M|pact GLOBAL

The performance delusion

Why the system built to execute your strategy and drive performance is quietly undermining it – and what to do instead.

Ask any business leader these days, and what's top on their agenda is a massive push to improve performance and productivity, fast.

Markets are volatile, strategy cycles are shorter, and the pressure to execute has never been higher[1].

You would expect organizations to be busy overhauling the one system designed to drive performance – Performance Management (PM). But that's not what is happening. Across industries, leaders continue to rely on outdated ranking-driven or pay-led PM practices that do not improve performance, do not accelerate strategy execution, and do not build a high-performance culture.

The process that should be the engine of strategy execution remains, in most companies, an annual HR theatre – disconnected from strategy, irrelevant to real work, and corrosive to motivation. We call that The Performance Delusion.

▶ THE KEY INSIGHTS

THE PROBLEM

Despite decades of research, most companies keep running PM that neither drives strategy execution nor performance.

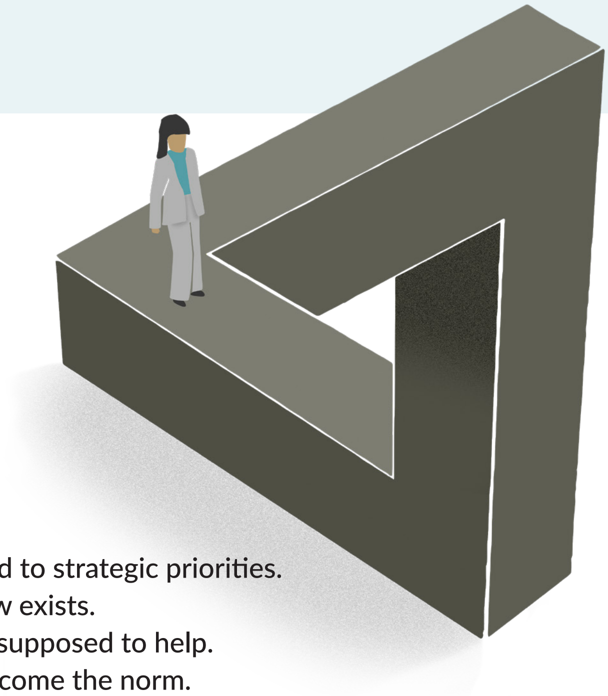
WHY IT MATTERS

When PM fails, strategy execution stalls, leaders operate with hidden misalignment, and cynicism spreads. Companies that get PM right outperform peers dramatically – up to 4.2x on revenue growth.

THE WAY FORWARD

Organizations that outperform create the foundation for people to perform: clarity of direction, the ability to do great work, continuous growth, and a trust-based environment.

Most companies don't need a new PM process or tool. They need to do the basics consistently right – starting with upgrading the four performance conversations that drive 80% of the impact.



We have worked with leadership teams across industries for more than three decades. The same pattern repeats with striking consistency: organizations invest heavily in PM processes that consume time, generate frustration, and deliver almost no measurable improvement in performance.

And the cost is substantial:

- Strategy execution stalls because effort isn't aligned to strategic priorities.
- Leaders operate with misalignment they don't know exists.
- Bureaucracy makes PM loathed by the people it is supposed to help.
- Cynicism, demotivation, and underperformance become the norm.

And when the challenge is not just to perform but to transform, the absence of effective PM becomes a strategic liability that no change program can compensate for.

Meanwhile, competitors who get PM right are pulling ahead:

- According to McKinsey, companies with effective PM are 4.2x more likely to outperform peers on revenue growth[6].
- Organizations with high alignment grow revenue 58% faster and are 72% more profitable.[7]
- Organizations that create clarity, alignment, continuous feedback, and human capacity outperform their peers by wide margins – often 20–70% depending on the metric[8] [9] [10].

This isn't an HR issue.
This is a business performance and continuity issue.

The reality today – Helen's story

Perhaps the absurdity of how we run PM today is best understood through the experience of someone living it.

Meet Helen. *Helen is the divisional CEO at a mid-sized B2B firm. She gets the objective to 'significantly improve customer centricity' four months into the year.*

No one tells her why this is the priority now, what problem it is meant to solve, what success looks like, nor what it means in practice (response times, NPS scores, retention, or something else entirely). The objective is disconnected from any strategic context and is out of sync with what her peers are working toward.

Within weeks, priorities shift.

When she asks about updating her goals, she is told not to bother – 'it would be too bureaucratic'. She carries on, doing her best to stay relevant to a strategy the process has already lost track of.

Feedback is sparse, backward-looking, and rarely useful. Her 1:1s with her manager drift toward last month's performance rather than what she needs to deliver next month. It feels like the adult version of getting her homework graded. No one is helping her get better. They are keeping score.

At year end, she delivers. Not perfectly, but well. She is told she cannot receive the rating she deserves because 'HR will not allow it.' Her bonus disappoints. Her team's bonuses are impossible to explain.

