KNOWHOUSE CONSULTING

supported by Visegrad Fund

BEST HR PRACTICES

Flexible, business-oriented performance management in a global IT company

Best HRM Solutions in V4 Countries project

Contents

1. What this case is about 2

2. The context of the case 2

3. From where to where? 2

3.1. The starting point 2

3.2. The drivers of change 3

3.3. The solution in one sentence 3

4. Cornerstones of the performance management system 3

4.1 Conversation, not score-chasing 3

4.2 Goals: short, measurable, with business impact 4

4.3 What does this look like in practice? 4

4.4 More than a manager–employee relationship 4

4.5 Salary development – how real differentiation was enforced 5

4.6 Bonus – shared success with simple rules 5

5. The implementation story – how the system came together 6

6. Results and evidence – what truly shifted 7

7. What can we learn from this case as HR leaders in another company? 7

8. If you would like to take something from this best practice... 8

1. What this case is about

A flexible, business-focused performance management system at a global IT company that links short-term, measurable goals to salary and bonus processes. The essence of the system is:

- continuous feedback
- quarterly goal reviews, and
- differentiated yet flexible salary development, where managers have real decision-making authority within clear frameworks.

2. The context of the case

We step into the world of the service center of a global IT company: eight thousand employees, compensation and benefits operations spanning 52 countries, a strong European presence—and at the same time the opening of a new center in the Philippines with approximately 3,000 employees on its own. In other words, the system is not only large, but continuously growing and becoming increasingly complex.

We documented this best practice with the global Head of Compensation and Benefits of a global IT company. He provided insight into how salary development, executive compensation, and bonus system logic can be aligned in an environment where everything is accelerating: the market, expectations, and response times.

The central question is simple: how do you build a performance management system that does not produce paperwork, but supports decision-making? The case presented shows how performance and pay can be linked in a data-driven yet flexible way—so that the system has been operating stably for years while remaining continuously fine-tunable, especially now with the strengthening of EU pay transparency requirements.

This is no longer just an HR solution, but a company-wide framework, with a focus on global SSC operations and the compensation function.

3. From where to where?

3.1. The starting point

The organization started with a classic, annual, score-based performance appraisal system. In practice, this resulted in two things:

- ☑ **"Everyone is good or excellent**." Scores followed the desire for a pay raise rather than actual performance.

- ☑ **Endless alignment.** Hours were spent in management forums debating who should receive how many points—instead of discussing what people actually delivered and where they should improve.

At the same time, the compensation and benefits team had no unified view of performance data. If someone received an outstanding salary increase, this was followed by retrospective "investigation" into what might have justified it.

3.2. The drivers of change

At a certain point, operations reached a level where the old logic could no longer handle the load: too many countries, changes happening too fast, and excessive cost risk. The question became pressing: how can the system be fast, flexible, and cost-conscious across more than 50 countries at the same time?

Three factors justified redesigning performance management:

- ☑ Scoring failed to create real differentiation, allowing salary budgets to run out of control.
- ☑ Turnover increased painfully in certain key roles (e.g. taxation).
- ☑ Salary and bonus decisions needed to be supported by clear business rationale.

3.3. The solution in one sentence

Instead of scores: rhythm and accountability—short, measurable goals + quarterly alignment + continuous feedback, combined with a simple but enforcing salary development rule set (utilization ratio + bell-curve-like distribution).

4. Cornerstones of the performance management system

4.1 Conversation, not score-chasing

Performance management is built on four pillars:

1. Continuous feedback.
2. Breaking down goals to the individual level and linking them to corporate priorities.
3. A strong focus on individual and team development.
4. 360-degree feedback in selected groups.

The system requires at least four structured performance conversations per year (quarterly reviews) between manager and employee. In the service center, this represents approximately 80% coverage; in sales-adjacent country units, around 60%.

All managers receive central support for performance review discussions: question guides, templates, and dedicated training materials have been developed for this purpose. **While**

the style of the conversation is up to the manager, the methodological framework is standardized—providing both confidence and flexibility.

4.2 Goals: short, measurable, with business impact

At the end or beginning of the year, senior leadership defines the annual priorities (for example, cost reduction, "green HR," artificial intelligence projects). Leadership teams then jointly "translate" these into their own areas: what this means for them, what results are expected, and which actions will lead there.

From there, the path to teams is straightforward: managers break down commitments into specific goals and clarify with individuals which concrete objectives they carry from the shared commitment.

The rule is simple: goals must be concrete, short-term, and measurable—and must describe business impact beyond routine day-to-day work.

