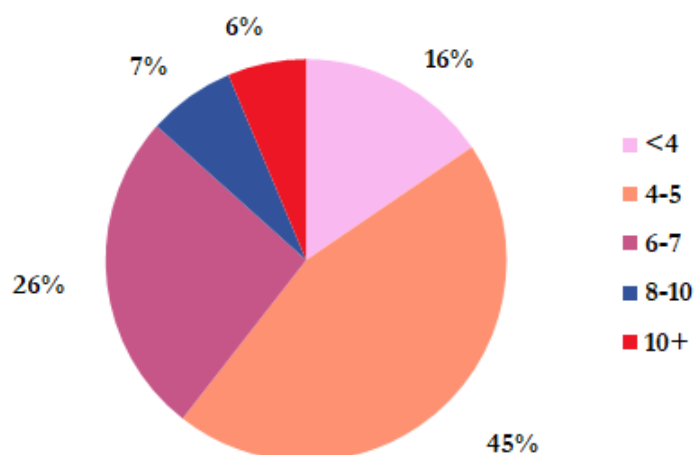
In the 2017 and 2019 surveys, 80% and 82% of the respondents respectively had weightage assigned to their goals [5].

In 2020, the trend of marginal increase continued, with 84% of the respondents having weightage assigned to their goals. 80% of organizations in 2021 have weightage assigned to the goals.

Our point of view:

We believe that assigning too many goals leads to reduced effort on each one. If the goals are vital, challenging and impactful, one cannot achieve more than 3-4 goals in a year [6]. Thus, 3 to 4 goals that have company objectives aligned with an individual's self-interest should be assigned.

We would also recommend setting up team objectives along with individual objectives. This should be followed up with frequent reviews and discussions. Reviews and discussions improve the engagement and ambitions of the team members [6]. We believe that assigning weightage to goals creates a false sense of precision and takes away managerial discretion[6]. Instead, we can list the goals in the order of importance.

Fig. 6: Weightage Assigned to Goals
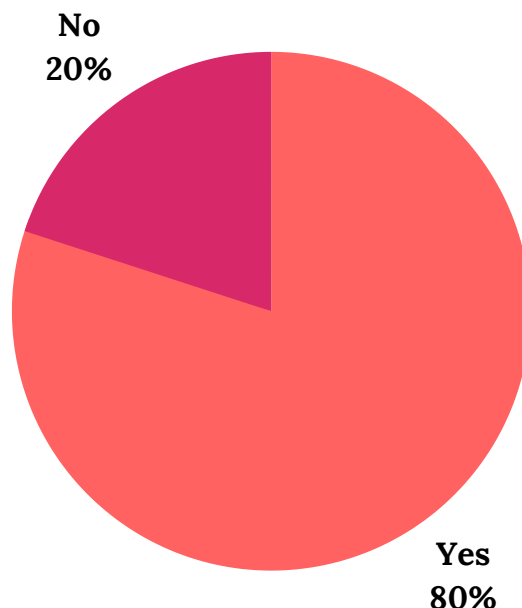
FEEDBACK

Feedback is one of the most important tools that can be leveraged to improve an employee's performance.

Maximum respondents from large organizations are provided feedback on a quarterly basis, whereas the smaller and medium organizations prefer monthly feedback. This could be a function of the relative ease of communication in smaller firms, as backed by social theories.

This highlights the need for platforms that can reduce time and effort invested in feedback in larger firms. But we believe that regardless of the size of the

organization, feedback should be more frequent and should involve multiple stakeholders.

*Fig. 7: Frequency of Feedback*
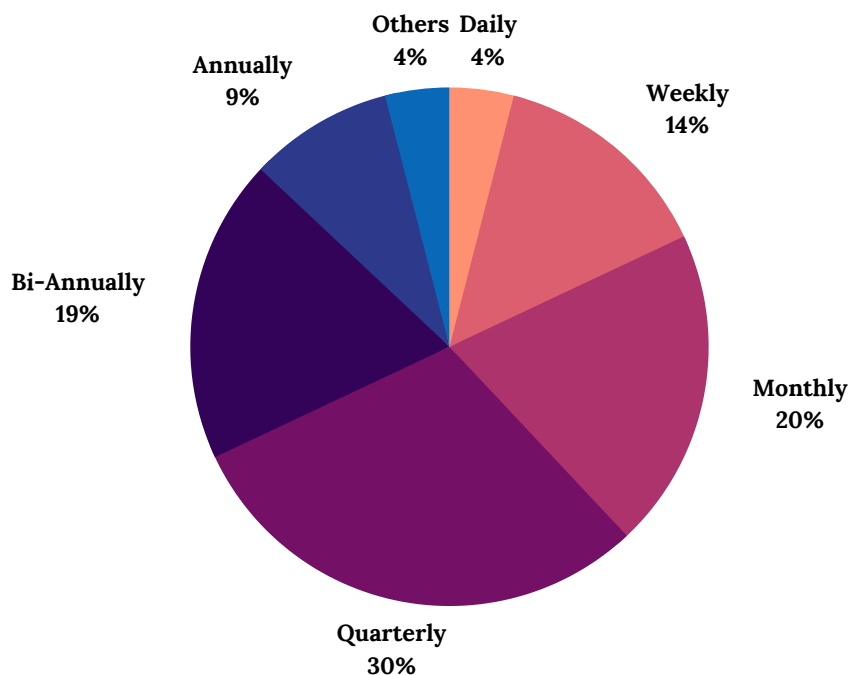
*Other responses include feedback on ad-hoc or as-required basis

Fig. 8a: Tools for feedback

Tools for Feedback

We can see that majority of the respondents have shifted entirely to technology-based platforms (65%), while 19% are using technology platforms along with paper forms. Only 9% of respondents use paper forms alone.

Fig. 8a: Tools for feedback

- None of the above 7%
- Paper Forms 9%
- All of the above 19%
- Technology based platforms 65%
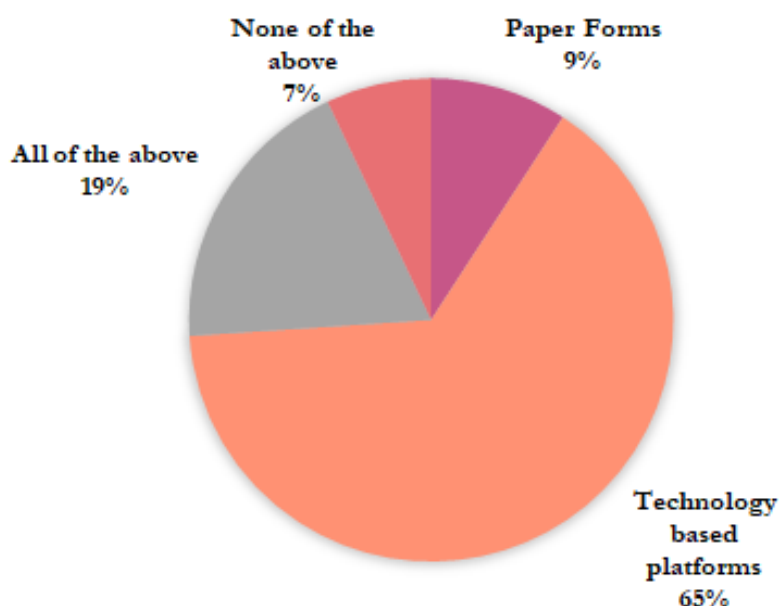
Fig. 8b: Challenges in the adoption of PMS tech tools

Challenge	Technology based platforms & Paper forms	Technology based platforms
Difficult to use	22%	24%
Lack of Scalability	15%	15%
Lack of Flexibility for customization	59%	54%
Ineffective Change Management	56%	47%
Lack of integration with other existing HR systems	67%	58%

■ Technology based platforms & Paper forms   ■ Technology based platforms

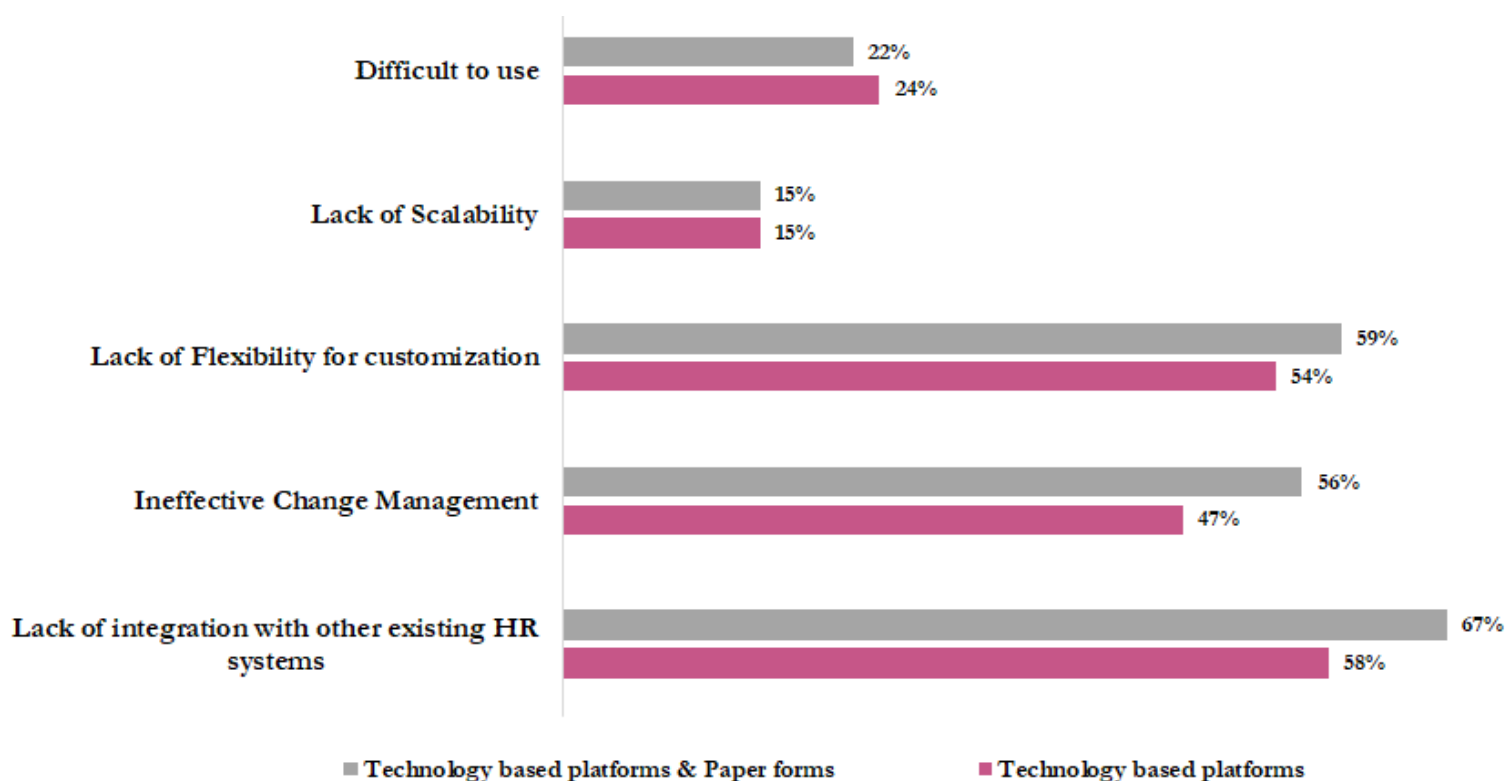Fig. 8b highlights the "lack of integration with other existing HR systems" as the most important challenge while adopting Technology-based platforms alone for providing feedback. Organizations that use both technology-based platforms and paper forms tools have highlighted the lack of integration followed by the lack of flexibility for customization as the main challenges while providing feedback.
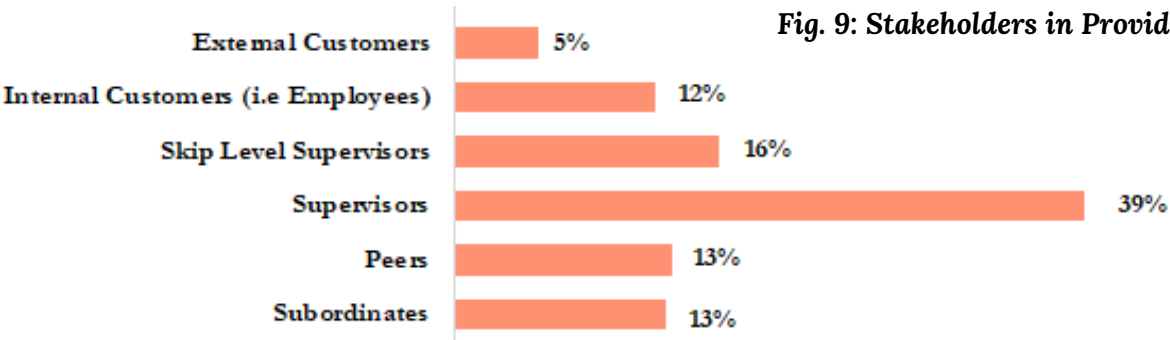
Fig. 9: Stakeholders in Providing Feedback

Fig. 9 shows that providing feedback is still predominantly done by supervisors (39%). Only 13% of respondents received feedback from their peers, and from their subordinates. While 360 degree feedback is one of the most discussed topics of performance management today, majority of the respondents are still not receiving feedback from their peers and subordinates.

