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Article

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Talent management challenges during COVID-19 and beyond: Performance management to the rescue

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Abstract

The COVID-19 pandemic has resulted in significant talent management challenges including (a) hiring freezes and layoffs; (b) salary freezes, canceled bonuses, and pay reductions; (c) how work is done (i.e., teleworking); and (d) increased employee stress and burnout. Also, COVID-19 has made it evident that many organizations do not implement state-of-the-science performance management systems and, instead, have just performance appraisal systems that typically involve a once-a-year evaluation and review, little effort to provide feedback and coaching on an ongoing basis, little alignment between employee performance and the organization's strategic goals, a focus on past performance only, and ownership by the human resources function instead of those rating and being rated. Thus, the lack of value contributed by the usual performance evaluation and review process is the reason why so many organizations are postponing or even completely discontinuing performance evaluations. We argue that when implemented using evidence-based recommendations, performance management (rather than appraisal) serves important administrative, strategic and communication, developmental, organizational maintenance, and documentation purposes and therefore can be particularly useful in addressing contemporary talent management challenges. We offer five recommendations on how to adapt and improve performance management that will help organizations navigate crises like COVID-19 and, just as importantly, allow them to thrive after the crisis is over: (1) measure results in addition to behaviors, (2) measure adaptive performance, (3) conduct stay interviews to retain top performers, (4) implement a multisource performance management system, and (5) collect and use performance promoter scores.

JEL CLASSIFICATION: J5 Labor–Management Relations, Trade Unions, and Collective Bargaining; M1 Business Administration; M5 Personnel Economics

Keywords

COVID-19, talent management, employee development, leadership, performance management, performance measurement

Introduction

The global economy has contracted significantly due to the COVID-19 pandemic. During the second quarter of 2020, the U.S. economy dropped 35% compared to the same period of time last year (Reinicke, 2020), and the Eurozone economy decreased by 12.1% on average compared to the first quarter of the year. Spain experienced the largest drop at 18.5% (Amaro, 2020).

These financial hardships are affecting talent management in significant ways. First, many companies have

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implemented hiring freezes and layoffs. For example, as of the end of March 2020, 42% of companies in the United States and Canada froze or reduced hiring, while another 28% were considering doing so (Willis Towers Watson, 2020). In the United States, the leisure and hospitality industry lost 7.7 million jobs alone in April 2020, which represents 47% of total positions (Franck, 2020). Similarly, about 397,000 people across the European Union lost their jobs in April (Davies, 2020). Even industries traditionally perceived as secure such as high tech experienced unprecedented layoffs. In fact, tech companies in Silicon Valley have cut more than 40,000 jobs between March and May, 2020 (McBride & Cannon, 2020). In the United Kingdom and Europe, about 38% of tech companies have frozen most of their recruitment (Wauters, 2020).

As a second set of talent management challenges, many workers who are able to keep their jobs face pay freezes, canceled bonuses, and pay reductions. Globally, 29% of employers have implemented salary cuts, 42% a salary freeze, and 37% a bonus reduction (Korn Ferry, 2020). Across the world and in all industries, 67% of executives, 56% of middle managers, and 49% of professionals and supervisors experienced cuts in pay (Korn Ferry, 2020).

A third significant talent management challenge directly attributed to the pandemic is how work is done. Teleworking has become a norm for many employees, and as of May 2020, 76% of companies require that all or most employees work from home (McKinsey, 2020). Before the pandemic, only 5.4% of the workforce in the EU-27 countries regularly worked from home, and only 15% of the workforce had ever teleworked (European Commission, 2020). During the pandemic, it is estimated that about 25% of employment took place in sectors that were “teleworkable” (Fana et al., 2020). At a time when at least 62% of the workforce was working remotely (Brenan, 2020), employees did not have access to physical resources and equipment in the office as they used to. In addition, under teleworking, spontaneous interpersonal communication is reduced to a minimum; organizations need to rely on informal communication networks to disseminate knowledge, facilitate innovation, and increase productivity (Nonaka, 1994; Rogers, 1983).