When it is all over, HR celebrates that the process was completed on time and that the ratings fit the required bell curve.

The fundamental problems

Most PM fails for the same underlying issues:

1. It's not aligned to your strategy

PM can operate flawlessly and the strategy would be no closer to being executed.

2. It looks in the rear-view mirror.

It spends more time judging last year than improving next quarter.

3. One-size-fits-no-one.

PM looks the same across industries and size, and forces a single process onto all levels, geographies and functions. It creates a system that fits no one well.

4. It's built for control, not performance.

It enforces consistency and compliance instead of creating the conditions for people to perform.

5. It's built on outdated beliefs.

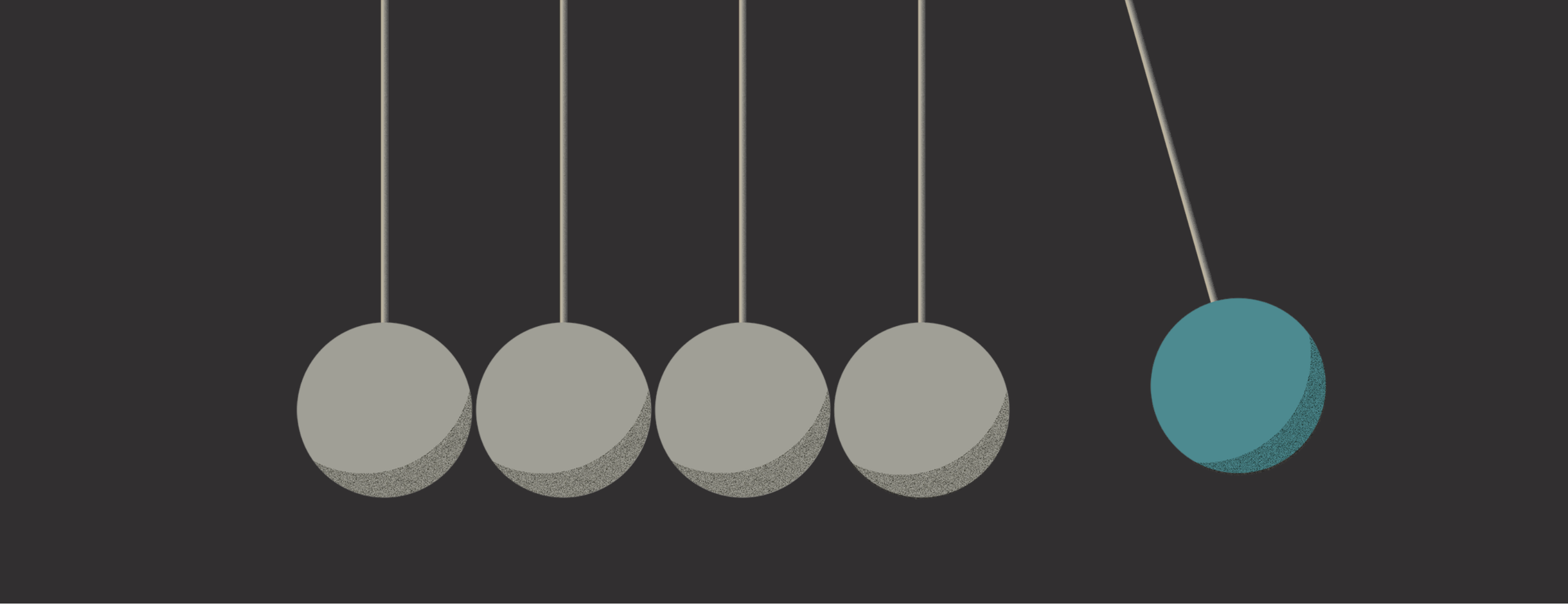
PM is built on a few executives' outdated beliefs about motivation, accountability, and what drives performance.

6. It fixes the process instead of the problem.

When performance problems persist, organizations redesign the process and tools instead of addressing root causes.

The result is a system that is experienced as bureaucratic, unfair, and disconnected from real work.

If this feels familiar, the only comfort you can take from it is that you're not alone.



The research on what works

If you want better performance, the answer is not another form, rating scale, or HR system. Decades of research point to four conditions that most strongly enable performance. Forms, processes, and software matter only to the extent that they help create these conditions.

1. Meaning, direction and focus

People perform better when they understand why their work matters, what is expected of them, and where to focus their attention. [11] [12]

2. The ability to do great work

They perform better when barriers are removed and they have the autonomy, tools, support, and mental bandwidth they need to do great work.[13]

3. Growth and progress

People perform better when they receive useful feedback, have opportunities to develop, experience growth and progress, and receive meaningful recognition.[14] [15]

4. Supportive, trust-based environment

People perform better when they are held to high standards, supported in meeting them, feel part of a community, and that they can contribute without burning out.[16] [17]

Two findings from the research deserve special attention. First, these conditions are interdependent – all four must be present for performance to meaningfully improve. Organizations that excel at some, but neglect others see only marginal gains.[18]

Second, the conditions listed above represent largely untapped leverage. Most organizations already overinvest in reward and recognition, which the research consistently shows yields diminishing returns without the foundation of meaning, growth, and trust in place first.