Our point of view

The primary purpose of feedback is to improve performance. Research shows that feedback enhances behaviors and leads to improvement in employee performance [7]. We believe that telling people clearly 'what' areas they need to improve enables learning. On the other hand, criticizing people does not enable learning, rather impairs it [8]. Current feedback processes are unidirectional (supervisor to subordinates). We believe that feedback should be more frequent and should incorporate views of supervisors, peers, customers and subordinates to understand different perspectives. It is proven that feedback will be beneficial only if there is a structured follow up process [5]. We suggest that the feedback process should be simple, quick and should add value to the organization.

Karma Notes is a product created by Salto Dee Fe Consulting in Partnership with The Talent Strategy Group, USA and Path InfoTech. This tool enables instant anytime feedback and feedforward and is also an answer to all the performance ratings and bell curve related questions and dilemmas faced by the organizations.

Karma Notes is currently being deployed at many leading organizations across sectors and is providing a differentiated experience to over 6000 plus employees across 14 countries.

Karma Notes has also been selected as the top 10 HR Start-Ups by NHRD in 2016 and was part of the HR Spotlight List published by People Matters in 2017.

Fig. 10a: Change in quality of feedback conversations

Positive changes in the quality of feedback conversations

Most of the respondents have highlighted that in the current times, feedback conversations have witnessed a tangible improvement in their quality. Conversations have become more specific and are helping the employees to get better clarity on their roles/responsibilities. With the change in frequency of feedback, managers have started sharing real-time observations on their work. Feedback now being given is more constructive and development-oriented. An open feedback culture is encouraged in many organizations.

objective discussion
specific to the behaviour   constructive
role clarity   actionable guidance
development oriented
need based   more specific
transparent
detailed
real time sharing   improved
getting better   data driven
honest conversations
linked with objectives

The size of the text indicates the frequency of the theme. Color is just to distinguish

Fig. 10b: Change in quality of feedback conversations

Areas of improvement in feedback conversations

While some organizations have witnessed some tangible improvement in their performance conversations, some have suggested a few areas to improve upon. Most of the respondents are suggesting to provide more constructive and need basis feedback instead of annual discussions. Additionally, they revealed a need to train managers on giving constructive, subtle, and development-oriented feedback so as to avoid often conversation degenerating into pointing fingers.

more open and transparent

more consistent   teachnology tools

supervisor capability

more subtle

more frequent

train managers as coaches

frequent communication

seamless and continuous
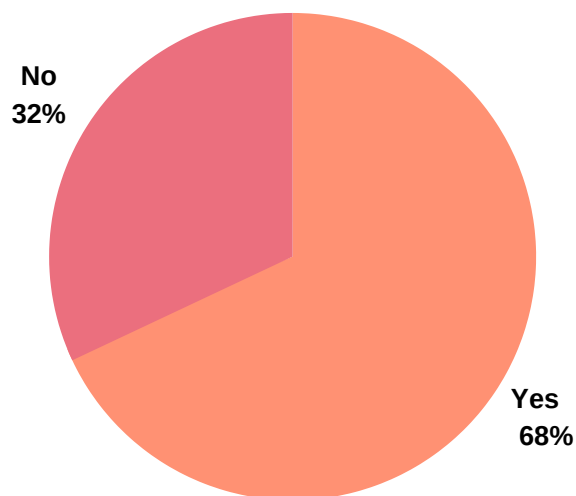
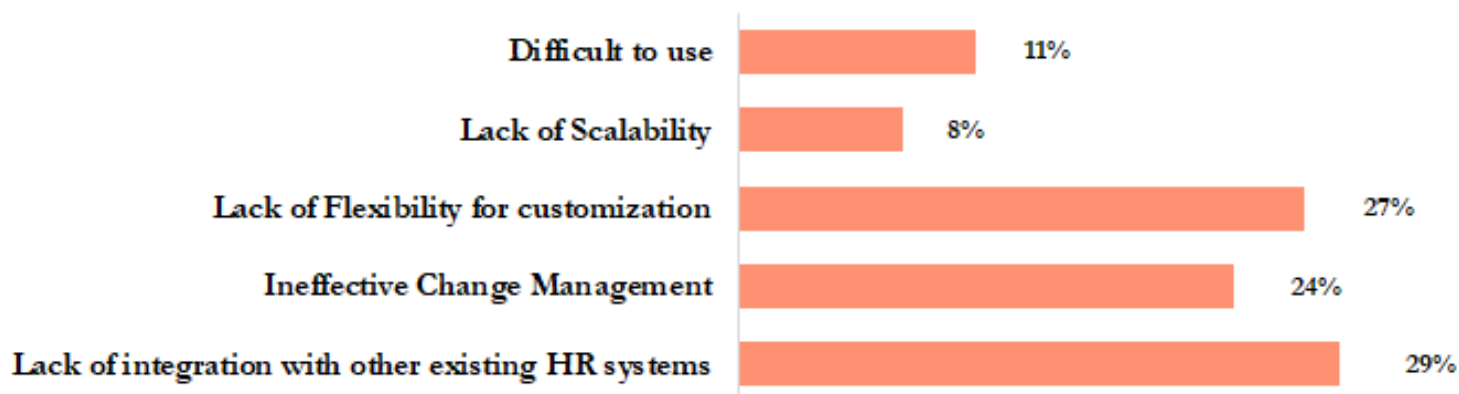## CHANGES IN PERFORMANCE MANAGEMENT SYSTEM

Adopting changes in PMS

Interestingly, our survey highlights the two most important challenges while adopting changes in a Performance Management System as 'Lack of Integration with Existing HR Systems' and 'Lack of flexibility for Customization', which were the two main challenges in 2020 as well (54% and 56% respectively). This shows that organizations have not been successful in identifying and removing the bottlenecks causing these challenges.

68% of the respondents said that they wanted a continuous feedback process in place. This shows that organizations need to implement mechanisms for continuous feedback.

Fig. 11: Readiness for Continuous Feedback

No
32%

Yes
68%

Fig. 12: Challenges in adopting PMS

| Challenge	Percentage
Difficult to use	11%
Lack of Scalability	8%
Lack of Flexibility for customization	27%
Ineffective Change Management	24%
Lack of integration with other existing HR systems	29%

IMPEDIMENTS

Fig. 13: Satisfaction with Existing PMS

The survey revealed that only 56% of respondents were satisfied with the Performance Management System of their organization.
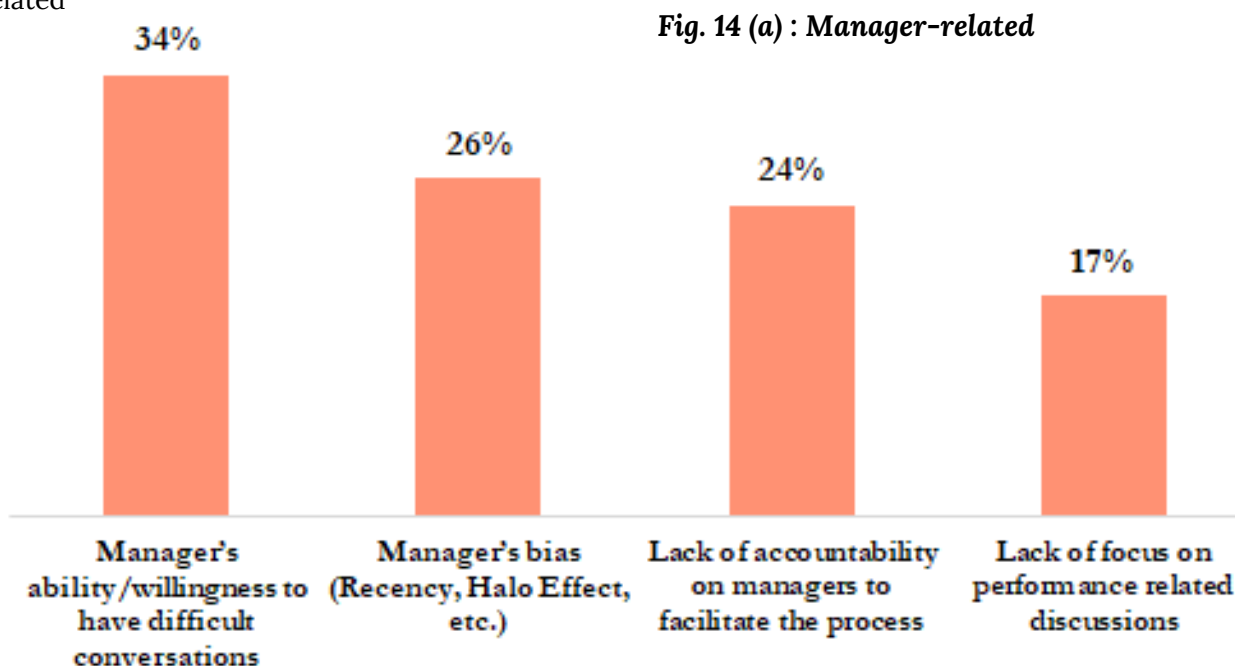
Our 2020 Performance Management System Survey had found that 50% of respondents were satisfied with their current Performance Management System [5].

Although there is an improvement by 6 percentage points in this year's survey, we feel that 44% of respondents feeling unsatisfied by existing PMS is still a very significant number. Thus, the organizations must adopt changes in their existing

processes and systems used for Performance Management to ensure that more employees feel comfortable with how their performance is measured.


No 44%

Yes 56%
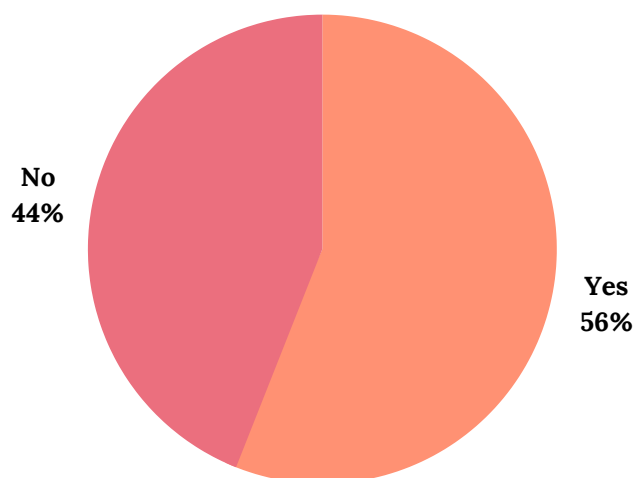
In order to ascertain key barriers in a good performance management system, we categorized the responses for major impediments into three categories (refer Fig. 14 a, b, c):

- Manager Related

- Employee Related

- Process Related

Fig. 14 (a) : Manager-related

34%	26%	24%	17%
Manager's ability/willingness to have difficult conversations	Manager's bias (Recency, Halo Effect, etc.)	Lack of accountability on managers to facilitate the process	Lack of focus on performance related discussions

Our Point of View:

Manager Related: 'Manager's ability/willingness to have difficult conversations was suggested as a major area of improvement for managers. Employee performance and areas of improvement should be clearly communicated in a transparent manner to create trust between employee and organization. Employees should feel that they are being treated fairly. We suggest that managers should actively participate in review discussion as this is one of the proven mechanisms for improving productivity [7].

