Rethinking Performance for the
Digital Organization

Performance models driving organizational goal setting and performance evaluations from the top-down made good sense in the more predictable business environment of decades past.

The Performance Management System was relevant in the context of strategies seeking marketplace advantage through operational excellence and products or services that were better, cheaper and faster. Top-line KPIs were effective in explicitly dictating how a firm would achieve its goals and in defining how individuals would be measured for their yearly contributions, when trickled down through the organizational chart. And its hallmark annual assessment process provided clear-cut performance ratings yielding differentiated compensation.

New business context

But business today finds itself in a markedly different world. The exponential and combinatorial changes fueled by technology innovations are redefining what it means to be a high-performing organization. Less capital and labor-driven, the new digital organization is more knowledge-driven, with culture as its glue. Success today is predicated by core organizational capabilities - such as a pervasive digital-first mindset; agility and resilience; and bold, multidisciplinary experimentation - that are grounded in behavior change and impact virtually every element of business activity.

Not surprisingly, our decades-old performance models are largely insufficient in managing people to this new success criteria. Feedback provided twice annually in mid-year and year-end performance reviews is retroactive and misses the many opportunities to correct and inspire in-the-moment. The anxiety and competition that typically surround the annual review process swim entirely against the imperative for people to comfortably and openly engage in collaborative work. Below, we illustrate the degree to which Performance Management must transform to support the needs of the digital business.

Fundamental shifts in Performance Management

Leadership talking *about* people	Leadership talking *with* people
Rear-view mirror look once or twice yearly	Culture of feedback shaping performance real-time
Single rating, forced curve distribution	Discrete actions in-the-moment facilitating development
HR-managed	Leadership and employee practices engrained in work
Templatized	Individualized
Detailed targets by level & role	Targets by alignment to broader business objectives and values
Manager evaluation (potential for bias)	Company-wide dialogue (transparent, data-driven)
Designed to benefit the top (talent "margins", comp decisions)	Designed to benefit all

Redesigning Performance Management

Performance Management transformation isn't new; in fact, 79% of senior executives in 2017 rated its redesign a high priority[1]. Change efforts are underway, but we observe shortcomings in the context in which performance redesign is considered. As for all management systems responsible for enterprise change, Performance Management must rethink how it serves the business with behavior change at the epicenter of new organization models. It is insufficient to focus efforts "inward" on a new performance process, roles and responsibilities, tools and resources.

We offer a potentially more helpful lens that views the future organization operating in two dimensions: the "planned" organization, where conscious organizational and work design is conducted, and the "living", where the reality of what people do occurs (be it in accordance with, or in contrast to, planned work).

- The planned organization is driven by **strategy**, which informs needed **organizational capabilities** and new **operational and business design**. It is here that performance indicators originate – to what goals, values, and competencies do we assess ourselves against as a business? Organizational priorities inform measurement strategies and reward criteria.

- The daily activity of people that fuses skills, practices, relationships, activities, resources and technology is architected in **work design**. It's here where the performance of people is managed relative to work scenarios – e.g., the system that measures, assesses and rewards the appropriate human judgement that's applied alongside machine intelligence in decision making.

- Performance Management coordinates with other horizontal **management systems** that own enterprise change. For example, Performance pairs with Rewards & Recognition on human development to establish everyday practices that recognize and celebrate individual and team successes.

- New performance models shape **organizational behavior**, and ultimately, culture. Elements of the Performance Management System should seek to influence priority desired behaviors of the digital organization, such as divergent thinking, open peer-to-peer feedback, and the pursuit of diverse perspectives.

Forward-looking considerations

The digital age, while relatively new, is widely projected to bring macro-economic change with impacts impossible to predict. In preparation, to the extent that it's possible, it would be prudent to think about building resiliency into the new Performance Management system. Forward-looking ideas include:

- **Enabling real-time performance tuning with data & analytics**. This could include exposing personal performance metrics that give individuals the opportunity to self-correct and inform learning and development needs[2].

- **Anticipating the changing role of humans in work**. Performance Management should provide the right supporting mechanisms that "pull" people to participate productively (and ethically) in new work of the digital business.

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1. 2017 Deloitte Global Human Capital Trends

2. There Are Two Types of Performance — but Most Organizations Only Focus on One