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# **Implement an IT Employee Performance Management System That Actually Works**

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## Implement an IT Employee Performance Management System That Actually Works

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Initiatives: CIO Leadership, Culture and People

For many organizations, performance management is essentially a “form-filling” exercise that has fallen into disrepute. CIOs can use this research to define the leading and lagging indicators that measure IT employee performance, as well as help the IT organization adapt to changing business needs.

### Overview

#### Key Findings

- Performance management (PM) systems tend to be overengineered, rendering them burdensome for IT managers to use. The result is a tick-the-box mentality that is ultimately counterproductive and does not achieve performance management objectives.
- Traditional IT employee PM is often focused on establishing performance measurements at the individual job level and neglects connecting to team and organization outcomes.
- Many IT employee PM processes and metrics are rigid and not designed to keep up with organizational change. This inhibits mindset and behavior changes that IT employees must adapt to fulfill evolving business needs.

#### Recommendations

CIOs seeking to improve their employee PM system should:

- Implement a two-step process that focuses on developing a continuous planning and execution cycle that engages employees throughout the process.
- Use quantitative and qualitative performance measures that link individual and team performance to business outcomes and results.

- Drive change in IT by evolving performance measures to include the individual behavior changes required to drive and embed change in everyday work.

## Strategic Planning Assumption

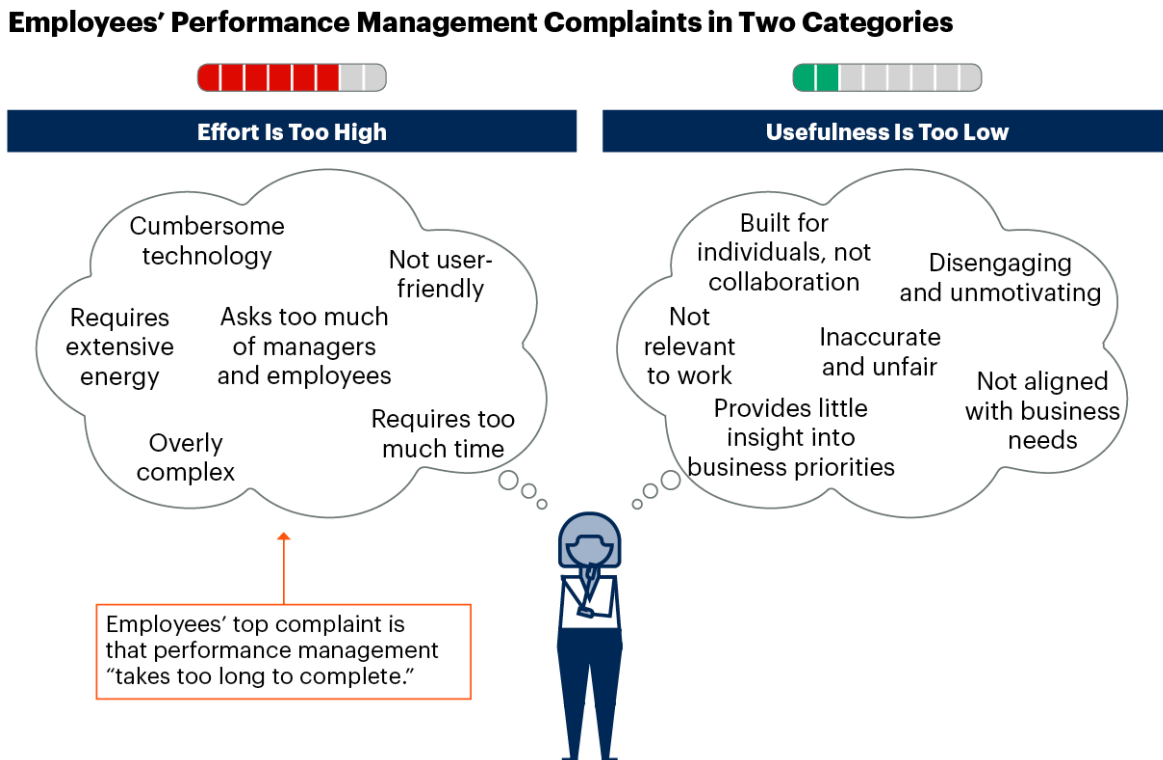
Organizations can see a 24% increase in workforce performance when performance management has high utility.