Legend:
- Lack of trust in line managers
- Goals not set appropriately

39% | 61%
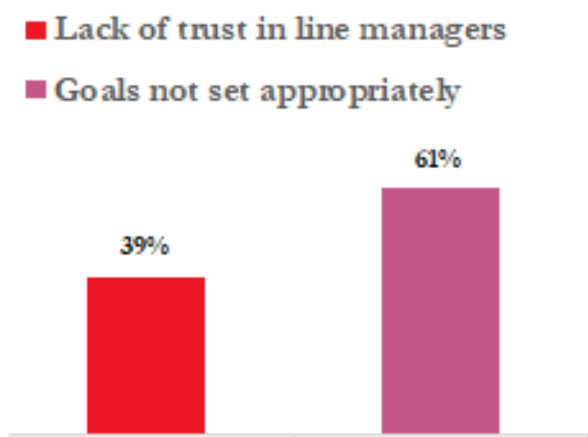
Fig. 14 (b) : Employee Related

Employee Related: According to our survey, around 10% of the employees felt that goals were not set appropriately. Specific and difficult goals consistently lead to higher levels of performance rather than just asking employees to 'do their best' [8,9]. We believe that goal setting should balance the employee's aspirations while driving the organizations business strategy.
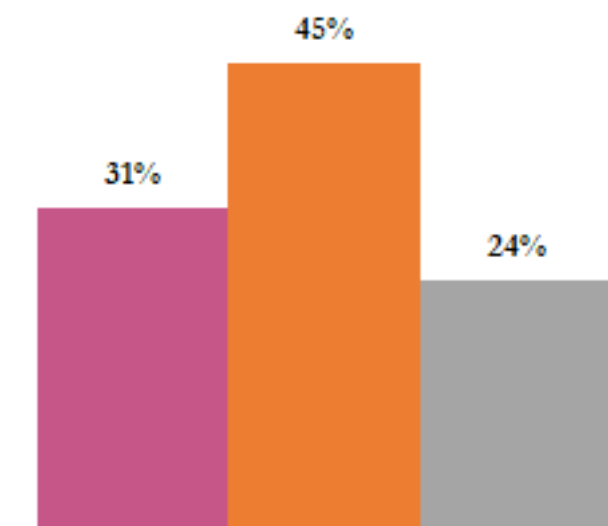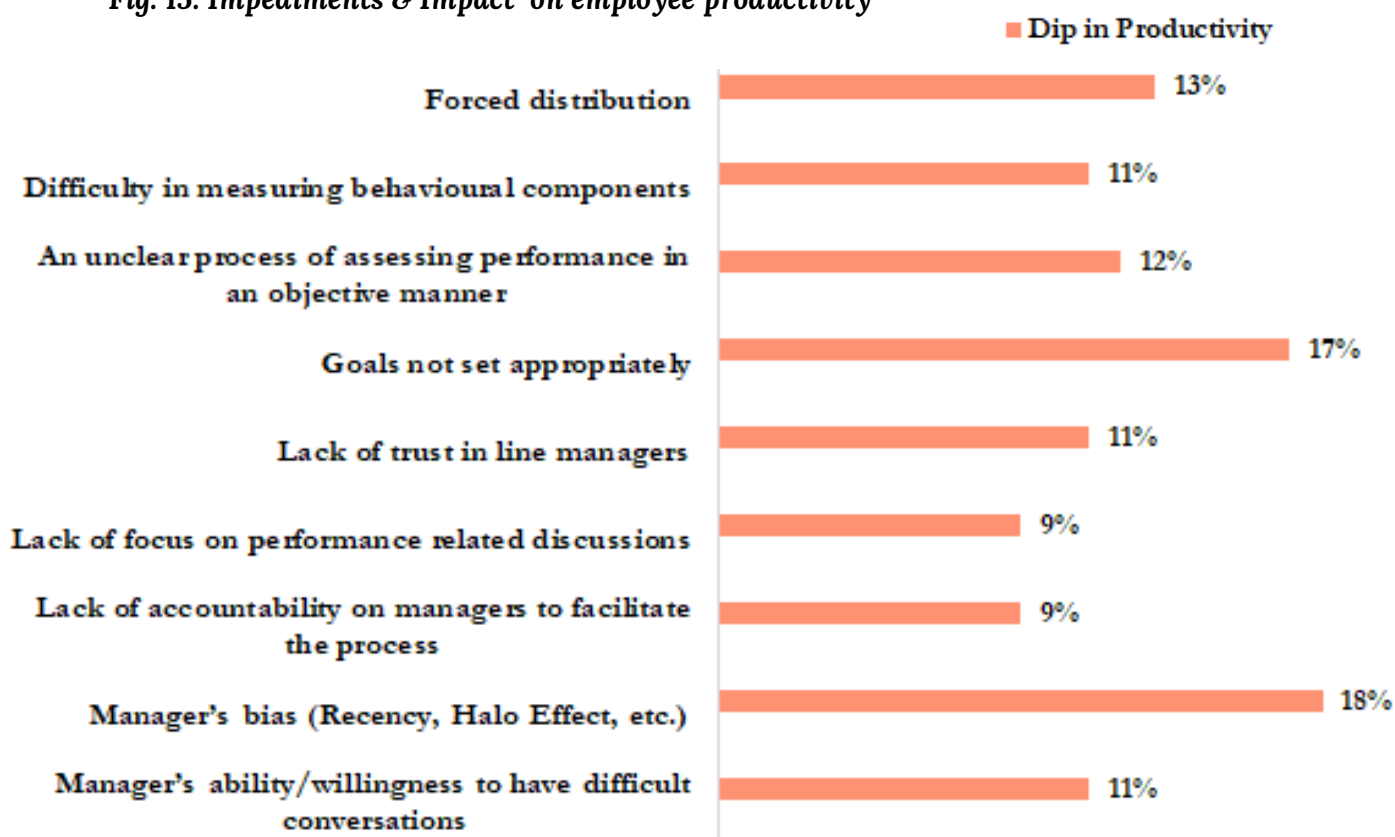
Fig. 14 (c) : Process Related

Legend:
- An unclear process of assessing performance in an objective manner
- Difficulty in measuring behavioural components
- Forced distribution

31% | 45% | 24%

Process Related: 'Difficulty in measuring behavioral components' is the most common process related issue. Employees want a fair evaluation process, coupled with frequent and transparent feedback which involves honest two-way communication [10, pp. 66-67].

Fig. 15: Impediments & Impact on employee productivity

Dip in Productivity

Impediment	Dip in Productivity
Forced distribution	13%
Difficulty in measuring behavioural components	11%
An unclear process of assessing performance in an objective manner	12%
Goals not set appropriately	17%
Lack of trust in line managers	11%
Lack of focus on performance related discussions	9%
Lack of accountability on managers to facilitate the process	9%
Manager's bias (Recency, Halo Effect, etc.)	18%
Manager's ability/willingness to have difficult conversations	11%

Our survey highlights Manager's bias (may include recency or halo effect etc.) as a major factor that causes a dip in employee productivity followed by inappropriate goals and forced distribution method. With Recency bias, manager penalizes employees based on factors out of their control and rewards people for momentary bursts of effort. Research also suggests demerits of these biases, that a performance review that focuses solely on recent poor performance is not reflective of overall performance for the year and may result in demotivating an employee, impacting their productivity. By contrast, focus on recent successful productivity may result in an unmerited promotion or opportunities for advancement.

THE FUTURE PERFORMANCE MANAGEMENT SYSTEM

As we move towards changes in the Performance Management System, it is essential to understand the expectations of the leaders and the employees from the process.

We could see that only 5% of the respondents felt that their PMS did not require any changes. 'Skilling managers on giving constructive feedback during reviews,' 'Introduction of Ongoing Feedback,' and 'Making the process more transparent are the three main areas which the respondents want to change in their PMS.
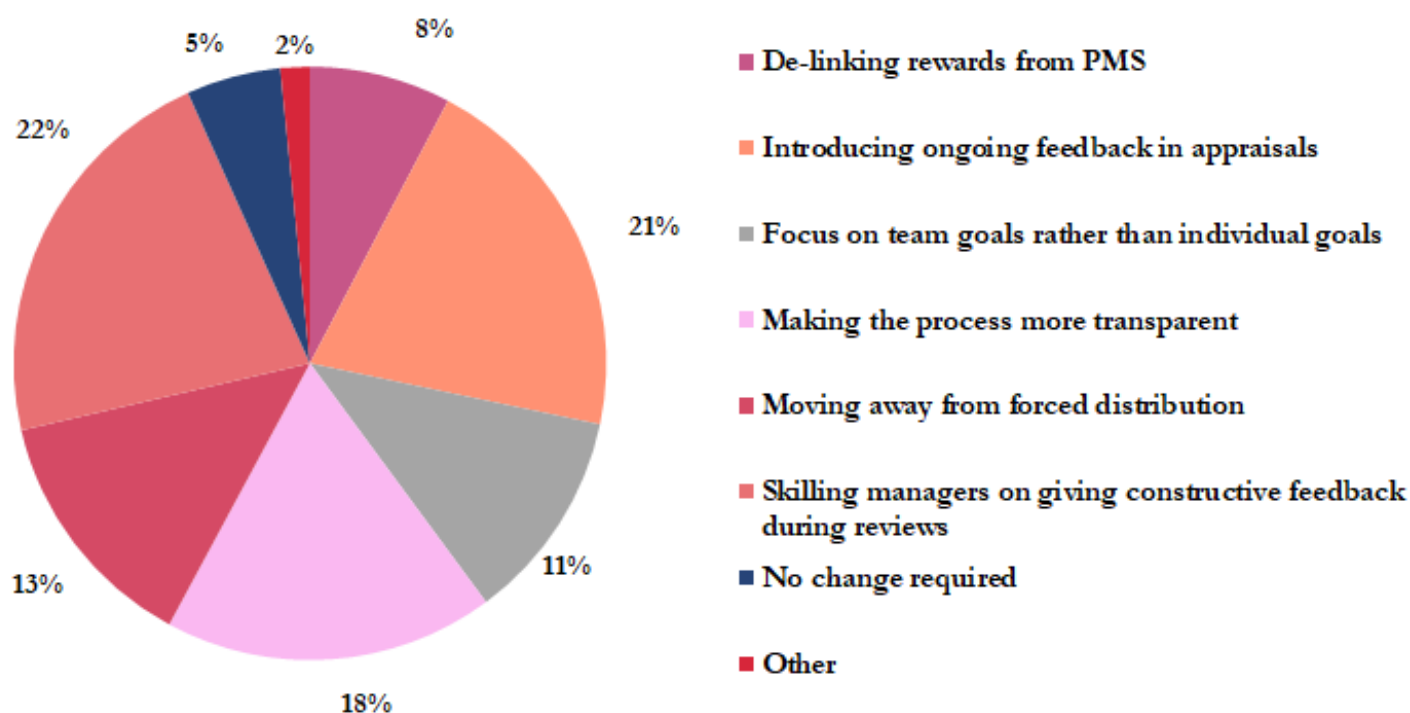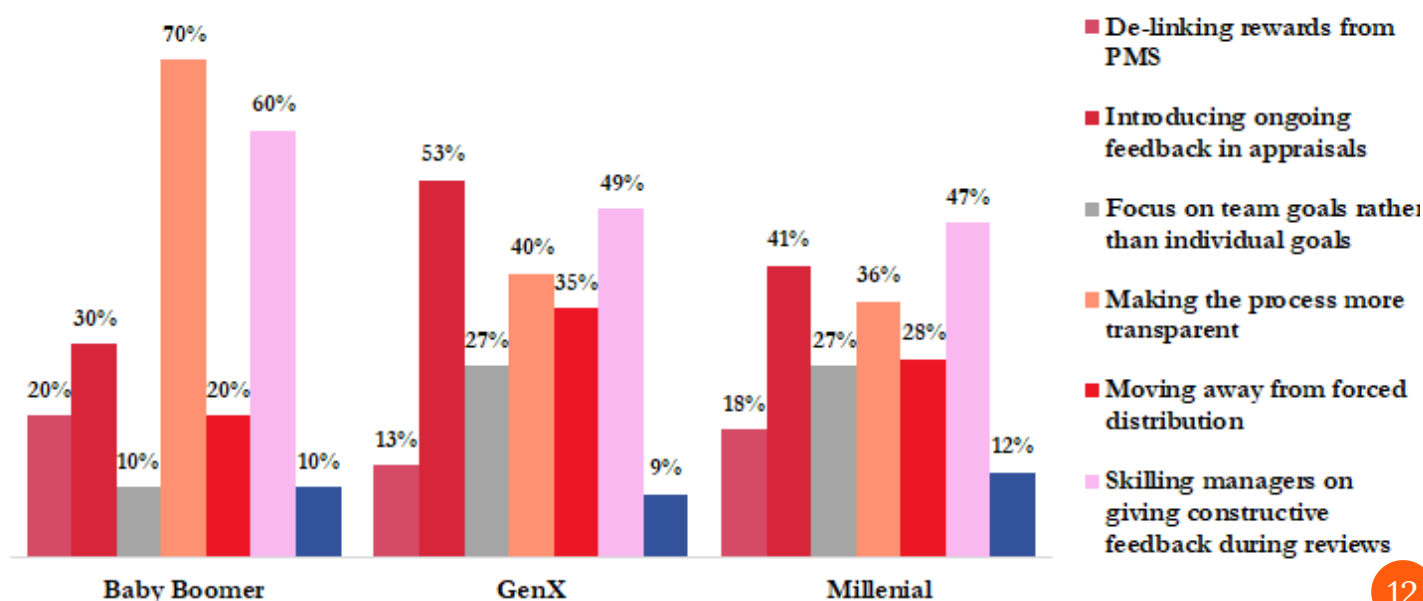
Fig. 16: Areas of Improvement