Finally, the pandemic has exacerbated employee stress and burnout. In the United States, 45% of employees reported that they were burned out in May 2020. COVID-19 has contributed to this unusually high level of stress because of increased workloads (45%); the need to juggle personal and professional life (35%); lack of communication, feedback, and support (32%); increased time pressures (30%); and unclear and changing performance expectations (26%) (Eagle Hill Consulting, 2020). In addition, contrary to a commonly held belief, working from home can contribute to stress, which has a negative impact on employees’ wellbeing and performance (Al-Badarneh et al., 2019; Demerouti et al., 2014) and consequently, the

performance of the organization. The reason is that the reduced commute time and flexible hours are often canceled out by the expectation that more should be done with less. For example, before the pandemic, 66% of remote tech professionals believed they were burned out, compared to 64% of employees who went into an office daily (Swanner, 2019).

In summary, as organizations of all sizes and across industry types experienced significant revenue reductions and budget shortfalls, they faced monumental talent management challenges including hiring freezes and layoffs; salary freezes, canceled bonuses, and pay reductions; how work is done (i.e., teleworking); and increased employee stress and burnout. These are challenges that, to some extent, had already existed. But, they have been amplified as a result of the pandemic.

Performance management is a poorly understood and therefore often underutilized talent management function that can help organizations navigate crises such as the COVID-19 pandemic. Moreover, implementing evidence-based performance management practices can not only help address pandemic-related talent management challenges but also allow organizations to thrive after the pandemic is over. We address these issues in detail in the following.

Performance management: a poorly understood and often underutilized talent management function

Performance management is “a continuous process of identifying, measuring, and developing the performance of individuals and workgroups and aligning performance with the strategic goals of the organization” (Aguinis, 2019b, p. 8). Therefore, performance management is critical for talent management because it helps employees become more competent, committed, and motivated; facilitates organizational change; clarifies organizational goals; differentiates good from bad performers; and helps organizations make fairer and more appropriate administrative actions, which in turn protects organizations from lawsuits (Aguinis et al., 2011). Without a good performance management system, organizations are unable to make fair personnel decisions (e.g., layoffs, bonuses, pay raises, and promotions), effectively motivate and engage their employees, retain top talent, collect information to allocate resources appropriately, and address human resource disruptions (Aguinis, 2019a; Claus, 2019).

Due to its critical role, there is a vast scholarly literature on performance management—mostly originating in organizational behavior and human resource management, but also in other domains including psychology, accounting, information systems, public administration, marketing, health and human services, and adult learning (e.g., Aguinis, 2019a; DeNisi & Murphy, 2017; Farndale et al.,

2019; Schleicher et al., 2018). But, performance management is often equated incorrectly with performance appraisal and performance reviews (Aguinis et al., 2011). Performance appraisal is the measurement and description of an employee's strengths and weaknesses (Aguinis, 2019a), and it is just one component of performance management.

Several characteristics differentiate performance management from performance appraisal. First, performance management is an ongoing and continuous process, whereas performance appraisal involves typically just a once-a-year evaluation and review and little effort to provide feedback and coaching for improvement on an ongoing basis. So, although performance management is ongoing, it is the opposite of "policing" employees in a way that creates more stress and demands; rather, it is an ongoing conversation about performance and how supervisors and the organization can provide additional support when needed. In fact, we see performance management as a tool for ethical, humane, and responsible leadership because ongoing conversations about performance are also important for supervisors to learn whether employees may be overburdened, help them maintain a healthy work-life balance even when working from home, and become aware of personal circumstances that may be impeding performance. Second, performance management includes an alignment between employees' activities and outputs and the organization's strategic goals and, consequently, makes the employee's contribution to the organization explicit. Thus, performance management, in contrast to performance appraisal, is consistent with calls to embed talent management practices in its broader context (Thunnissen & Gallardo-Gallardo, 2019) and consider the interplay between macro and micro levels of talent systems (King & Vaiman, 2019). Third, performance management focuses on both performance in the past (performance appraisal) as well as performance in the future, using personal development plans in addition to incentives that align individual, unit, and organizational goals (Aguinis et al., 2013; Gomez-Mejia et al., 2015). Note that development plans are not just about the upcoming year. Rather, they address four related but different questions: (1) How can I continually learn and grow in the next year? (2) How can I do better in the future? (3) How can I avoid performance problems faced in the past? (4) Where am I now and where would I like to be in terms of my career path? (Orlando & Bank, 2016). Finally, the ownership of performance management lies within all participants of the process, including both raters (supervisors, peers) and ratees (employees), whereas performance appraisal is a function mostly owned by the human resource department (Aguinis et al., 2011).