## Introduction

PM is often viewed as an HR process that both managers and employees consider to be a form-filling exercise that consumes unnecessary time and has little value (see Note 1). In fact, only 38% of HR leaders agree that PM keeps pace with business needs. <sup>1</sup>

Thus, although CIOs have been using the PM system as a management tool for decades, success with the system is minimal (see Figure 1).

**Figure 1: Managers' and Employees' Performance Management Perceptions**



Source: Gartner (2019)  
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CIOs are increasingly expected to assume leadership of high-impact initiatives. This expectation demands that CIOs revamp the IT employee PM system to support the changing business needs and the new ways of working. For example, with the move to remote and hybrid work, we have advised IT leaders to have shorter goals, so they can be able to properly measure outcomes without focusing their attention on presence.

Goal setting is typically an annual activity, but business needs are in constant flux, sometimes changing so frequently or so radically that employee goals become obsolete midway through the performance cycle. As such, it is important for CIOs to define and measure how IT can play a leading role in contributing to business outcomes and customer value.

The IT landscape is also constantly changing. For example, with IT services moving into the cloud or delivered through external sourcing models, most traditional IT operational metrics have become irrelevant to measuring the performance of retained IT teams. Whereas system availability used to be a primary key performance indicator (KPI) for measuring the performance of infrastructure staff, today it is often part of the SLA for measuring the performance of cloud vendor services. This is because internal staff roles have evolved from running the systems to managing services provided by the vendor staff.

This research describes best practices to help CIOs define the right mix of quantitative and qualitative (hard and soft) metrics to elevate the performance of the IT organization and link it appropriately to business outcomes. It also helps CIOs in ensuring that they have an employee performance management system that is easy to use, transparent and appropriately focused in place.

## Analysis

### Implement a Two-Step Process Focused on Continuous Planning and Execution

The two-step process starts with the **plan** step.

The key outcome of this step is for individuals and teams to have a shared vision of the overall business objectives. This helps minimize the need to stop and constantly reset expectations between individuals and teams, because any change in action will always link back to the goal of achieving desired business outcomes.

The first step is, therefore, to define and communicate the business objectives and performance expectations. This step should no longer be viewed as an HR formality that is completed and owned by managers, with input from individual employees as needed, but rather a collaborative process among managers/coaches, teams, individual staff members and other relevant stakeholders (for example, external service partners). The discussions held in this part of the process culminate in an agreement on what success looks like and consensus on how it will be measured.

These multidimensional planning discussions also provide individual employees the general guidance needed for:

- Adjusting their own courses of action
- Actively engaging with others in the achievement of team goals and the organization's business objectives

Employee-owned PM empowers employees to adapt PM to their needs, which leads to a 19% increase in utility of the PM process. <sup>1</sup>

The second step is to **execute** on the plan of action.

This step ensures everyone stays on course, dynamically tracks individual and team activities and monitors progress toward the agreed-on goals. Here, the execute step emphasizes the establishment of a continuous-engagement cycle that facilitates ongoing dialogue and feedback between individual employees, their teams and relevant stakeholders. To achieve this, CIOs and IT leaders can adopt the following three best practices:

**1. Establish and facilitate a performance-level-setting process, and empower individuals and teams to take ownership of the process.**

This is a key component of an effective PM system. Under a traditional PM system, the approach to objective setting is that performance objectives are individually focused, given by the manager to the employee and often well into the PM cycle. Anytime there is a need to change course, individuals need to go back to their managers and reset the expectations. This command-and-control approach is no longer suited for today's constantly evolving, complex and dynamic IT and business environments. The traditional alignment of objectives through a top-down cascading process will still be relevant. What's different is that employees not only need to know what is expected of them, but at the same time, have the flexibility and autonomy to adjust course and their actions in response to the changing demands of the business.

