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Rebooting Work for a Digital Era

How IBM Reimagined Talent and Performance Management

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In 2015, IBM was in the midst of a tremendous business transformation. Its revenue model had been disrupted by new technology and was shifting toward artificial intelligence and hybrid cloud services. To increase its rate and pace of innovation, the company was rapidly changing its approach to getting work done. New, agile ways of working together with new workforce skills were required to accomplish its portfolio shift. But standing in the way was an outdated performance management (PM) system employees did not trust. Diane Gherson, chief human resources officer and senior vice president of human resources, recognized that IBM’s approach to performance management would need to be entirely reimagined before the organization could fully engage its people in the business transformation.

Gherson says the performance management system then in place followed a traditional approach, one that revolved around a yearlong cycle and relied on ratings and annual reviews. “You’d write in all your goals at the beginning of the year, and at the end of the year, your manager would give you feedback and write a short blurb and then give you your rating,” she says.

That approach was “holding us back,” Gherson says. “The massive transformation meant we were shifting pretty dramatically into new spaces and doing work really differently. Whereas efficiency was very important in the prior business model, innovation and speed had become really important in the new business model. And when you’re trying to make that kind of a fundamental shift, it’s important, obviously, to bring your employees along with you.”

Gherson knew from employee roundtables and surveys that IBMers didn’t have confidence or trust in the existing PM system. This view was at odds with the views of other senior leaders, who felt the system in place was working well from their perspective.
It took Gherson more than a year to convince her peers in senior leadership that IBM’s digital transformation would not succeed without higher levels of employee engagement, and that meant focusing on the existing PM system. Eventually she won them over. As for the traditional PM system that was holding the company back? “We threw all that out,” Gherson says. “We kept our principle of cultivating a high-performance culture, but pretty much everything else changed.”

Company Background

2015 was hardly the first time the company had found itself in the midst of a fundamental shift. IBM has had to reinvent itself time and again to remain relevant. Founded in 1911 as machinery manufacturer Computing-Tabulating-Recording Co., IBM (International Business Machines) over the decades has repeatedly adjusted its business focus — from early data processing to PC hardware to services to software systems — in response to evolving markets and competitive pressures.

Today, IBM, headquartered in Armonk, New York, employs about 360,000 people in 170 countries. After 22 consecutive quarters of declining revenue, the company reversed the trend in the fourth quarter of 2017 and subsequently has shown revenue growth. Growth in its cloud, artificial intelligence, cybersecurity services, and blockchain units have contributed to the turnaround, with about half of its revenues now derived from new business areas. Indeed, these days, IBM is betting big on AI and hybrid cloud, recently announcing plans to acquire open-source software pioneer Red Hat, an innovator of hybrid cloud technology, for $34 billion. With that notable acquisition, the company is making a bold bid to compete against heavyweights like Google, Amazon, and Microsoft in the cloud services market.

The new strategic direction has necessitated a change in how IBM’s talent is managed and how the work of the digital enterprise is done. “In a classic, traditional model, a manager will oversee the work of an employee and, therefore, have firsthand knowledge of how they’re doing,” Gherson observes. “That traditional model is long gone in most companies. Work is more fluid.”

At IBM, work is being done differently in three fundamental ways. One is a stronger emphasis on project work: Individuals move around the organization to work on various projects and initiatives, joining teams for short stints before moving on to new teams to tackle new challenges. Two, the entire concept of performance is shifting from primarily emphasizing performance outcomes to a model that also emphasizes the “how,” including the continuous development and application of new skills to keep up with the exponential rate of change in technology. Finally, with the adoption of agile ways of working, continuous feedback becomes a critical part of workflow. The new PM system needed to abandon the concept of an annual feedback event and find a way to reinforce a culture of feedback — up, down, and across.

Meanwhile, digital transformation in the economy at large is exerting pressure on IBM as the tech giant strives to maintain an edge over its competitors. As a result of these internal and external changes, the company has seen the need to prioritize not only innovation and agility but also the continual development of employee skills, since what it requires of its talent base has also changed, with the need to continually develop employee skills becoming paramount.