Unfortunately, many organizations implement only performance appraisal instead of performance management. Although 83% of companies globally require employees to set performance goals, more than half of the individual

goals are set in a vacuum and without creating specific and concrete connections with the mission and vision of the employee's unit and the organization in general, which limits employees' understanding of how they contribute to the business (Mercer, 2019). Furthermore, the employees of only 2% of companies believe that their company has a culture that inspires frequent, detailed, and high-quality feedback. As a result, managers and employees see little value in the performance evaluation process. For example, among Fortune 1,000 companies, 95% of managers are not satisfied with their organizations' performance evaluation processes and 90% of HR professionals don't believe their companies' performance reviews provide accurate information (Meinert, 2015). Moreover, 66% of employees say performance reviews actually interfere with, instead of enhance, their productivity (Meinert, 2015). These beliefs are not entirely unfounded because it is difficult to measure performance reliably, validly, and fairly (Murphy, 2020). Also, even when performance is measured well, feedback is often not specific and useful in terms of improving performance in the future (Murphy, 2020).

Consequently, it is understandable that so many organizations see performance evaluations as a burden and that supervisors see them as "a box to check" so they can appease HR and move on to their "real jobs." The value of performance evaluation is especially questioned during a time of crisis such as COVID-19. As employees at all levels are pulled in different directions and tasked with doing more with less, time becomes one of the most valuable resources. Under normal circumstances, completing performance appraisal tasks takes a substantial amount of time, which is often considered to be an additional layer of burden to employees and managers on top of their many existing obligations (Aguinis & Burgi-Tian, 2021). During a crisis, when time is at a premium, many companies have decided to downgrade, delay, or even abandon performance evaluation all together. For example, Marygrove Awning Co. in Livonia, Michigan discarded most of the components of its performance reviews because as its CEO Mike Falahee put it: "After all, how can we review someone who can't do their job the way they're accustomed to doing it?" (O'Connell, 2020). Others have decided to simplify the performance evaluation system. Facebook, for example, has announced that all of its 45,000 full-time employees would receive the same "exceeding exception" in their first-quarter performance review in 2020 (Seetharaman, 2020).

Why performance management is ideally suited for addressing talent management challenges during crises and beyond

COVID-19 has made it evident that many organizations do not implement state-of-the-science performance management systems and, instead, have only performance appraisal

systems. The fact that so many organizations are choosing to demote, postpone, or discontinue performance evaluations clearly shows that those systems had very little value, were not playing a strategic role, and were not performance management systems but, rather, were mostly an administrative and burdensome requirement.

One reason for the underutilization of performance management is that its multiple purposes are often overlooked (Aguinis, 2019a). Specifically, in addition to the typical and known administrative purposes (e.g., promotion, salary, and other personnel decisions), performance management also serves other critical organizational goals. These are as follows: (1) communicating and reinforcing strategic priorities (i.e., strategic and communication purpose), (2) supporting employee development (i.e., developmental purpose), (3) planning and maintaining a high-quality workforce (i.e., organizational maintenance purpose), and (4) collecting information to support decision making (i.e., documentation purpose). So, if implemented following evidence-based practices, performance management is ideally suited to help organizations address many of the talent management challenges posed by a crisis like COVID-19. In fact, performance management can not only help organizations address talent management challenges during the crisis but, perhaps just as importantly, help them thrive after the crisis is over.