This makes it even more important to have each and every employee be familiar with the business and know how to measure success in business terms in a constantly evolving environment (see Video: The Art of Argumentation). In fact, once people know the ultimate desired business outcomes, they should then be empowered and motivated to change their focus and activities as needed, respond to ever-changing business demands and make the best contributions in their given roles wherever possible.

Establishing objectives in a timely manner (and readjusting as needed) is critical to providing guidance to employees on priorities and focus. Not doing so is like taking a drive in a car without knowing where you want to go – it may be enjoyable, but it may not have a meaningful outcome.

## **2. Provide meaningful and timely feedback on progress toward objectives.**

As shown in Figure 1, the employee engagement cycle lives throughout the PM process. At every point, managers are continually keeping a sharp focus on the engagement of employees. Feedback can be collected in a number of ways to ensure its timeliness and meaningfulness. Informal checkpoints embedded in day-to-day management practices will be key to changing employees' perception of traditional PM systems as merely a formality that adds no value to individual and team performance.

While managers will no longer have sole ownership of the PM process, they play an even more important role in ongoing enhancement of the PM process and employee engagement. Managers take time out to intervene and address any concerns at the individual or team level on the spot when needed; to remove barriers and reset expectations as required; and to provide coaching, feedback and recognition to reinforce desired behaviors within and across teams.

Formal review meetings will still be necessary at the organizational level. As in the traditional PM system, managers generally should hold these meetings twice a year (midyear and at the end of the year) to discuss, measure and document actual achievement in performance against expectations. In a recent Gartner survey, nearly all respondent organizations (92%) formally evaluate performance, with the most common cadence being once per year (55%), followed by twice per year (28%).<sup>2</sup>

Ideally, with ongoing dialogue, feedback and recognition practices, there should be no surprises in what is shared in these formal meetings. The key purpose of these formal reviews is to reflect on the aggregated progress across teams and the organization as a whole for the performance period. It's also to determine if any major course corrections at the organizational level are needed to ensure the achievement of the end goal.

This is also the time during which the management team can further enhance employees' engagement in the process by highlighting successes to date and reinforcing desired behaviors going forward. It is strongly recommended that performance discussions are held separately from those for career development purposes. The PM process is about what managers can do and have done (past), while the career development process focuses on what managers need to do for the future. While PM and career development are separated because they have different purposes, there needs to be a proper integration between both, as well as recognition and reward or compensation programs, to ensure optimal effectiveness for all.

### **3. Adopt social and gamification approaches to engage individuals and teams, and to motivate and reinforce behavioral change.**

Although some performance feedback may continue to be channeled through formal, regular review meetings, for organizations to achieve agility in today's constantly evolving business and IT environments, individuals and teams need and want new forms or mechanisms for exchanging just-in-time feedback. A social recognition system provides a platform for sharing feedback, recognizing star performers and reinforcing positive change in the behaviors of self and others.

Gamification techniques apply game mechanics and experience design to engage and motivate employees to achieve their goals, while shifting rewards for performance from extrinsic motives (for example, compensation) to intrinsic motives (for example, self-satisfaction gained from accomplishing a difficult task). Gamification also creates a real-time feedback loop that reinforces the desired behaviors of individuals and teams in pursuit of desirable outcomes. CIOs and IT leaders should research the opportunity to incorporate gamification mechanisms into their PM systems.

## Use Quantitative and Qualitative Performance Measures to Link Individual and Team Performance to Business Outcomes and Results

The value of IT is its ability to improve and support business performance. However, one of the most significant challenges in the design of a PM system is how to determine what good performance looks like and how to come to an agreement on what the true measures of success are. Often, the focus of many traditional PM systems is on quantitative measures. These typically focus on IT operational efficiency and productivity, simply because these are easier to identify and track.

High-performing organizations, on the other hand, use a blend of quantitative and qualitative measures. The qualitative or soft measures are behavioral competencies, which are referred to as the “how” (the way things are done) versus the “what” (the things that are done). Furthermore, high-performing organizations emphasize the “what” by linking to business results and showing the real business value that IT can bring to the enterprise.