Test-Driving a New System

The company’s key decision was to crowdsource its new performance management system rather than impose something top-down on its workforce, which was not consistent with agile methodologies or design thinking. Gherson says it was “really important to have employees feel like they were stakeholders in the new design, not just bystanders or consumers of it.” To that end, IBM undertook a process for designing the system that was a radical departure from the past. “There were many skeptics
initially,” Gherson recalls, highlighting the challenges of the project. IBM relied heavily on enterprise design thinking, creating a minimum viable product (MVP), and invited the workforce to test it and offer feedback. Gherson likens the process to “giving people a concept car that they can drive and kick the tires as opposed to asking them what they would like to have in a car.” The rollout was fast: The September 2015 launch of the MVP happened within a couple of months of the first design-thinking session.

While many employees were thrilled that the traditional approach to performance management was on its way out the door, most were skeptical that the replacement program would be an improvement. As Joanna Daly, IBM’s vice president of global talent, recalls, “Employees actually said to us, ‘We don’t believe that you want our input. We think you already know what you’re going to do, and you’re just sort of pretending to ask for our input.’ We had to figure out how to prove to employees that we were authentic and serious in wanting them to shape this.”

HR did so in a simple way: by asking employees what they wanted, giving their responses due consideration, and playing back what it was hearing. “We asked, ‘What do you want to get out of our approach to performance?’” Daly says. “And the answer we got was they wanted richer feedback. And they hated being defined by a single assessment rating.”

When Gherson blogged about the new system on the company’s internal platform, her first entry was viewed by 75,000 IBMers within hours, with 18,000 responding with detailed suggestions. The company used its proprietary Watson text analytics to sort through what employees wrote, enabling Gherson to put out a second blog within 48 hours enumerating which elements employees liked and which they disliked. The company proceeded through numerous iterations and playbacks, with employees continuously participating in the design process. Management even reached out personally to the most vocal critics at every step, directly engaging their input in producing the next prototype. The eventual result — officially launched in February 2016 and called Checkpoint — was aligned to the employees’ input, providing a PM system focused more on feedback and less on assessment. (See “Changes to IBM’s Performance Management” for key differences between the old and new system.)

Rather than receiving a single rating at an annual review, employees now have more frequent check-ins with managers. Through the company’s mobile ACE (appreciation, coaching, and evaluation) app, they also can seek feedback from peers, managers, or employees they manage.

The new and more agile system allows IBMers to revise their goals throughout the year. In response...
to crowdsourced input during the design process, employees are assessed according to their business results, impact on client success, innovation, personal responsibility to others, and skills. Managers are held accountable through pulse and mini-pulse surveys of the people they oversee, with poor results leading to training or, in some cases, removal from management.

Checkpoint is a far cry from the previous stand-alone HR program that rated and ranked employees. It's aligned to the critical factors for IBM's success and designed to ensure that the company achieves advantage with its talent in a fast-moving competitive landscape.

Checkpoint has been a major contributor to employee engagement, which has increased by 20% since IBM deployed the revitalized performance management system. In fact, in the company’s annual engagement pulse survey, employees pointed to Checkpoint as the change that made the biggest difference in their experience at IBM.

**Focus on Learning and Growing**

Technological change — both in the marketplace and in IBM’s business focus — is driving an unremitting need for new skills, making their development an essential part of IBM’s corporate strategy. “In today’s world, skills are actually more important than jobs,” Gherson declares. “In order to reinvent our company, we need everyone to reinvent their skills on a continuous basis. You can’t hire someone because they have a particular skill. You have to hire someone because they have the capacity to continue to learn.” To that end, in addition to the new approach to performance management, talent management at IBM now includes a personalized learning platform and a personalized digital career adviser.

The platforms use data to infer which skills employees have and connect them with learning to build those skills that are increasingly in demand. The personalized program is “really accessible, very consumer-friendly,” Gherson says. “It has everything: internal and external courses, Harvard Business Review articles, MIT Sloan Management Review articles, YouTube videos — you name it. And it serves it up for you as an individual, based on your unique role. It will say, ‘Given what you’ve taken so far and your career goals, here are some recommendations and here’s what people like you have taken and how they’ve rated it.’”

To encourage career mobility, IBM launched a digital coach for employees wishing to advance their careers within the company. My Career Advisor (known commercially as Watson Career Coach) was created by employees during a company-wide hackathon. It features a virtual assistant that uses data to provide personalized career counseling, such as average time to promotion from an employee’s current role and career steps taken by others to acquire the job a user might want. Another related platform, Blue Matching, serves IBM employees internal job opportunities tailored to their qualifications and aspirations, inferred from their CVs.