Performance management contributions

Aguinis (2019a) summarized 19 contributions that performance management makes to organizational effectiveness. In times of crisis, the following contributions are particularly relevant. First, performance management enhances extra-role behavior, also known as organizational citizenship behavior (OCB). OCB is discretionary behavior that contributes to the organization's overall effectiveness. Examples of OCB include volunteering to carry out activities that are not formally part of the job (e.g., suggesting organizational improvements, making constructive suggestions); helping and cooperating with others (e.g., assisting and helping coworkers and customers); and endorsing, supporting, and defending organizational objectives (e.g., organizational loyalty, representing the organization favorably to outsiders; Organ, 2018). During a time of crisis, OCB is especially important because employees are asked to contribute ideas to help the organization survive, and employees need to go out of their ways to use their talent, skills, networks, and innovativeness to do so. An evidence-based performance management system identifies and emphasizes these types of behaviors in addition to the formal tasks required by the employees' job descriptions, and actively measures, develops, and rewards these discretionary yet critical behaviors.

Second, at a time when telework is becoming the norm, employee engagement is crucially important to maintain productivity. An engaged employee is dedicated, enthusiastic, and empowered, which leads to innovation and engagement (Kremer et al., 2019). An effective performance management system enhances employee engagement because employees have a clear idea about performance expectations (Kakkar et al., 2020), which subsequently leads to increased job satisfaction and reduced turnover intentions (Kuvaas, 2006).

Third, a performance management system protects the organization from exposure to legal risks. When organizations are forced to lay off some employees as a result of economic difficulties, performance is one of the major factors to decide which employees will be let go. Without appropriate and accurate documentation on performance, including whether declines in performance may be due to physical or mental illness or other factors outside of an employee's control, decisions may lack transparency and be unfair. Companies might face lawsuits when former employees question termination decisions (Starner, 2020).

Fourth, an evidence-based performance management system enhances ambidextrous organizational learning (Diaz-Fernandez et al., 2017). Ambidextrous organizations simultaneously look forward to the future to explore new opportunities, while working diligently to exploit existing capabilities (O'Reilly & Tushman, 2004). Therefore, organizational ambidexterity leads to improved firm performance (Pertusa-Ortega & Molina-Azorin, 2018). In short, effective performance management facilitates the accumulation of human capital, thus positively impacting firm performance and profitability (Diaz-Fernandez et al., 2017).

Finally, performance management helps organizations clarify goals and strategic directions and, consequently, clarifies definitions and responsibilities of each job. As a result of COVID-19, many organizations were forced to change course by readjusting priorities, product lines, and services, and employees' job descriptions also shifted accordingly. Performance management systems provide a unique channel for companies to clearly communicate the strategic directions of the organization to employees and help employees understand why and how job roles need to be adjusted.

Adapting performance management to maximize positive outcomes during a crisis

During a crisis like the COVID-19 pandemic, performance management theory and principles still apply, but certain research-based adaptations are recommended to accommodate these particular circumstances and challenges. Next, we provide a description of research-based recommendations for organizations to consider, which we summarize in Table 1.

Table 1. Recommendations for Adapting Performance Management to Maximize Positive Outcomes During COVID-19, Other Crises, and Beyond.