There is an abundance of ways to define and measure success. However, too often, PM processes suffer from ineffectiveness due to the following pitfalls:

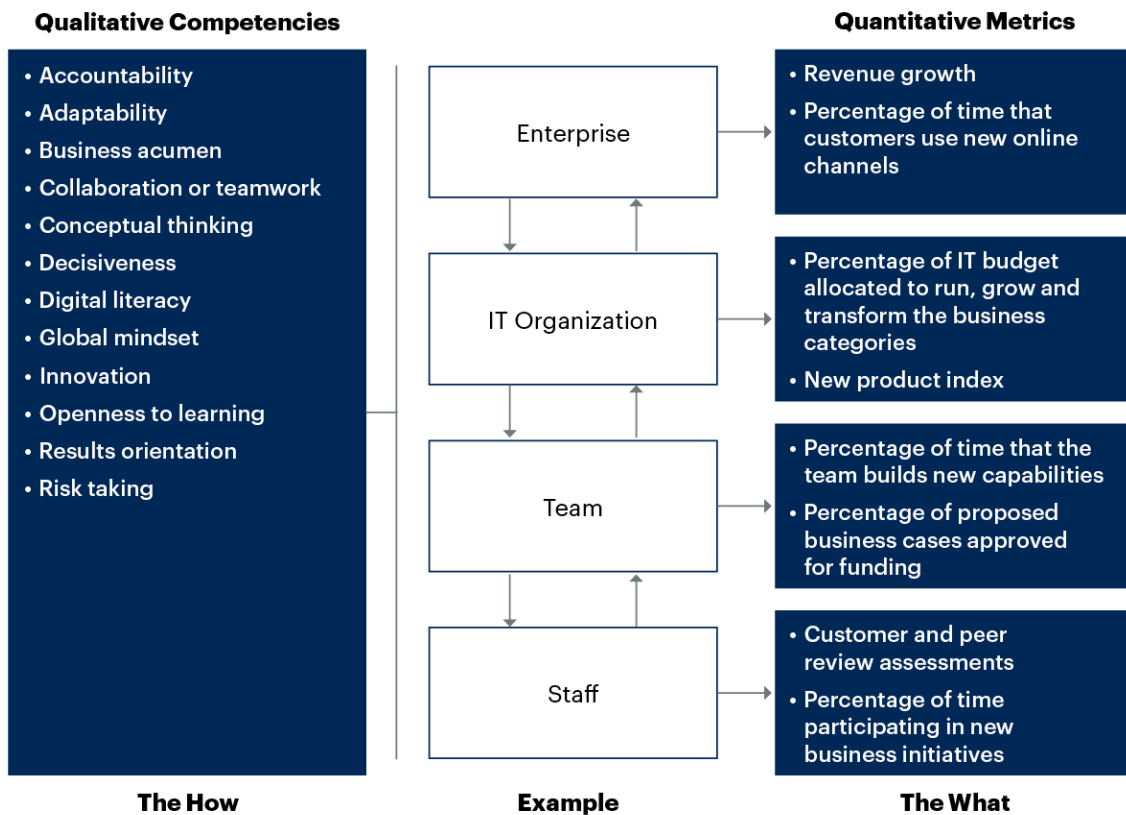
1. Objectives and success measures are not set and communicated in a timely manner or at all.
2. Employees don't have a clear line of sight into how their achievement of their goals contributes to the overall achievement of business outcomes.
3. Employees are measured only on the “what” and not the “how.”

To become agile and responsive to business change, CIOs and their IT organizations must shift the focus from simply optimizing IT operations to aligning IT and the entire enterprise to business outcomes and business value. The language used in setting IT performance expectations, delivering and communicating results must be a language that the business understands.

Figure 2 illustrates an example of how to use a combination of quantitative and qualitative measures (hard and soft) at different organizational levels to link performance to generation of customer value and financial business outcomes.