- De-linking rewards from PMS
- Introducing ongoing feedback in appraisals
- Focus on team goals rather than individual goals
- Making the process more transparent
- Moving away from forced distribution
- Skilling managers on giving constructive feedback during reviews
- No change required
- Other

Fig. 17: Generation wise Distribution of Areas of PMS Improvement

- De-linking rewards from PMS
- Introducing ongoing feedback in appraisals
- Focus on team goals rather than individual goals
- Making the process more transparent
- Moving away from forced distribution
- Skilling managers on giving constructive feedback during reviews

12

The Generation Lens: What each generation wants from PMS?

Make PMS process more transparent

Introducing an on-going Feedback System

Skilling managers on giving constructive feedback during reviews

Baby Boomers

Gen X
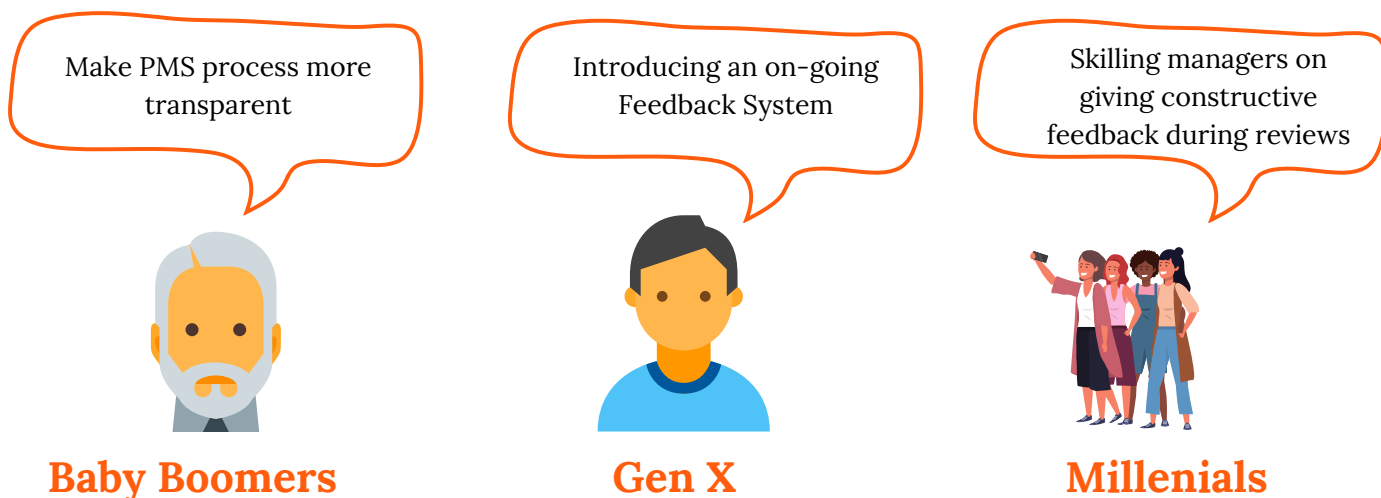
Millenials

Millennials are a feedback hungry generation. Research also supports this that current workforce- millenials prefer to have instant or ongoing feedback.
Here are some ways to give constructive feedback to Millennials [11]

Focus on potential personal benefits

Level with them

Set clear future expectations

Balance it with positive recognition

Fond, How to Communicate with Millennials,2019

Fig. 18: Change in PMS and its objective
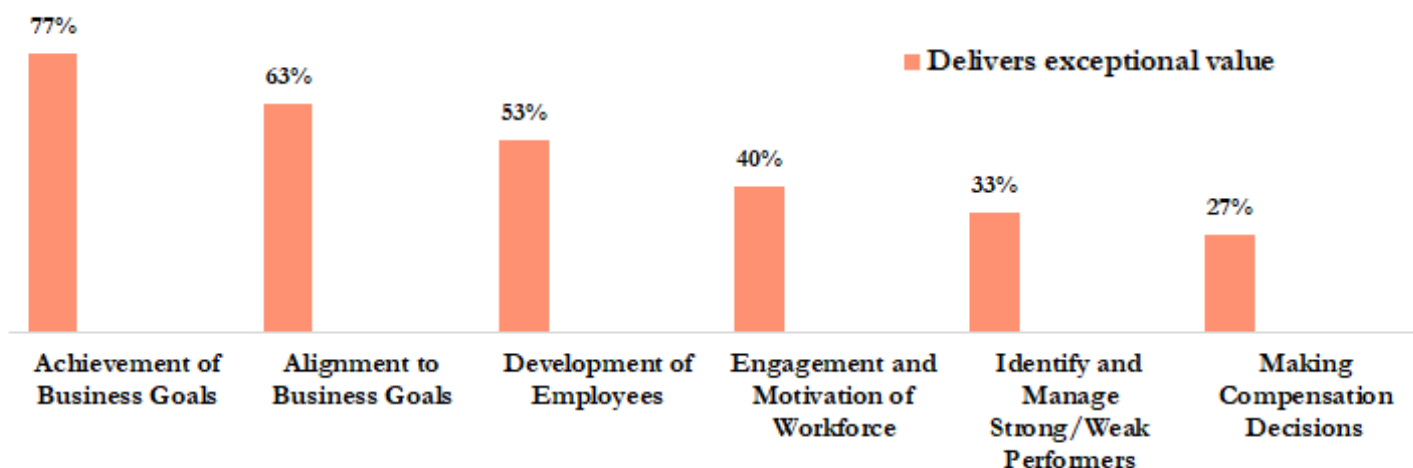
The survey found that for high-performing organizations that deliver exceptional value, achievement of business goals was the primary objective of their Performance management system followed by alignment of business goals. This shows a high-performing organization's inclination towards using the Performance Management system more for strategic purposes, rather than as just a tool for gauging employee performance and deciding compensation.
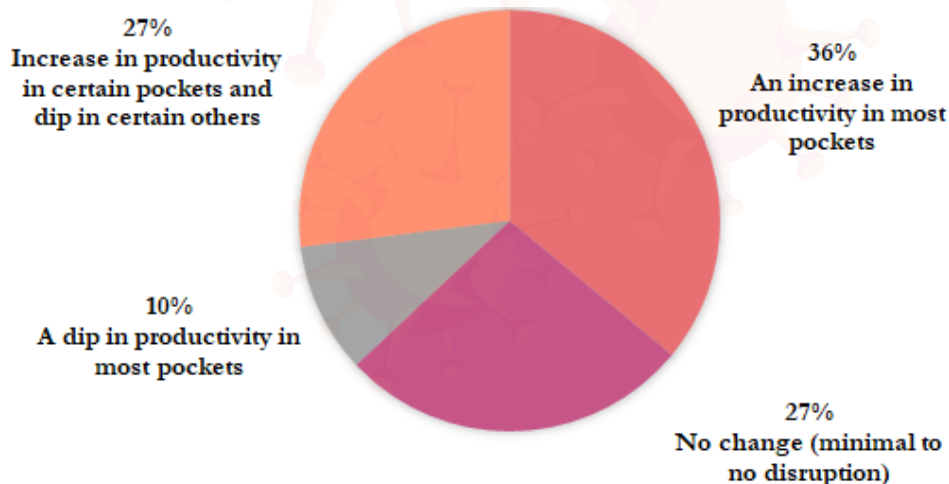
IMPACT OF COVID- 19 ON PERFORMANCE MANAGEMENT SYSTEM

The COVID- 19 pandemic has impacted business in ways never imagined before. *Employees are dealing with uncertainty, existential dread, their goals are getting changed, and are stretched in their own ways.* Organizations are responding by having an empathetic view with a consistent focus on teamwork and collaboration. With the pandemic triggering the greatest workplace and business transformations of our lifetime, we incorporated its impact on productivity, benefits, and PMS of companies in the survey.

Despite the overwhelming disruption caused by the pandemic, we see that only 10% respondents feel there is a dip in productivity in most pockets. While 27% suggest no change, a whopping 36% says there is an increase in productivity in most pockets. 27% of the respondents also state that there is increase in productivity in some pockets and a decline in others. The results suggest that a majority of employees and organizations have adapted well to the changes.

Fig. 19: Impact on Productivity

27% Increase in productivity in certain pockets and dip in certain others

36% An increase in productivity in most pockets

10% A dip in productivity in most pockets
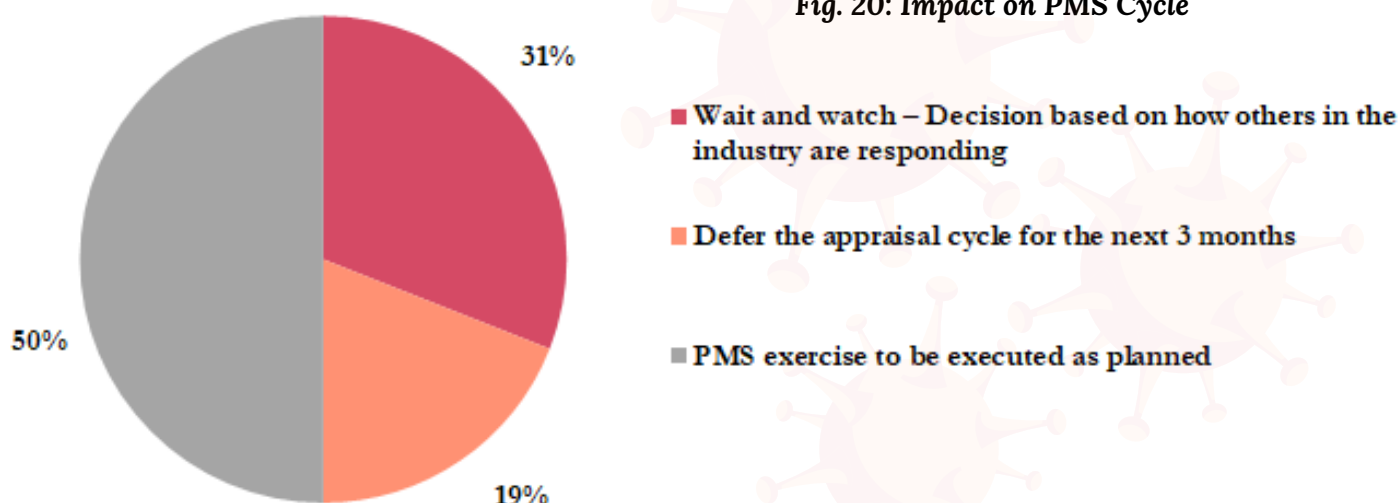
27% No change (minimal to no disruption)

IMPACT ON PERFORMANCE REVIEW

Due to the pandemic and its effects on the annual performance management and rewards exercise, it is no surprise that organizations of almost 19% respondents have deferred the appraisal cycle for 3 months, while another 31% are waiting to see how other organizations are responding. In our 2020 survey, 28% of respondents had reported the differing in the appraisal cycle which has reduced this year.