What enables these learning and career programs, says Daly, is “having more data available and having better insights to guide the user. These new digital platforms mean we can get these insights directly into the hands of employees and their managers.” Also essential has been uniting these platforms. “It’s not about having a learning platform and having separately an internal jobs platform,” Daly notes. “It’s how do we integrate these two together with AI-enabled advice for employees to explore? What kind of job should I do next? What are my skills gaps if I want to pursue that job, and then what learning would I take to close that gap?”

**Real-Time Insights**

The new PM system was about agility and prioritizing feedback over assessment. IBM elected to go further and figure out how to use all the insights it was developing from its analytics and AI capabilities to ensure that useful insights could readily emerge and be accessible to both HR and the workforce.
“Thanks to these digital experiences, we’ve modernized how to deliver insights to our workforce and management — right when they need it,” Daly says. She cites compensation decisions as an example. Using machine learning, “we advise managers about which employees should get the highest salary increase. We arrive at the recommendation using dozens of internal and external data sources. This helps with more transparent conversations between the manager and her employee,” she says. “We give managers talent alerts directly on their personalized dashboard. For example, the system might observe, ‘Hey, your team member has been in her band level for a few years and is a good performer and is building her skills. Have you thought about promoting her?’”

Going forward, Daly anticipates that more predictive and prescriptive insights will be transmitted directly to managers and employees at the moment they’re needed most, embedded in the workflow.

Preventing Attrition

“In our industry, talent is the No. 1 issue,” Gherson contends. “And so, it’s really important that we attract and develop and continue to upgrade our skills and retain talent if we’re going to win in this market.” Despite more than 7,000 job applicants coming into IBM every day, with a tech talent shortage and ongoing talent wars in AI and cybersecurity, retention becomes particularly crucial; experts agree that in the coming decades, there won’t be enough qualified people to fill available jobs.

Gherson and her team received a patent for their predictive attrition program, which was developed at IBM using Watson AI algorithms to predict which employees were likely flight risks. Most managers were initially skeptical at the notion that algorithms could have more insight into their employees’ intentions than they did — until the algorithm consistently made correct predictions. Then, Gherson recalls, “We started getting these little notes from managers saying, ‘How did you know?’”

Significantly, the technology is about prescription in addition to prediction. “We reach out to you as a manager,” Gherson explains, “and we tell you that you’ve got someone who is at high risk to leave and here are the actions we recommend you take.” Because the AI is able to infer which skills individual employees possess, it can then recommend actions for managers to implement — often related to furthering skills development — to prevent them from leaving. By helping their employees develop new skills, managers bolster employee engagement and increase job satisfaction, advantages in a talent-scarce market environment. “The attrition rate of the people we touch with this program is minuscule compared to the control group,” Gherson says, noting the improvement in employee retention has already saved IBM nearly $300 million.

The Evolving Role of HR

Given the heightened significance of talent, HR, as the function primarily responsible for talent, has a revitalized role to play in executing corporate strategy and driving value at IBM.

To achieve a more central role in value creation, IBM’s HR function had to be freed from the tasks that traditionally consumed so much of its managers’ time. “People have a million questions: ‘When do I have to sign up for my 401(k)?’ ‘What’s the deadline for the health benefits program enrollment?’ These are all findable pieces of data, but actually finding them has always been the hardest part,” Gherson
says. "I wouldn’t say that’s the highest value that HR could provide, but it’s a lot of what HR has been doing. Maybe in some companies that’s all HR does. But that’s not the purpose of HR. You don’t need HR to answer those questions. You just need really great bots and virtual assistants.”

Here, the company again exploited its own capabilities in AI and analytics. In HR alone, IBM currently deploys 15 virtual assistants and chatbots, and the company is diligent about measuring both employees’ experience and the effectiveness of the bots in responding to questions. With the bots taking on routine tasks previously performed by people, IBM’s HR function can devote itself to what Gherson sees as its real purpose: “to create competitive advantage with your talent and improve the employee experience.”

Of course, technology and data are vital not just in freeing up the humans on the HR team but also in optimizing their performance. “For too long, HR people have relied on just being highly intuitive: ‘I think this person’s going to be a good fit for the job’ or ‘I think a two-year assignment is the right length,’ or whatever,” Gherson observes.

“And actually, you can employ science-based methods to come up with an estimate — for example, there’s an 80% chance they’ll fail in this job because they lack these capabilities or there’s a 50% chance that you’ll get no return on your investment in that international assignment because it’s too short,” she says. “So, we should be able to give much better advice to the people that we support.”