| Recommendations | Implementation Guidelines |
|---|--|
| 1. Measure results in addition to behaviors because behaviors are no longer easily observable or accessible and there is usually more than one right way to do the job | Establish achievable, realistic, flexible, and fully communicated performance objectives |
| 2. Measure adaptive performance because employees' ability to learn quickly and innovate are critical for the survival of the organization | Measure eight adaptive performance dimensions: (1) handling emergencies and crisis situations, (2) handling work stress, (3) solving problems creatively, (4) dealing with uncertain and unpredictable work situations, (5) learning work tasks, technologies, and procedures, (6) demonstrating interpersonal adaptability, (7) demonstrating cultural adaptability, and (8) demonstrating physically oriented adaptability |
| 3. Conduct stay interviews to learn how to retain top performers because, to survive a crisis and gain and maintain a competitive advantage, it is important to retain top performers who make substantially more impactful contributions | Use performance review meetings to ask the following questions: "Why do you decide to stay here?" "What are you learning here and what do you want to learn?" "How can I best support you?" and "What do you look forward to each day?" |
| 4. Implement a multisource performance management system because it facilitates communication and feedback, and employees are less likely to become defensive when feedback originates from multiple sources | Collect performance data from peers, direct reports, partners, vendors, and customers, in addition to supervisors and employees themselves |
| 5. Collect and use Performance Promoter Scores (PPS) given the need for measures that are simple, concise, relevant, informative, comprehensive, and clear | Collect performance data on individuals and collectives (e.g., functional units, departments) by asking the following questions: "How likely is it that you would recommend working with [name of individual, workgroup, or unit] to a friend or a colleague?" "Why did you provide the rating that you provided?" and "What would it take to raise the score just by one point?" |

Measure results in addition to behaviors

There are two major approaches to measuring performance: results (i.e., outcome of employees' work activities) and behaviors (i.e., how employees conduct their work; Aguinis, 2019a). Many organizations use a combination of behaviors and results. There are several reasons to use behaviors to evaluate performance. For example, the link between behaviors and results might not be obvious, work outcomes might occur in the distant future, or results might be beyond the employees' control (Aguinis, 2019a).

However, during a crisis such as COVID-19 that has exacerbated telework and lack of spontaneous interactions between employees, organizations need to rely more on the results approach because behaviors are no longer easily observable or accessible, and there is usually more than one right way to do the job. As managers and employees discuss performance objectives, it is useful to consider the following issues. First, performance objectives should be achievable, taking full consideration of the challenging external environment as well as barriers that employees face when working from home. In other words, performance objectives should be realistic and under the control of the employees. In addition, objectives should be flexible and reviewed and updated more regularly than during normal times, and they should be adjusted as the organization changes course and strategic priorities. Third, objectives

should be communicated clearly and fully. This is particularly important because people are working from different places and do not interact with each other on a regular basis (Aguinis, 2019a).

Measure adaptive performance

Performance is a multidimensional construct and includes the following four types: (1) task performance (i.e., formal work activities usually included in job descriptions), (2) OCB (i.e., discretionary behaviors as described earlier), (3) counterproductive performance (i.e., behaviors that threaten the well-being of the organization and its employees), and (4) adaptive performance. Adaptive performance is particularly relevant during periods of crisis and rapid change because employees' ability to learn quickly and innovate are critical for the survival of the organization.

Adaptive performance includes the following eight dimensions: (1) handling emergencies and crisis situations, (2) handling work stress, (3) solving problems creatively, (4) dealing with uncertain and unpredictable work situations, (5) learning work tasks, technologies, and procedures, (6) demonstrating interpersonal adaptability, (7) demonstrating cultural adaptability, and (8) demonstrating physically oriented adaptability (Pulakos et al., 2000). When measuring task, OCB, and counterproductive performance becomes difficult, both during and after a crisis

such as COVID-19, adaptability becomes a critical skill that should be evaluated to determine the performance levels of the employees.

Conduct stay interviews to retain top performers

Employee performance usually follows a highly skewed distribution in which a small number of highly effective performers contribute significantly more than the majority of employees (Aguinis, 2014; Aguinis & Bradley, 2015; Murphy, 2020). To gain and maintain a competitive advantage to be able to survive the crisis, it is important to retain these top performers who make substantially more impactful contributions (Aguinis et al., 2012). To do so, the performance management system should include a stay interview. Stay interviews focus on discovering what makes star performers decide to stay in the organization and provide information that managers can use to implement actions that will retain them (Aguinis, 2019a). Questions during stay interviews include, “Why do you decide to stay here?” “What are you learning here and what do you want to learn?” “How can I best support you?” and “What do you look forward to each day?” (Finnegan, 2018). The stay interview is an important mechanism to create a positive and trusting relationship with top performers, to demonstrate that organizations care about their learning and growth, and for managers to develop personalized rewards and incentives that will motivate star performers to stay and remain motivated.