Fig. 20: Impact on PMS Cycle

31%
50%
19%

- Wait and watch – Decision based on how others in the industry are responding
- Defer the appraisal cycle for the next 3 months
- PMS exercise to be executed as planned

Fig. 21: Organization Size vs Impact on PMS

However, organizations of 50% respondents are seeking to continue with PMS exercise as planned. It is interesting to note that a large percent of Large organizations (66%) and Medium- size organizations (48%) is planning to execute PMS exercise as planned. It is even more interesting to see that 43% of the small organizations are also planning to execute PMS as planned. These numbers may be attributed to the fact that over an year since the pandemic hit, the organizations have adjusted to the new system and are better prepared now to execute their processes as before.
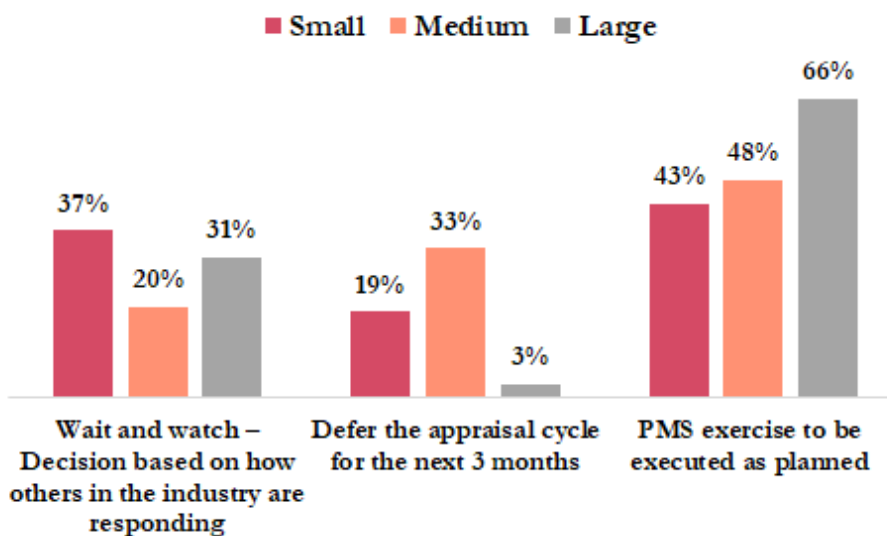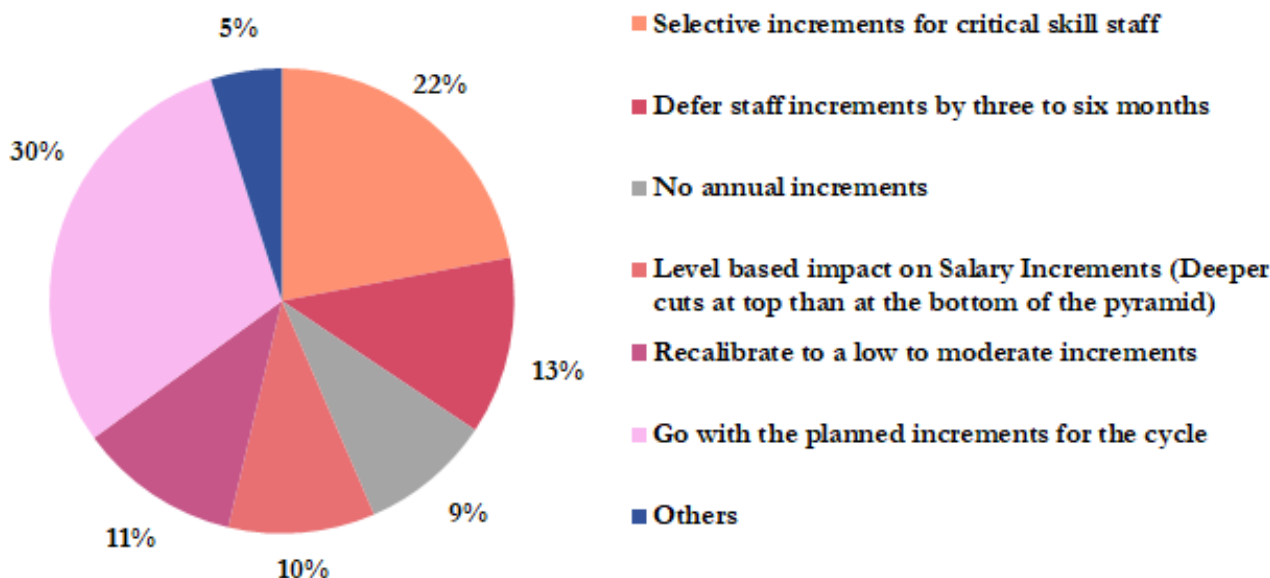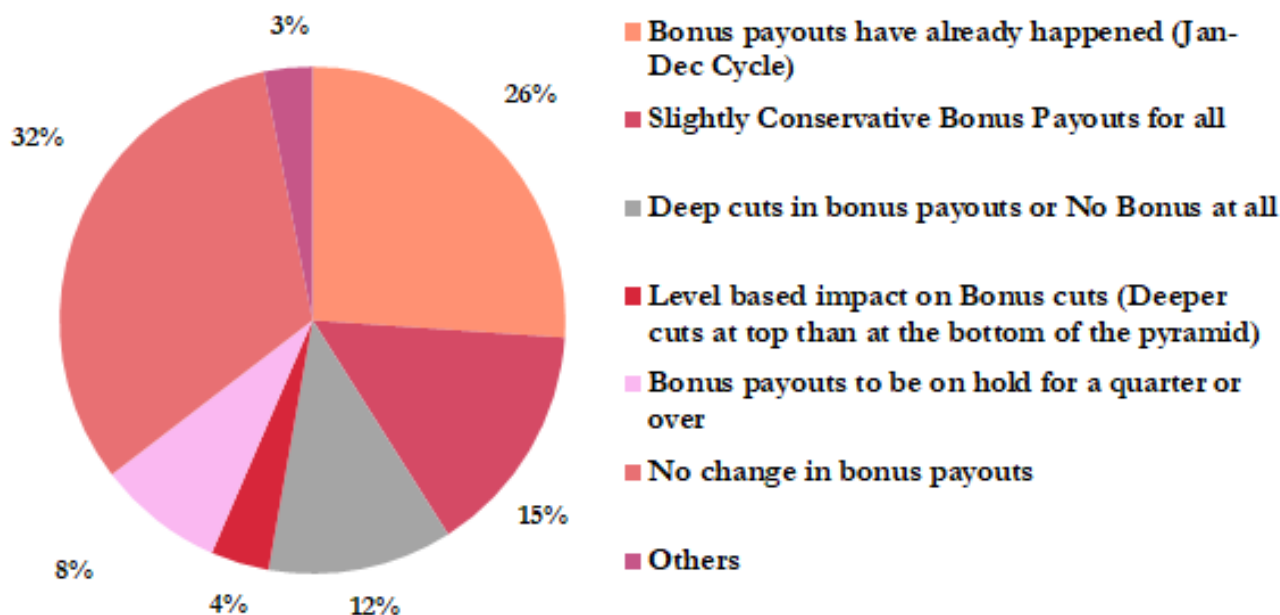

IMPACT ON REWARD COMPONENTS

Annual Increments

The survey shows highlights that the impact on the annual increments received by employees has been less as compared to 2020. 30% of respondents will get their annual increments as planned which is much larger than the 15% as seen in our 2020 survey.

About 9% of respondents will not get annual increments this year while this number was 28% in 2020, which is a steep fall. Only 13% of respondents are having their annual increments deferred by three to six months (while it was 19% in 2020).

*Fig. 21: Impact on Annual Increments*

Fig. 22: Impact on Bonus

- Bonus payouts have already happened (Jan-Dec Cycle)
- Slightly Conservative Bonus Payouts for all
- Deep cuts in bonus payouts or No Bonus at all
- Level based impact on Bonus cuts (Deeper cuts at top than at the bottom of the pyramid)
- Bonus payouts to be on hold for a quarter or over
- No change in bonus payouts
- Others

The survey shows that there is an impact on the payment of bonus as well. While 32% of respondents don't have a change in bonus payouts and 26% respondents have already received bonus payments, the rest have their bonuses on hold or have cuts in the bonus amount or are unsure of the company's decision on bonus payouts for the year. However, there is improvement seen in as compared to 2020 where the same figures were 24% and 16% respectively.

Fig. 23: Impact on Promotions

- Defer all promotions till situation is back to normal
- No impact on promotion decisions
- Other
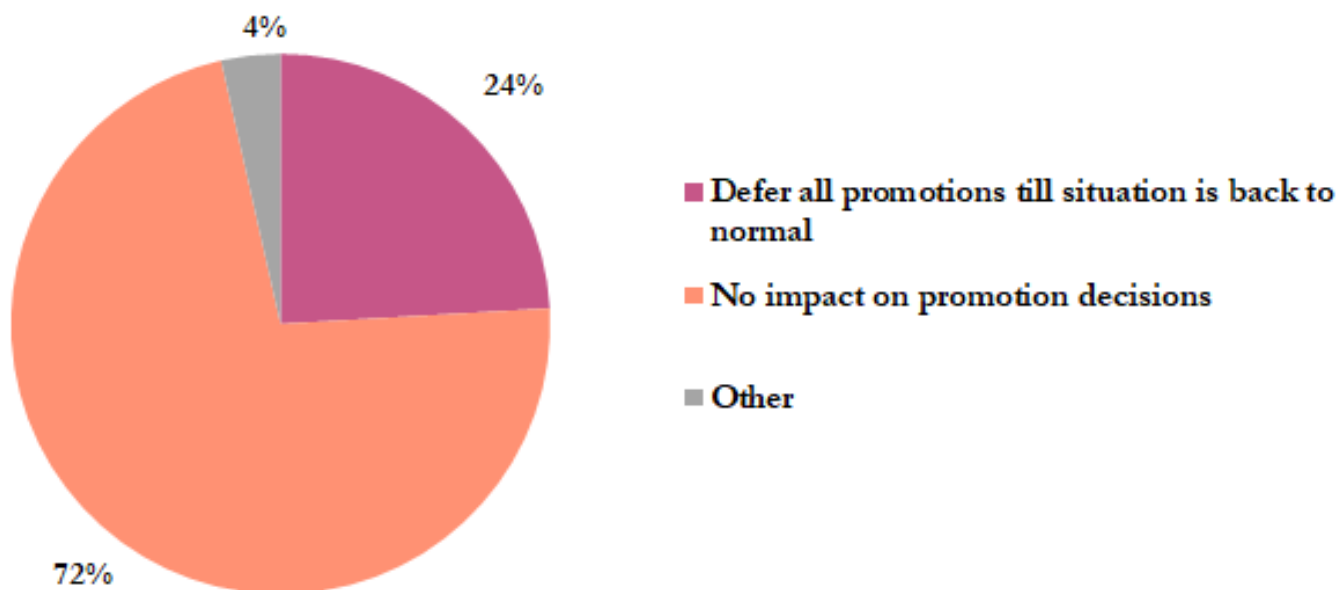
Promotions