Goals are reviewed quarterly to ensure continuous alignment with actual business conditions.

4.3 What does this look like in practice?

Strategic priorities were not turned into wall slogans; they were translated into concrete tasks, metrics, and tangible business outcomes. Three examples illustrate this approach.

- ☑ **Contract clean-up:** Contracts were brought into order through a global review and the creation of a central registry to ensure renewals started on time. From that point on, the key metrics were how many tenders launched on schedule and how many "expired without anyone noticing" cases remained—the result was stronger price negotiations and less last-minute firefighting.
- ☑ **"Green HR" with numbers:** Instead of running a sustainability campaign, they launched a measurable program: tracking energy consumption and related costs, complemented by short wellbeing feedback. When the numbers began to decrease, it was no longer opinion but visible cost savings and improved organizational climate.
- ☑ **AI in everyday operations:** Each function received its own AI-related task designed to remove a recurring, time-consuming activity from the team's workload. Success was measured by hours saved and reduced turnaround time, enabling more meaningful work with the same number of people.

4.4 More than a manager–employee relationship

In this system, evaluation does not "come from above" and is not something employees passively endure. A core step of the process is self-assessment: employees reflect on their

progress against goals, where they are strong in terms of competencies, and in which development directions they would like to move forward.

In certain roles—such as future leaders and high-potential talents—this is complemented by a selectively applied 360-degree feedback process. As this tool is time- and cost-intensive, the organization does not use it on a mass scale, but only where it creates real added value. In these cases, however, its impact is particularly strong: the feedback received can serve as the basis for targeted development programs that accelerate growth and reduce blind spots.

4.5 Salary development – how real differentiation was enforced

At one point, the company made it explicit: salary increases cannot be automatic. If everyone receives a small raise, two things happen at once—the budget is exhausted, and the performance message disappears. Therefore, they introduced a simple but firm rule.

First, they set the ground rule: approximately 80% of the team can receive a raise, while 20% do not. This is not about punishment; it is about preventing managers from instinctively smoothing out differences.

The second step was to **differentiate increases within the allocated budget**. Managers had to make clear choices: top performers received higher increases, consistently strong performers received the average, and average performers received smaller increases. A typical country example looked like this: if the average increase level was 5%, top performers received around 10%, "good" performers around 5%, and average performers 2–3%.

The key point: **the rule only provided the framework; the decision was made by the manager—and they had to take responsibility for it.** Distributing numbers was not enough; managers had to justify why they allocated the money the way they did.

This is where the third element made the system truly effective: the global compensation and **benefits team monitored deviations.** If, in a given unit, 85% received increases instead of 80%, or if there were "too many large increases," they did not impose sanctions—they asked questions: what happened, what is the business rationale, is this a market correction, a retention issue, a case of critical expertise? Flexibility was ensured—but only if it was supported by a clear business **narrative and data** from the manager.

4.6 Bonus – shared success with simple rules

The company deliberately avoided overcomplicating the bonus system. The logic was closer to a single sentence than to a handbook: **those who were part of the annual performance also shared in the results.** Therefore, target bonuses were not primarily tied to individual ratings; what mattered was whether the organization achieved its shared corporate goals.

There was one strict exception: employees under a performance improvement program were excluded. This sent a clear message—the bonus rewards collective success, but there is no entry without meeting minimum performance standards.

At this point, the system became truly clear: the bonus followed team results, while differentiation was not forced into this mechanism but handled through salary increases. This allowed the bonus to retain its collective power, while salary development carried the responsibility for differentiation.

There was also regional flexibility: in certain markets, managers could grant additional amounts on top of the target bonus if justified by business needs. In Europe, this was typically embedded in stricter, more formal frameworks—due to legal and regulatory reasons—but the logic remained the same: **first achieve collective performance, then consider additional rewards.**