Figure 2: Aligned Performance Objectives and Success Measures

**Aligned Performance Objectives and Success Measures**



Source: Gartner  
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Directly linking IT performance and measures to business performance and measures will be paramount to demonstrating the role of IT, its contribution and impact on business transformation. In hypernetworked enterprises, high-performing teams are constantly formed across boundaries, disciplines and distance. They are the enabling forces that drive innovation and new business value creation through technology.

**Drive Change in IT by Evolving Performance Measures to Include Behavior Changes**

CIOs and their IT organizations need both the individuals and the teams to acquire and demonstrate new behaviors, such as adaptability, collaboration or teamwork, and business acumen.

The challenge, though, is that performance management starts with the individual employee. However, PM systems also need to define, motivate and reinforce behaviors and performances that are team-oriented in order to support a dynamic, hypernetworked environment across IT and business. Individuals and teams need to understand and agree on what good and bad performance looks like. There must be consistency and integrity in the process of selecting criteria for measuring performance across individual, team and overall organizational levels.

Table 1 presents a list of sample measures for key IT functions. It is often relatively easier to define and establish quantitative, hard metrics. When it comes to qualitative, soft measures such as those that are behavioral-competency-based, CIOs should consider using a sliding scale (for example, 1 = being developed to 5 = expert), and ensure the performance scale provides a specific behavioral descriptor at each defined level of performance (see Note 2).