The 2021 figures also show an improvement in the promotions as compared to 2020. 24% of respondents say that promotions are deferred till situations are normal (the same for 2020 being a whopping 50%).
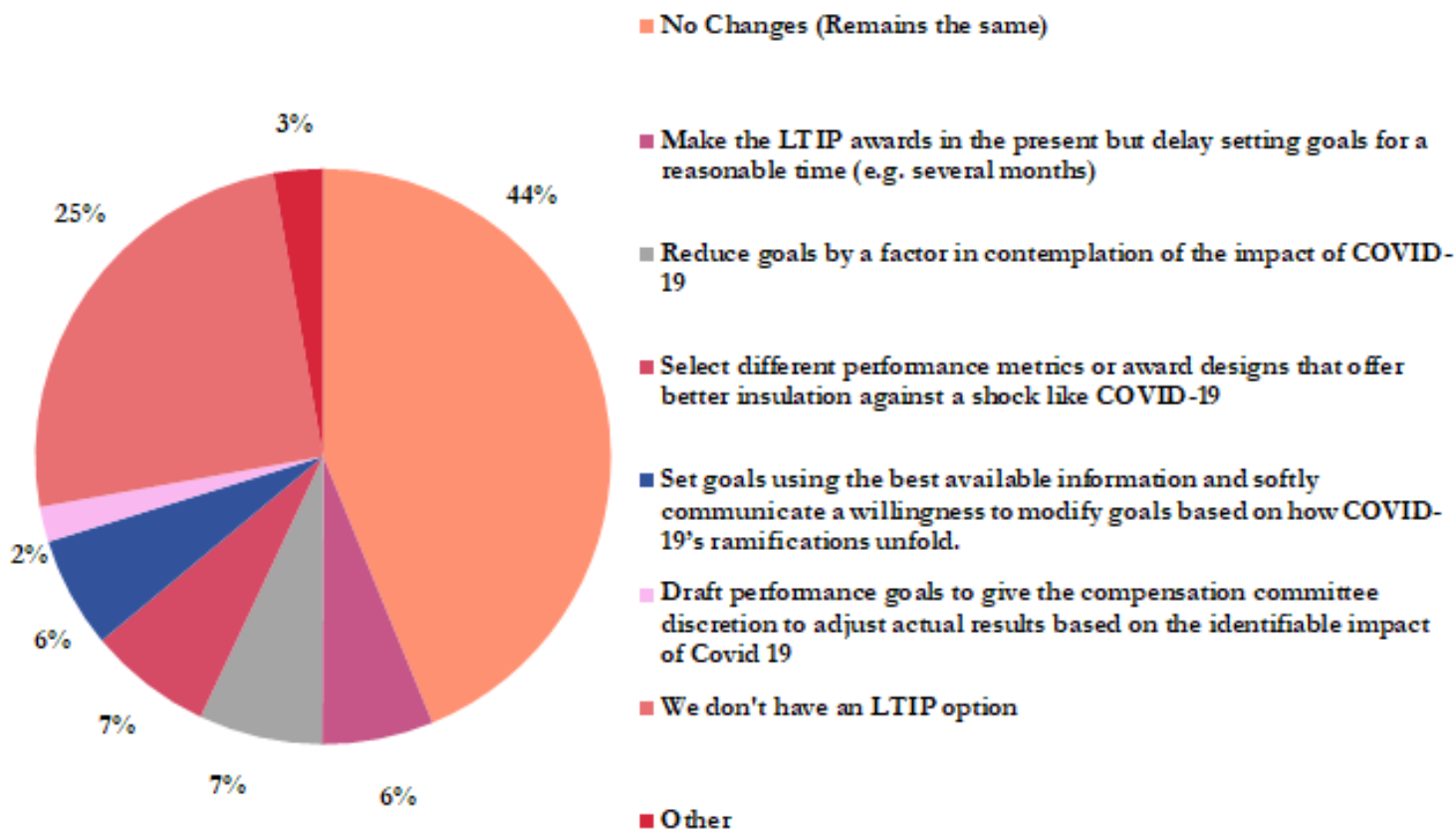
Only 4% of respondents are unsure as of now or said that promotions are given only in special cases
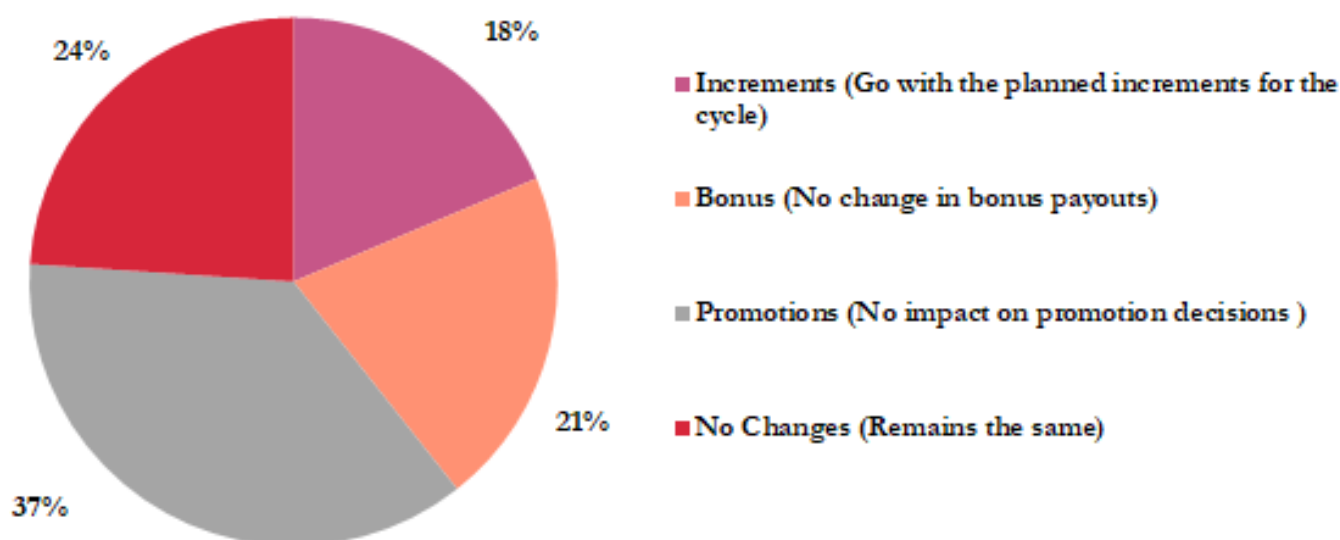
Long Term Incentive Programs (LTIP)

Even though, compared to other reward practices, LTIPs remain largely unaltered, with 44% of respondents faced no changes and 25% of respondents did not have an LTIP in the first place.

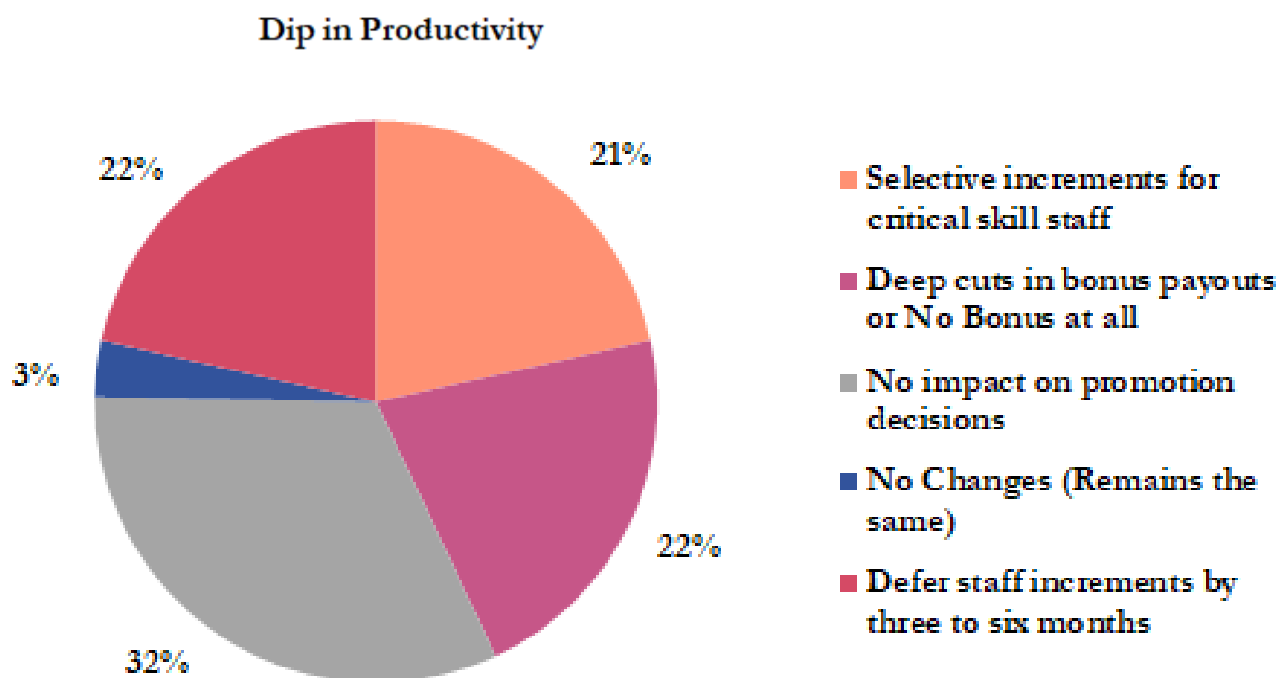**Fig. 24: *Impact on Long term incentive programs***

- No Changes (Remains the same)
- Make the LTIP awards in the present but delay setting goals for a reasonable time (e.g. several months)
- Reduce goals by a factor in contemplation of the impact of COVID-19
- Select different performance metrics or award designs that offer better insulation against a shock like COVID-19
- Set goals using the best available information and softly communicate a willingness to modify goals based on how COVID-19's ramifications unfold.
- Draft performance goals to give the compensation committee discretion to adjust actual results based on the identifiable impact of Covid 19
- We don't have an LTIP option
- Other

Fig. 25: Productivity enhancing drivers (Rewards Components)

Increase in Productivity

- Increments (Go with the planned increments for the cycle)
- Bonus (No change in bonus payouts)
- Promotions (No impact on promotion decisions)
- No Changes (Remains the same)

Fig 26: Dip in Productivity (Rewards Components)

Dip in Productivity

21%

22%

3%

32%

22%

- Selective increments for critical skill staff
- Deep cuts in bonus payouts or No Bonus at all
- No impact on promotion decisions
- No Changes (Remains the same)
- Defer staff increments by three to six months

Fig. 27: *PMS alignment with the changing nature of work (Remote work)*

Alignment of PMS

68% of respondents feel that their organization has aligned PMS to the changing nature of work and caters well with the remote working model. This is quite a remarkable figure considering the sudden shift in the nature of work and the challenging COVID-19 condition that is prevailing in the world. Such an unplanned situation has been tackled well by organizations even when a large part of their performance reviews used to depend on subjectivity. With remote working organizations have had to step up and make their PMS more objective and outcome-oriented.

32%

68%

- Yes
- No
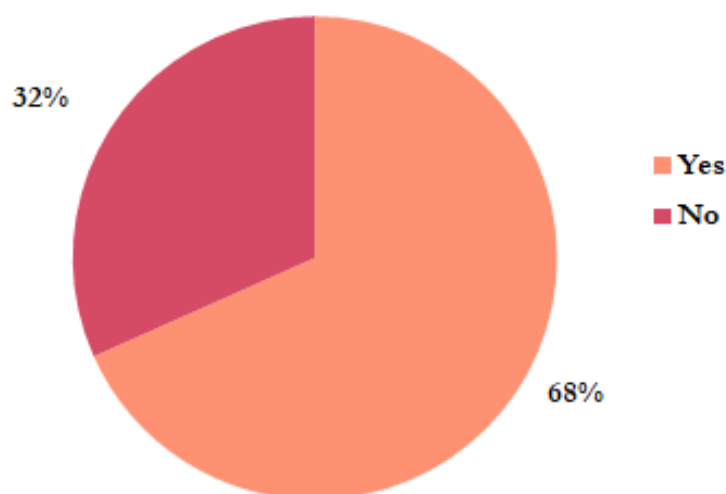
Our Point of View: With 'Back to Office' gaining momentum and offices planning to open again albeit in a hybrid model, the next challenge for organizations is to align their PMS in a way that both- the employees working in office and those working remotely are catered to and there is uniformity in the measurement of their performance.