Gherson acknowledges that working this way also requires culture change within the HR function, which demands different skills like data science and different job roles to fully realize the disruption. She has invested in a robust re-skilling education program for her team of HR professionals.

Gherson says HR can’t simply stop at using technology to detect patterns. Giving managers data on, say, turnover rate, without also offering guidance on how to use that information, leaves them to rely once again on intuition to solve problems. As with the predictive attrition program, IBM pairs reporting data with recommendations for action.

“Technology enables us to not just report, but to then say, ‘If you keep doing what you’re doing, here’s what the picture will look like a month from now, a year from now. Your cost of labor will be higher than your competitors by 12% if you carry on hiring at the rate you’re hiring. So here’s a prediction that’s going to be a bit of a wake-up call for you. But if you take these actions, here’s the impact,’” Gherson explains.

“We’re going from intuitive to reporting to predicting to prescribing,” she adds. “And if we can take it all the way to that level, then we’re really adding value. We’re very proud of the fact that through these talent programs, HR delivered more than $107 million in benefits in the last year.”

**Conclusion**

IBM’s efforts to modernize its performance management system are part of an ongoing process. “We will continue to refine the measurement and expectations of skills growth in IBM as it becomes clear that we need to become a fabulous re-skilling-at-scale machine and hold ourselves accountable to that,” Gherson says. Daly echoes that point: “These aren’t programs that HR is developing. This is a new way of working that all IBMers are developing together so that we can keep our skills up to date as things keep changing in the future.”
EXECUTIVE PROFILES

Joanna Daly
vice president, global talent

Joanna Daly is IBM’s vice president of talent with global responsibility for talent acquisition, people analytics, AI strategy for HR, employee experience, performance management, and careers and skills. Her previous roles at IBM have included leading compensation and running HR for the company’s global industry platforms, blockchain businesses, and European business services operations, with stints in Singapore and India as well. Joanna is a frequent speaker at conferences and in the media on AI in HR, diversity and inclusion, skills, and the future of work.

Diane Gherson
chief human resources officer and senior vice president, human resources

As chief human resources officer and senior vice president of human resources, Diane Gherson is responsible for the people strategy, leadership, skills, careers, engagement, employee services, labor cost, and diversity and inclusion of IBM’s 360,000-person global workforce. During her tenure as CHRO, as IBM has dramatically shifted its business portfolio, Gherson has redesigned all aspects of the company’s people agenda and management systems to shape a culture of continuous learning, innovation, and agility. At the same time, she has digitally transformed the HR function, incorporating AI and automation across all offerings, resulting in more than $100 million in net benefits in the past year.
HR TRANSFORMATION AS THE ENGINE FOR BUSINESS RENEWAL
Commentary by Anna A. Tavis

Industry disruptions have headlined business news since the early 2000s. With the cloud revolution driving change in global markets, traditional built-to-last companies have had to rapidly transform themselves to survive, adapt, and compete. Market-facing customer service, sales, and marketing functions reinvented themselves in the new digital image a decade ago. Although HR is a latecomer to the digital scene, it stands ready to undergo its own reinvention armed with smart technology, data-driven insights, and a renewed sense of purpose.

To paraphrase Diane Gherson, IBM’s chief human resources officer, talent is unquestionably the new economy’s number one competitive asset. HR, as a traditional caretaker of talent, has to leapfrog generations of evolution, moving from intuition to reporting to predicting and ultimately to prescribing—all in a matter of a few years. Some companies, like IBM, are successfully making this leap. Critics, so ready to question HR's relevance and viability, should take note.

This case study describes HR transformation at IBM. It is particularly instructive for companies embarking on their own HR digital transformation efforts. IBM’s most important lessons are less about the specific solutions they introduced and more about the way they went about finding their new philosophy and their new operating model. The IBM story is as much about what they decided not to do as it is about what they ended up doing.

Diane Gherson’s most consequential first step was to abandon the practice of benchmarking other companies and not to rely on HR experts to renew her strategy. She turned instead to IBM’s own employees for answers. Not surprisingly, the message her team heard from employees was not always in line with the view of senior management, which did not believe much in HR could change. It became clear that IBM’s transformation was to be anchored in agile ways of working. The company’s traditional performance management (PM) was seen by employees, however, as an administrative chain holding back the adoption of fast agile ways of working. The decision was made to radically redesign PM with employee experience in mind. In the process, all other functional areas in HR were redesigned and realigned to serve HR’s new purpose.