Table 1: Sample Performance Measures for Key IT Functions

Function	Result-Oriented Quantitative Measures	Behavior-Oriented Qualitative Measures
Application development and support	<ul style="list-style-type: none"> <li>Cost per function point developed/supported</li> <li>Business feature costs</li> <li>Cost of change/release</li> <li>Customer lead time</li> <li>Cycle time</li> <li>Mean time to detect an incident</li> <li>Mean time to resolve an incident</li> <li>Number and severity of defects</li> <li>Planned story points vs. Delivered story points per sprint</li> <li>Release cadence</li> <li>Revenue as a percentage of the project budget</li> <li>Variance to budget</li> <li>Variance to schedule</li> <li>Earned business value of a internally viable product/marketable feature</li> <li>Return on investment</li> <li>Customer satisfaction (for example, delivery on customer expectations, meeting business needs and achieving overall satisfaction)</li> <li>Progression on Gartner IT Score maturity level</li> </ul>	<ul style="list-style-type: none"> <li>Adaptability</li> <li>Accountability</li> <li>Business acumen</li> <li>Conceptual thinking</li> <li>Collaboration/energy</li> <li>Customer focus</li> <li>Design thinking</li> <li>Growth mindset</li> <li>Innovative</li> </ul>
Business intelligence and analytics	<ul style="list-style-type: none"> <li>Lower total cost of ownership through efficient use of technology</li> <li>Level of quality and support in the use of information and analysis in making decisions</li> <li>Business agility and scale (for example, reduced customer/line operational costs and increase in new product speed to market)</li> <li>User engagement and satisfaction</li> <li>Reduction of human errors</li> <li>Progression on Gartner IT Score maturity level</li> </ul>	<ul style="list-style-type: none"> <li>Business acumen</li> <li>Customer focus</li> <li>Conceptual thinking</li> <li>Consulting</li> <li>Change advocate</li> <li>Creativity</li> <li>Design thinking</li> <li>Growth mindset</li> <li>Information seeking</li> <li>Innovative</li> <li>Problem solving</li> <li>Process orientation</li> </ul>
Business relationship management	<ul style="list-style-type: none"> <li>Project execution based on time and budget</li> <li>Project outcomes – The degree to which we met, such as revenue, cost reduction, cycle time improvement and speed to market</li> <li>Return on investment – Ability to anticipate IT resource demands and improve IT cost management</li> <li>Stakeholder satisfaction – Based on quantitative surveys of users and technology leaders</li> <li>Customer satisfaction based on responsiveness, collaboration, credibility and communication skills</li> <li>Ability to engage and manage complex relationships</li> </ul>	<ul style="list-style-type: none"> <li>Building relationships</li> <li>Business acumen</li> <li>Change advocate</li> <li>Communications for results</li> <li>Consulting</li> <li>Influencing others</li> <li>Innovative</li> <li>Outcome-driven</li> <li>Political savvyness</li> <li>Risk taking</li> <li>Strategic thinking</li> </ul>
Enterprise architecture (EA)	<ul style="list-style-type: none"> <li>EA compliance on audits and design principles at project submission, project funding and project completion</li> <li>Percentage of projects in EA compliance</li> <li>Opportunity costs lost due to non-compliance</li> <li>Customer satisfaction</li> <li>Translating customer or business needs into high-value products and services</li> <li>Year-over-year revenue growth</li> <li>Introduce product or service development</li> <li>Progression on Gartner IT Score maturity level</li> </ul>	<ul style="list-style-type: none"> <li>Adaptability</li> <li>Business relationships</li> <li>Business acumen</li> <li>Change advocate</li> <li>Consulting</li> <li>Decisiveness</li> <li>Design thinking</li> <li>Outcome-driven</li> <li>Strategic thinking</li> </ul>
Infrastructure and operations	<ul style="list-style-type: none"> <li>Number of false incidents with business impact</li> <li>Number of critical production software defects identified</li> <li>Percentage of software releases deployed on time</li> <li>Percentage of IT spending allocated to delivering new capabilities</li> <li>Mean time to resolve</li> <li>Tickets opened or closed by time period</li> <li>Average talk time</li> <li>Technical escalations</li> <li>Cost per incident</li> <li>Call abandonment rate</li> <li>Transactional customer satisfaction</li> <li>Employee satisfaction</li> <li>Progression on Gartner IT Score maturity level</li> </ul>	<ul style="list-style-type: none"> <li>Adaptability</li> <li>Accountability</li> <li>Business acumen</li> <li>Collaboration/energy</li> <li>Customer focus</li> <li>Growth mindset</li> <li>Innovative</li> <li>Process orientation</li> <li>Risk management</li> <li>Outcome-driven</li> </ul>
PMO	<ul style="list-style-type: none"> <li>Project aligns with corporate strategy and goals</li> <li>Revenue growth</li> <li>Cost saving to the company</li> <li>Return on investment</li> <li>Compliance and regulatory requirements</li> <li>Competitive differentiation to the enterprise</li> <li>Market share</li> <li>Progression on Gartner IT Score maturity level</li> </ul>	<ul style="list-style-type: none"> <li>Adaptability</li> <li>Business acumen</li> <li>Building relationships</li> <li>Change advocate</li> <li>Communications for results</li> <li>Customer focus</li> <li>Decisiveness</li> <li>Organization and planning</li> <li>Political savvyness</li> <li>Risk taking</li> <li>Team leadership</li> </ul>

Source: Gartner (December 2017)

To drive effective performance management and change in IT, PM must be integrated with and supported by career development programs (for example, training, coaching and mentoring) to address current gaps in skills and competencies that affect performance. PM must also build new capabilities for enhancing future workforce performance and business outcomes.

The old adage that, “You get what you reward,” still remains true. Reward programs must also put a greater emphasis on motivating team success and improving the alignment and engagement of individuals at the local team level. The centrally controlled one-size-fits-all approaches to reward systems will no longer be able to effectively differentiate the diverse needs of employees, workgroups and teams in the hypernetworked digital business environment today and tomorrow.

## Evidence

<sup>1</sup> Performance Management That Delivers

<sup>2</sup> Performance Management Benchmarks: Performance Evaluations

## Note 1

In the context of this research, performance management is specifically referring to IT employees. With that context in mind, PM is defined as a systematic approach for managing individuals and/or groups that involves planning, monitoring, appraising, rewarding and improving performance in support of the business strategy.

## Note 2: Example of Demonstrated Competency Proficiency at a Selected Level

An example of being developed (Level 1) in teamwork means, “Participates willingly by supporting team decisions, assisting other team members, and doing his or her share of the work to meet goals and deadlines. Informs other team members about client-related decisions, group processes, individual actions or influencing events. Shares all relevant and useful information.”

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