5. The implementation story – how the system came together

1. **step: Letting go of score obsession:** At the beginning, the classic, detailed rating system was still in place. Then came the realization: **too much time was spent debating whether someone deserved a 3 or a 4,** while the system did not become fairer—only louder. They simplified it. The focus shifted to where it truly mattered: goals, conversations, and development. The final **question became whether the goals had been achieved** and what decision followed from that.
2. **step: Introducing rhythm into the process:** The next issue was that performance evaluation had become an "annual ceremony": many rushed at year-end, while during the year the topic faded into the background. This was resolved by building **a clear calendar rhythm**: the beginning of the year for clarifying goals, the middle of the year for quarterly check-ins, and the end of the year for closing discussions. As a result, goals were no longer treated as a one-off administrative task but remained continuously on the agenda throughout the year—and when reality changed, goals were adjusted accordingly.
3. **step: Establishing the "not everyone receives an automatic raise" rule:** Then came the most sensitive part: salary increases. The system had previously failed because managers instinctively "gave something to everyone" to avoid conflict. However, this **diluted the budget** and erased the performance message. A clear line was drawn: **approximately 80% of the team could receive an increase, 20% could not,** and the money would not be distributed evenly—top performers would receive more, average performers less. Not because the organization valued strictness for its own sake, but because this was the only method that **truly enforced differentiation.**
4. **step: HR and compensation became coaches, not police officers** During implementation, it quickly became clear that the rule alone was not enough—managers needed to learn how to use it. Therefore, HR and compensation stepped into

a **coaching role**. When a manager requested an additional raise for someone during the year, the first question was not "approved or not approved," but rather**: how did you allocate your budget? Where did you avoid differentiating?** If the issue was not managerial hesitation but a genuine business situation (for example, mass attrition in a **critical function or sustained salary competition**), the center could provide an additional budget—but only if supported by data.

5. **step: Bringing order to the data**: Ultimately, the system became truly stable when they acknowledged: **without good data, there can be no good decisions.** The Head of Compensation pushed for unified, transparent reporting from performance evaluations so that salary increase decisions would be based on facts rather than intuition. Since performance management is run by a separate team, there are still some ad hoc elements (for example, high potentials or key employees), but the direction is clear**: a more integrated and transparent link between performance and pay.**

6. Results and evidence – what truly shifted

As a result of the salary increase logic, managers were forced **to genuinely differentiate between levels of performance.** The compensation team did not argue; instead, they **challenged the logic behind decisions** (what is the reason, what data supports it, what is the market context). As a result, salary decisions became less driven by emotion and more grounded in thoughtful managerial justification.

With continuous feedback loops in place, individuals began to focus more on the future—on their own development and performance. Alongside increasing engagement and a stronger development focus, turnover decreased measurably.

A brief example of flexibility: when attrition rose sharply in the taxation function, an additional central salary increase budget was provided—on the condition that the team present data showing where market gaps existed and who the critical employees were. This was done. Moreover, beyond simply allocating extra funds, the targeted budget and more conscious distribution led to reduced attrition, while global frameworks and controls were still maintained.

7. What can we learn from this case as HR leaders in another company?

The case offers three key lessons:

- ☑ Overly granular scoring consumes time, generates debate, and ultimately results in "everyone being good."

- ☑ Simple rules accelerate performance: short, measurable goals + a clear salary increase framework (not automatic for everyone) = real business responsiveness.
- ☑ The role of compensation is not administration, but leadership enablement: managers must learn to justify their decisions based on data and business logic.

Two typical pitfalls

1. If performance data is not linked to salary and bonus decisions, HR only sees that "there is an outstanding increase"—but not why.
2. If there is no executive-level mandate for differentiation, managers will smooth out the budget ("a little for everyone"), and the performance message disappears.

Trade-off and surprise:

The system is not built on rigid rule-following perfection, but on disciplined flexibility: in justified cases, deviations are possible—but only with a clear explanation and supporting data.

The surprise is that once the framework and support are in place, managers are actually willing to differentiate. They finally have a reference point to align with and can clearly articulate the reasoning behind their decisions.

8. If you would like to take something from this best practice...

Minimum viable version (which can be launched as early as tomorrow)

1. 3–5 short, measurable goals per person, linked to corporate priorities.
2. Quarterly performance conversations (with a short question guide + self-assessment).
3. A simple salary increase rule that enforces differentiation: not everyone receives an automatic raise; top performers receive more, and weak performance does not receive an increase.

If you were starting now: in 3 steps

1. Decide what you want the system to serve: development, differentiation, cost control—or all three.
2. Shift the focus from scores to goals, conversations, and business impact.
3. Establish an HR/compensation coach role that helps managers justify their decisions and allocate budgets effectively.

Minimum requirements

- Core HR data must be in order: headcount, salaries, bonuses, and basic performance categories.
- An approved salary increase budget and a clear principle regarding how many employees can receive increases and how the budget is to be distributed.
- Well-defined access rights: who has access to what data and for what purpose (for example, who can access performance data—even if initially via Excel export).

What not to overcomplicate

- Do not start with a five-level rating scale if there is not yet a culture of strong differentiation.
- Do not implement 360-degree feedback for everyone; it is sufficient for the talent pool and leadership pipeline, while continuous managerial feedback works best for others.