The following 10 decision points are worth considering when reviewing the IBM case in the context of your own organizational transformation:

1. Decide where to start. IBM’s first and highest priority was to redesign its PM system. The team turned to its own employees for redesign ideas, not HR experts or senior leaders.

What you can do: Identify the weakest link in your talent management system. If it’s your PM approach, this is where change should begin.

2. Connect your transformation to an existing element of your strategy. IBM used its adoption of agile practices across the organization as the primary catalyst to overhaul its entire talent management system.

What you can do: Choose the one key performance indicator (KPI) that intersects with talent that will have the most impact on your business.

3. Renew your talent/HR purpose. By committing to employee experience, engagement, and learning, IBM shifted away from an earlier focus on differentiation and high potentials.

What you can do: Decide what type of culture you want to have. Assess how fast you can move from an administrative compliance- and appraisal-based approach to being employee-centric and learning-focused.

4. Decide where to start: Identify the most consequential first step with the broadest possible impact. IBM made a PM redesign the priority in its talent transformation process and had the capacity, capability, and political capital to go
global with its minimum viable product (MVP) for the entire organization.

What you can do: Identify whether performance management is the weakest link in your talent management system and where the pain points are for your employees and management.

5. Select the design method consistent with your new purpose. For IBM, agility and design thinking became key methodologies HR successfully applied.

What you can do: Select and agree on design principles and method(s) consistent with your talent philosophy and aligned with your purpose. Teach those skills and test to see if they work for all.

6. Get your organization’s buy-in to support your transformation effort. IBM took a two-tiered approach to secure buy-in: (1) It earned employee trust and engagement by crowdsourcing design ideas from across the company. (2) It won over senior management by running successful experiments proving that attrition could be predicted by data.

What you can do: Learn to listen. Generate insights and communicate decisions supported by the evidence you collect. Engage key stakeholder groups with data relevant to them.

7. Decide how to test and improve the designed product. IBM went for speed, customer feedback, and continuous improvement. Having designed and released their crowdsourced PM process, Checkpoint, in record time, the company “proceeded through numerous iterations and playbacks, with employees continuously participating in the design process.”

What you can do: Choose one of three approaches:

- Launch a company-wide MVP: Your priority initiative is based on your company’s KPIs and readiness for the company-wide rollout.
- Experiment and create a proof of concept. Run a series of experiments starting with the business units most ready to innovate. Show results to others.
- A combination of the above two approaches.

8. Go beyond performance management: Decide on your next steps. Successful implementation of the redesigned PM process revealed further strategic talent needs for IBM:

- Accelerate and personalize skills renewal.
- Customize decision support for managers.
- Create an internal marketplace for jobs.

What you can do: PM renewal has a domino effect on all HR processes and tools. What comes next on the renewal list will have to be decided by your company depending on its strategic priorities. Meanwhile, HR will have to renew and upskill itself as the transformation process continues.

9. Assess how to turn technology and data into the greatest enablers of transformation. IBM HR fully leverages its tech and AI capabilities, often creating its own tech tools. My Career Advisor, for example, is IBM’s mobile in-house career coach created by employees at a company-wide hackathon. Blue Matching serves IBM employees with notice of new internal job opportunities tailored to their qualifications and aspirations.

What you can do: Technology and automation are central to the transformation of HR. Yet, no two companies’ technological and data capabilities are alike. Choose your tools wisely, develop technical expertise internally, or borrow your experts. Do not overspend on systems unless you understand how they will deliver.

10. Integrate tools, platforms, and processes with employee experience in mind. IBM’s case shows how to bring all processes, tools, and platforms together into one renewed talent ecosystem. “It’s not about having a learning platform and...an internal jobs platform,” noted Joanna Daly, IBM’s vice president of global talent; it’s how they integrate together with AI-enabled advice for employees to explore what jobs they should do next.
What you can do: No matter where you decide to start, integration should be your final destination.

IBM’s case could be the timely accelerator of your own company’s HR transformation. There is a lot to learn here, but no one’s “best practice” is a replacement for your own discovery. The best lesson to learn from Diane Gherson and her team is their innovative attitude and openness to experiment in the face of the unknown. Learning to innovate, take on risks, and show courage is what IBM’s HR has shown us how to do. It is now the right time to take the right lessons from IBM and apply them and scale. Best of luck as you begin.

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