CONCLUSION

With the world now slowly getting used to the new normal brought about by the pandemic, businesses have also aligned themselves to the new life after the initial shocks. With half of the respondents not satisfied and 68% of respondents wanting change in their Performance Management Systems, the need for improvements in PMS systems has become more important than ever in the wake of this unprecedented disruption.

As Performance Management Systems are a crucial part of an organization's journey, we believe that it is essential for organizations to leverage their potential benefits and reduce all impediments to the bare minimum. With the maximum percentage of respondents believing in the strategic importance of PMS systems, it is imperative that instead of looking at the PMS system as just a tool for performance appraisal, organizations should start to exploit the strategic benefits of Performance Management Systems. Organizations can look at accurate goal-setting, frequency of reviews, and a feedback mechanism for ensuring the goals of the PMS are met.

The performance management process starts with setting appropriate goals. These goals should drive the organization's strategy and balance an individual's career aspiration. It is proven that goals aligned with self-interest increase motivation to perform [6]. Research reveals that agile organizations need to have team goals along with individual goals [12]. Employees should understand how goals are set and how they are being evaluated. Keeping the performance management process transparent ensures that employees feel that they are being fairly evaluated and they trust the organization [13].

Now that pandemic has turned down business plans upside down, companies might be mindful to considering these pros and cons when setting new performance goals [14]:

1. Do nothing and continue as per the schedule

Pros:

- It is effortless and simple
- Performance goals already embed uncertainty; changes are not merited just because we now know the flavour of that uncertainty

Cons:

- Stretched goals embed bounded uncertainty linked to known strategies that may under-deliver or over-deliver. Unless specifically considered, global impacts are not factored into goals

2. Select different performance metrics or award designs that offer better insulation against an exogenous shock like COVID-19 and any ensuing recession

Pros:

It is an organic solution that gets to the root of the problem

It is a better story for participants who are naturally concerned with the awards they are receiving

Cons:

It is a potentially drastic decision in a relatively short amount of time

It may change the underlying incentives employees are accustomed to

3. Set goals using the best available information and softly communicate a willingness to modify goals based on how COVID-19's ramifications unfold

Pros:

When and if an adjustment is applied, it will be based on better information than what's available today

Cons:

It assumes that an objective method will exist to quantify the impact of COVID-19 when determining how to modify goals

Continuous feedback has been proven to have a positive impact on the performance of the employees [7]. As Fig. 11 shows, 68% of the respondents are ready to accept a continuous feedback system, whereas only

18% of the organizations have a daily or weekly feedback mechanism (Fig. 7). Not only is there a dearth in the number of feedback received, but also there are possible impediments to its quality. The survey suggests that there are areas where managers need to improve upon their quality of feedback like having difficult conversations, removing bias, etc. Frequent effective conversations by managers can go a long way in improving the engagement of employees in this time of remote working and high stress [15]. In our opinion, organizations should plan on introducing a continuous feedback mechanism and making the performance management process more transparent. Also, the feedback should focus on aspects like personality development and career planning for employees. Despite the shock from the pandemic, the gig economy is expected to rise in the coming years [16][17]. Future performance management systems should be able to incorporate this factor as around 41% [18] of the organizations around the world are giving importance to the alternative workforce. Emerging areas like Augmented Intelligence will disrupt the way our workforce will be working.

Interestingly, even though many employees are willing to accept changes that can improve the performance

management process, organizations are still shying away from implementing these changes. As we move towards a post- COVID era, it is time we look at the existing flaws of PMS systems and improve them to maximize organizational performance.

Most of the organizations have taken measures to deal with the impact caused by the pandemic.

About 27% of respondents say that their organization will modify the benefits plan to lay emphasis on the psychological impact of the crisis on employees [19].

It also matches with the Korn Ferry study which suggests that organizations are considering developing differentiated reward offerings to engage employees.

This pandemic and the related economic fallout have affected lives and businesses around the world like no other event in recent memory. Future of work demands taking the lessons learned during the response to the crisis and evolving our organizations.

REPORT OUTLINE

This report draws its findings and analysis from the State of Performance Management System survey conducted by Salto Dee Fe in July 2021. The majority of the respondents were from consulting and BFSI sector (18%), followed by IT/ITES (14%), Manufacturing (9%) and FMCG (5%).

Fig.28 :*Industry-wise Break of Respondents*
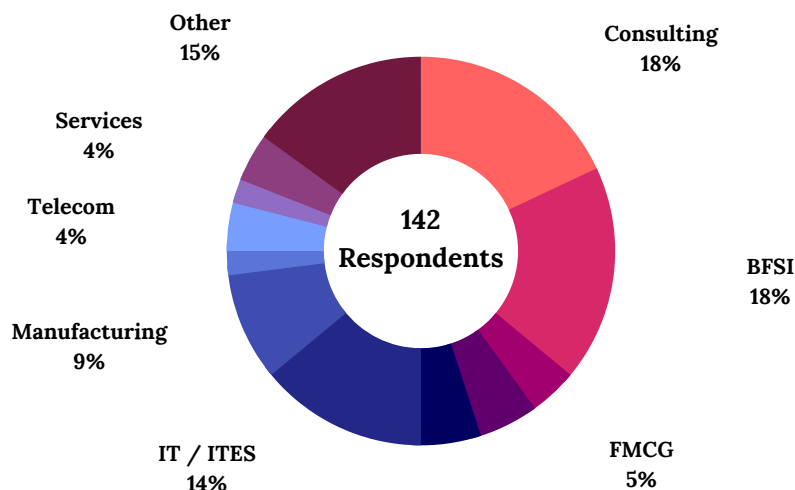
*Other industries include Healthcare, Transport & Logistics ,Real Estate

Fig.29 :*Role of Respondents*
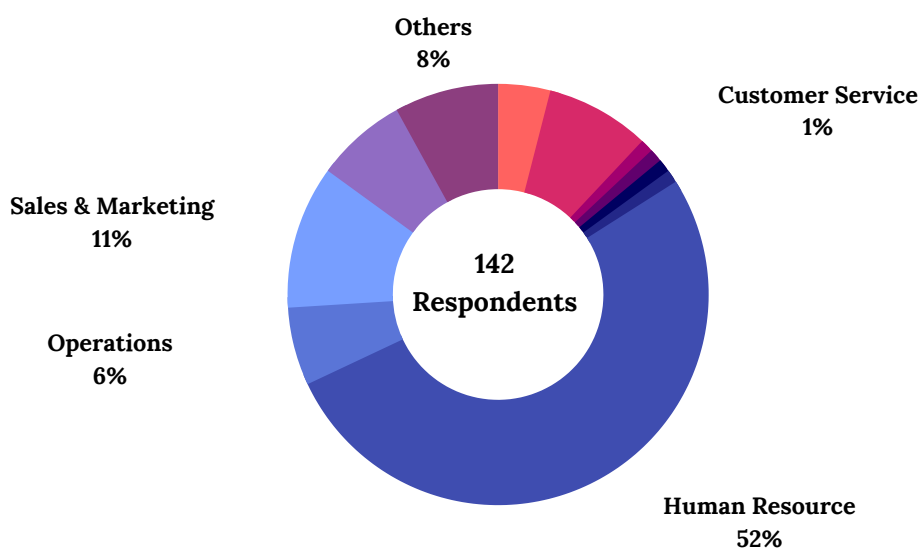
In terms of their roles, majority of the respondents were from Human Resources (52%), followed by Sales & Marketing (11%) and Operations (6%)

*Other roles and departments included: CEO, Finance and Controls, , Research, and Education.

DIMENSIONS OF THE SURVEY

The study tries to uncover various facets of performance management such as:

- Objectives and Effectiveness
- The Goal setting and Feedback process
- Impediments
- Possible areas of improvement

- Impact of Covid-19 on PMS
- PMS elements and Employee productivity
- Reward components and Employee productivity

We have also cut through our responses using the Generation or Age of respondents, Position in the organization, and Size of the organization.

DEMOGRAPHICS

Generational Diversity

- Baby Boomers: Born Before 1965 (7%)
- Generation X : Born between 1965 and 1979 (39%)
- Millennials   : Born between 1980 and 1999 (52%)
- Generation Z : Born after 2000 (2%)
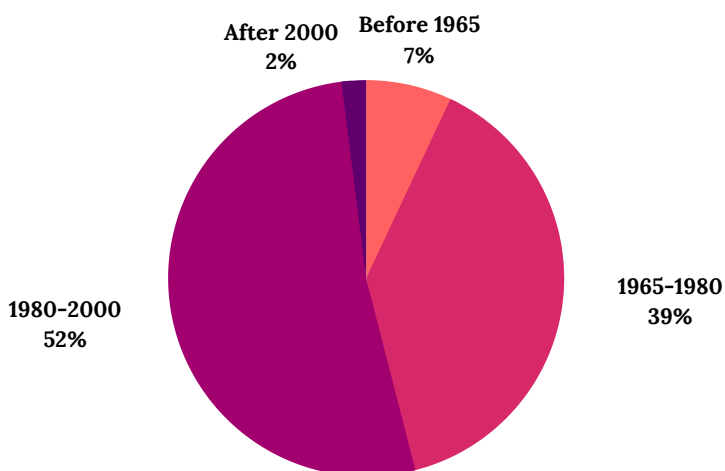
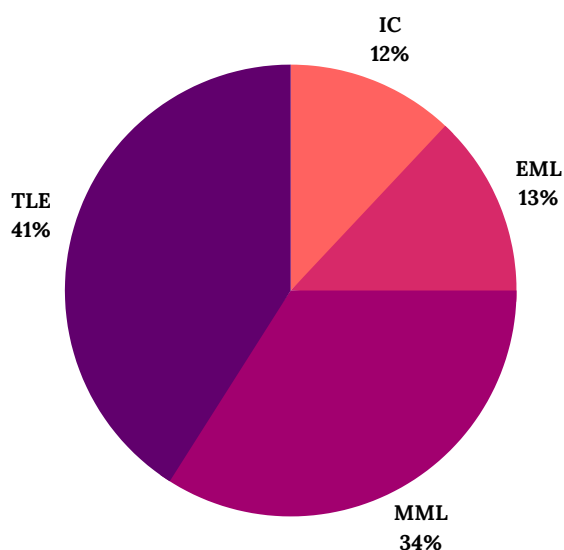*Fig. 30: Generational Diversity*

Fig. 31 : Organizational Level of Respondents

Organizational Level of Respondents

In terms of organizational roles of the respondents, the organizational levels were well balanced:

- 41% Top Level Executives (TLE)
- 34% Mid-Managerial Level (MML)
- 13% Entry-Managerial Level (EML)
- 12% Individual Contributors (IC)
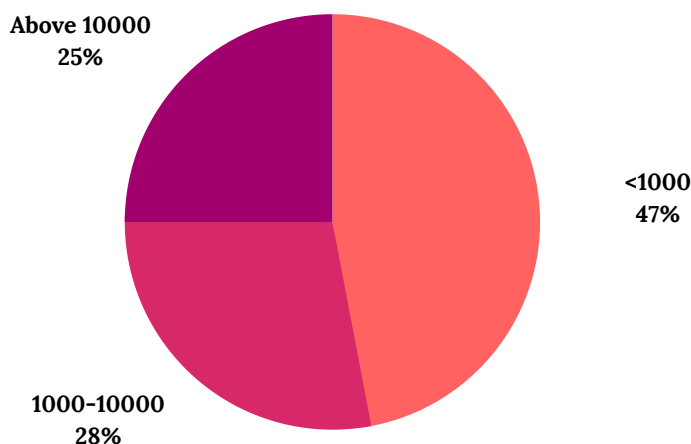
Fig. 32 : Employee Count

Size of the Organization

Based on the Employee count, the analysis was done basis 3 categories:

- Small: Less than 1000 Employees (47%)
- Mid-Size: Between 1000 and 10000 Employees (28%)
- Large: More than 10000 Employees (25%)

WE AT SALTO DEE FE HAVE HELPED OUR CLIENTS REALIGN AND REVAMP THEIR PERFORMANCE MANAGEMENT SYSTEMS

The case study below illustrates how SDF redesigned PMS process of a leading manufacturing company

Problem

A leading manufacturer, driven with the core vision of being customers No.1 supplier was feeling a need to revisit its PMS process.
This ushered the need to redesign the PMS process to bring improvements in Goal ignment, Performance Behavioural/Competency Assessment & Review process. The overarching objective was to draw clear & objective linkages between PMS outcomes and business performance. The PMS design needed to be tailor made to the organization's context and current business realities.