Implement a multisource performance management system

In most organizations, performance evaluations are completed only by managers and employees themselves (Mercer, 2019). In fact, fewer than 20% of employees are also evaluated by their teammates (Vozza, 2020). However, a multisource performance management system, also referred to as a 360 degree system, has multiple benefits to organizations during a crisis. A multisource feedback system includes performance data from peers, direct reports, partners, vendors, and customers, in addition to supervisors and employees themselves. It is most useful for developmental purposes (i.e., employee development rather than evaluation). When people are working remotely, a multisource performance feedback system helps employees communicate with each other and enhance their emotional attachment to the team and organization—including a sense of belongingness. In addition, when performance is not easily observable, input from more performance touchpoints is needed to provide in-depth perspectives on the employees’ strengths and weaknesses. Moreover, there are usually “undiscussables” or uncomfortable information that supervisors need to communicate with the employee. At a time when meeting in person is not possible, virtual

performance meetings become even more sensitive and difficult. A multisource system facilitates communication and feedback, because employees are less likely to become defensive when the feedback comes from multiple sources. The pandemic offered a unique opportunity to initiate a multisource feedback system to provide additional care and support for employees. It is likely that the implementation of such a system may uncover workplace disagreements and conflict resulting from the pandemic. But, the multisource feedback system would be simply the messenger. The alternatives of not even knowing what these disagreements may be are likely to cause even more damage in the long run.

Collect and use Performance Promoter Scores

Firms’ strategic directions are changing rapidly, time is constrained, situations are frequently out of control, and employee behaviors are difficult to observe due to remote working conditions. So, organizations need to adapt performance management and use measures that are simple, concise, relevant, informative, comprehensive, and clear. Expanding upon the well-established Net Promoter Score (NPS) measure in marketing, Aguinis and Burgi-Tian (2021) introduced the Performance Promoter Score (PPS), which is particularly useful to measure performance during crises. PPS consists of asking only a few simple but powerful questions: “How likely is it that you would recommend working with [name of individual, workgroup, or unit] to a friend or a colleague?” “Why did you provide the rating that you provided?” and “What would it take to raise the score just by one point?” PPS can be used to measure individuals (employees and managers alike), work groups, functional units, and organizations. Organizations should collect performance data from multiple sources, use PPS to support both administrative and developmental functions, and to provide more frequent performance check-ins than usual. Also, an advantage of PPS is that it can be used to measure the performance of individuals, but also the performance of groups and collectives of various sizes (e.g., functional units, departments). Accordingly, PPS can be used as a tool to also reward collectives in addition to individuals (Gomez-Mejia et al., 2015).

Conclusion

The revenue reductions and budget shortfalls caused by the COVID-19 crisis have resulted in significant talent management challenges. Under these difficult circumstances, many organizations have opted to downgrade and even completely abandon performance evaluations and reviews. The fact that these practices are being discontinued demonstrates that many organizations do not implement state-of-the-science performance management systems but, instead, just performance appraisal. In contrast, performance management is particularly suited to address the many talent

management challenges created by the COVID-19 crisis because it serves important administrative, strategic and communication, developmental, organizational maintenance, and documentation purposes. Specifically, we provided five evidence-based recommendations to address talent management challenges: (1) measure results in addition to behaviors, (2) measure adaptive performance, (3) conduct stay interviews to retain top performers, (4) implement multisource performance management systems, and (5) collect and use PPS (see Table 1). These evidence-based practices will not only help organizations address challenges during a crisis but also allow them to thrive after the crisis is over.

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