Approach

We assessed the current PMS practices and designed customized PMS process. With PMS rapid cycle design approach, we divided talent process into individual elements: Set Goals, Coach & review.
For competency assessment and deployment, we understood organization mission, vision and values, conducted interviews with high performers/potentials & supervisors, based on the analysis of interviews, we identified key behavioral indicators. Basis which-we created Competency Assessment scales – Progressive Descriptors across levels and integrated competency model into design of PMS system.

Outcome

- We Improved the process of Goal Setting and Cascaded – Clear linkages to business outcomes
- We strengthened the performance review & assessment process by enabling line managers and HR
- We promoted ongoing feedback & coaching conversations to enhance productivity and performance
- We established clear linkages of PMS outcomes to other Talent processes – Rewards, Promotions, Merit Increases etc.

The case study below illustrates how SDF leveraged Talent philosophy and success model approach to create a robust Talent Management Framework of a leading Insurance company

Problem

To implement a fresh approach towards Talent Management, our client wanted to streamline their Talent Management practices, including the Performance Management System.

Defining the Talent philosophy for the organization and creating Success model that be leveraged to create a robust Talent Management Framework for the organization.

Approach

For developing a Talent Philosophy and success model, we used Marc Effron's model which focuses on 5 areas: Performance, Behavior, Differentiation, Transparency and Accountability. Also gathered insights from the Leadership team by conducting Interviews, Focused Group Discussions with Champions, HR and Corporate leaders.

Rapid Cycle design process was used to divide the Talent Management processes into individual elements. For each of these elements, a range of choices was provided along with set of questions to facilitate the selection of choices.

Outcome

- The organization was able to identify key behaviors for success and the behaviors were categorized for Entry-level, Mid-level and Top-level management
- The organization was able to define linkages to monetary outcomes to behaviors displayed. They were also able to link long term and short-term incentive plans with this
- A strategy was in place to identify the ownership of key talent in the organization and define role fungibility and geographic mobility for their key talent
- A plan for managing High-Potential employees was defined. This included their identification, learning plan, career development plan and recognition

References

[1] Accenture: The journey to recovery and reinvention continues, retrieved on July 14, 2020,

https://www.accenture.com/ph-en/about/company/coronavirus-business-economic-impact.

[2] Korn Ferry- Crisis-proofing your talent processes, retrieved on July 20, 2020,

https://www.kornferry.com/content/dam/kornferry/special-project-images/coronavirus/crisis-proofing-talent-processes.pdf.

[3] M. Effron and M. Ort, One Page Talent Management, Harvard Business Press, 2010.

[4] P. J. Taylor and J. L. Pierce, "Effects of Introducing a Performance Management System on Employees' Subsequent Attitudes and Effort," Public Personnel Management Volume 28 No. 3, 1999.

[5] Salto Dee Fe Consulting, "State of Performance Management System in India," Gurugram, 2017.

[6] E. A. Locke and G. P. Latham, A theory of goal setting & task performance, Englewood Cliffs, NJ, US: Prentice-Hall, Inc., 1990.

[7] A. N. Kluger and A. DeNisi, "The effects of feedback interventions on performance: A historical review, a meta-analysis, and a preliminary feedback intervention theory.," Psychological bulletin, 119(2), 254., 1996.

[8] B. Marcus, "The Debate about Feedback isn't new," Harvard Business Review Volume 97 Issue 2, pp. 94-101, April-May 2019.

[9] E. A. Locke and G. P. Latham, "Building a practically useful theory of goal setting and task motivation: A 35-year odyssey.," American psychologist, 57(9), 705., 2002.

[10] S. Keller and M. Mary, Leading Organizations: Ten timeless truths, London: Bloomsbury Publishing Plc, 2017.

[11] Fond: How to Communicate with Millennials: 4 Rules for Delivering Constructive Feedback, 2019
 https://www.fond.co/blog/how-to-communicate-with-millennials/

[12] L. Darino, M. Sieberer, A. Vos and O. Williams, "Performance Management in Agile Organizations," April 2019. [Online]. Available: https://www.mckinsey.com/business-functions/organization/our-insights/performance-management-in-agile-organizations.

[13] Addressing the Impact of COVID-19 on Performance-Based Compensation, retrieved on August 25, 2020, https://www.equitymethods.com/articles/addressing-the-impact-of-covid-19-on-performance-based-compensation/.

[14] Gallup: Get Progress Reviews Right During COVID 19,

https://www.gallup.com/workplace/309965/progress-reviews-right-during-covid.aspx

[15] 3 challenges facing global gig economy growth after covid-19, retrieved on August 29, 2021,

https://www.weforum.org/agenda/2020/06/3-challenges-facing-global-gig-economy-growth-after-covid-19/.

[16] Deloitte's 'Future of Work Accelerated' report, retrieved on 28 August, 2021,

https://www2.deloitte.com/in/en/pages/human-capital/articles/in-hc-future-of-work-accelerated.html

[17] Deloitte, "Global Human Capital Trends," 2019.

[18] Optimizing Rewards in a Changing World, retrieved on 29 August, 2021,

https://www.kornferry.com/content/dam/kornferry/docs/pdfs/KF_REWARDS_Whitepaper_MH_V14.pdf

Acknowledgement

We would like to acknowledge our partner **Marc Effron, President, The Talent Strategy Group, New York** for his philosophy on OPTM and Talent Management He continuously inspires us by his succinct and scientific views on talent management. He has co-authored Harvard Business Review's bestselling book "One Page Talent management".

His second book with Harvard Business Review "8 Steps to High Performance" has been released in July 2018.

Rajan Kalia, Co-Founder, Salto Dee Fe and Karma Notes

Rajan currently consults, advises, coaches, and innovates in Human Resources. He has invented Karma Notes, a one-minute feedback mobile application, RF4, an employee retention tool and iEngage an employee engagement enterprise solution.

Successful in working at the intersection of Strategy & HR, he is an expert at Large Scale Transformation, Organization Development, Talent Management, Leadership Selection, Skilling and Mentoring International

Facilitator, Coach & Moderator:

Rajan is a moderator for Harvard Business Publishing and a coach with DDI, India and Stanford Seed. Rajan helps organizations with Leadership alignment and multiplying performances of Leadership Teams.

Rajan & SDF have now served 100 clients globally & in India.

About the Authors

Nitin Behki
Associate Partner

Nitin brings nearly 2 decades of relevant industry experience in HR & Operations Consulting. In the past, he has worked with PwC India, General Electric, Convergys and Integreon. His areas of expertise include Talent Management, Capability Development, Employee Engagement Retention and Project Management.

Gaatha Narang
Research Consultant

Gaatha is a doctorate in HR and Entrepreneurship from MDI, Gurgaon. Her areas of expertise include Total Rewards Mix, Employee Engagement, Wellbeing, and HRM in start-ups. She has more than two years of industry experience in India IT industry, 4 years of academic, and 5 years of research experience.

Harikrishnan T C
Analyst

Harikrishnan T C is an MBA in Human Resources and Marketing from the Indian Institute of Management Raipur.
Prior to his MBA, he holds 7 months of work experience with TATA ELXSI as an Engineer. At SDF, Harikrishnan T C has been working on projects related to Recruitment Process Outsourcing and Talent Management

Palak
Analyst

Palak is an MBA in Human Resource Management from the Indian Institute of Management Indore.
During her MBA, she had interned with Nestle India Ltd where she analyzed the Upward Feedback Survey data to generate insights for leadership development. She is certified in Hogan. At SDF, Palak has been working on projects related to Executive Search and Talent Management.

OUR PRODUCTS

iEngage
A jump start on Employee Engagement
Amplify Employee Engagement to create maximum business value at minimal cost by focusing on vital few priorities for change

Karma Notes
One minute feedback to improve performance
Build a feedback culture and enhance productivity and engagement while lowering time and cost, all through a mobile app.

OPTM 360
Fast and futuristic 360 degree feedback tool
Accelerate leaders' development by giving them easy-to-understand, prioritized advice for quickly changing their behaviors.

HR Team Effectiveness
A program to prepare HR members for the new world
Address key aspects of the mindset and capability requirements that are central to new age HR Business Partners.

Top Team Effectiveness
Focused on top team effectiveness and collaboration
Develop a highly effective top team and address the dynamics of the team while it attends to hard business issues.

8 Steps to High Performance
Building blocks for creating a high performing organization
Adopt a "science-based simplicity" approach to identify what matters most and optimally apply your time and effort to boost performance.

RF4
A one of its kind research-based retention tool
Work towards strengthening the weakest link in the engagement retention equation – The Manager-Subordinate relationship.

Hire To Succeed
A certification program in Behavioral Event Interviewing
Help managers & leaders master Behavioral Event Interviewing (BEI) skills and develop an understanding of how to integrate it in the selection and assessment process.

Talent Assessment Tools
A strategic partnership that allows you to up the ante on your Talent Assessments and Development efforts
A comprehensive set of solutions for your Talent Assessment, Development and Learning Centres.

Experience our cutting edge product suite that provides you with better, smarter and a faster way to build & engage talent. Our products are based on principles of simplicity, accountability and transparency with the aim of making talent management practices embarrassingly easy to execute for both HR and Line Managers alike.

OUR PRACTICES

We co-create bespoke solutions that are scientifically valid and simple to execute

ORGANIZATIONAL TRANSFORMATION

We seamlessly support the critical stages of business transformation for our clients by focusing on transforming mindsets of employees. We work with below the surface linkages of transformation- Values, Traits, Motives and Beliefs- to speed up the transformation journeys.

TALENT MANAGEMENT

In partnership with The Talent Strategy Group (Founded by Marc Effron, author of the Harvard Business published bestseller OPTM), we bring cutting edge talent solutions. These simplify processes to remove complexity, enforce accountability and drive transparency.

LEADERSHIP SKILLING

We bring over 120 years of experience & expertise in skilling executives to become effective business leaders. Our team members continuously work with Top Teams and work as facilitators for Harvard and Stanford in India and the Middle East.

EXECUTIVE SEARCH

We help firms make Great People Decisions with the objective of directly impacting their growth and align firm's Talent Acquisition goals with Business Objectives by driving a shift from a tactical, reactive process to a strategic program.

We have served 115 clients, 45% are second time clients and 25% are being served for the 3rd or 4th time

TYPICAL ASSIGNMENTS UNDERTAKEN

Talent Management for leading General Insurance organizations of the country

Hiring for leading Life Insurance organizations of the country

Talent Management for leading Life Insurance organizations of the country

Talent Management for leading General Insurance organizations of the country	Hiring for leading Life Insurance organizations of the country	Talent Management for leading Life Insurance organizations of the country
• Balance Scorecard • Compensation Restructuring • HR Policies & Process Design • Incentive & Recognition • Mission, vision and core values • Align Business & Sales Strategy Design • Organization Benchmarking & Cost Rationalization	• Talent Philosophy • Competency Mapping • Compensation Benchmarking • Level & Job Equivalence • Performance Management System Design • Potential, Performance and Succession Planning • Talent Management Framework	• HR for HR • Executive Coaching • Strategy Articulation • Top Team Effectiveness • HR Business Leadership Certification • Leadership Alignment Workshop • Talent Management Certification • Assessment Centres
		• Executive Search • Success Profiling • Interviewing Skills Workshop • Recruitment Process Design • Selection Process Outsourcing • Recruitment Process Outsourcing • Selection Methodology and Toolkit Design

SALTO DEE FE
Empower. Enable. Excel

For more insights on Performance Management Resdesign and Talent Management Practices, follow us on

🌐www.saltodeefe.com