The performance operating system

If the first pages of this paper make one thing clear, it is this: most organizations don't need a new PM process. They need a fundamentally different way of thinking about performance itself.

The question, then, is not whether PM can be fixed. It is what a PM system built around these conditions looks like in practice.

If strategy sets the destination and defines the rules of the game, PM should be the mechanism that mobilizes the organization to get there and equips it to adapt when the destination shifts or the terrain changes unexpectedly.

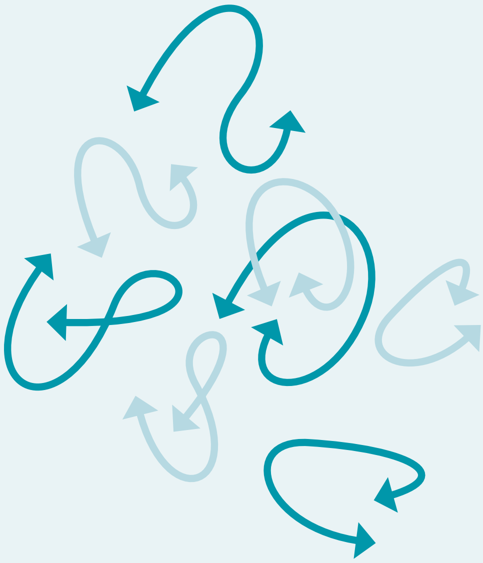
Effective PM follows a causal chain of four steps. Each builds on the one before it: without the first, the second is unstable; without the second, the third is impossible; without the third, the fourth is arbitrary.

We call it the Performance OS.

▶ Step 1: STRATEGIC ALIGNMENT

Creating the shared understanding that makes everything else possible.

Consider two consumer goods companies competing in the same market. One is in growth mode – winning shelf space, entering new channels, building brand. The other is defending margin and category leadership after years of expansion. Both EXCOs say they want "high performance." But one means speed, boldness, and market penetration. The other means pricing discipline, operational reliability, and measured risk. Put the wrong performance standard inside either business and you will reward the wrong behaviors, lose the wrong people, and direct everyone toward a strategy you are no longer running.



Effective performance is contingent on alignment at the executive level. Before any goal-setting, feedback conversation, or talent decision can be meaningful, leaders must genuinely agree on what performance means in their context: what the strategy requires, where excellence is non-negotiable, and what behaviors and outcomes matter most.

Without alignment on this and how strategy execution and financial, operational, and people performance should align to execute the strategy, functions optimize for their own priorities, teams pull in different directions, and execution slows. Not because people are failing, but because they are succeeding at the wrong things.

This alignment does not require months of work. A focused set of leadership conversations, often over a few weeks, is enough to surface the gaps and agree on what high performance looks like across the business. The conversations that matter:

- What performance do we need, where, and why?
- What does 'great' look like in practice, not in general, but for our context?
- Does our current PM system reinforce this standard or undermine it?
- If it undermines it, what must change and who is accountable for changing it?

The goal is not alignment for its own sake. It is to ensure that every decision that follows, about goals, feedback, development, and reward, is anchored to the same definition of what the strategy requires.

▶ Step 2: EXECUTION FOCUS

Translating strategy into coordinated, accountable action.

Alignment at the top creates the conditions for execution. Step 2 addresses a different challenge: making strategy relevant to the people who must deliver it at every level of the organization.

This is where performance is most often lost. Not because people lack motivation, but because priorities are unclear, conflicting, or constantly shifting without explanation. Because teams do not understand how their work connects to the strategy. Because accountability is diffuse, spread across too many people to belong to any of them.

The most effective organizations close this gap through team-based goal-setting. OKRs, quarterly priorities, or similar mechanisms, used not as bureaucratic process but as a discipline for creating shared understanding and genuine accountability.

The test of performance focus is whether every person can answer four questions with confidence:

- What am I accountable for?
- Why does my work matter to the strategy?
- What does 'great' look like for what I do?
- What do I need to do, concretely, to deliver and improve my performance?

When people cannot answer these questions, the problem is rarely individual. It is systemic: a failure to translate strategy into the reality of specific teams, functions, and markets. That is the gap Step 2 closes.

▶ Step 3: PERFORMANCE ACCELERATION

Building the habits that improve performance in real time.

Once people know what they are accountable for and why it matters, the work is to ensure it actually happens consistently and improves over time.

This is where most PM systems fail most visibly. They rely on conversations that are infrequent, backward-looking, and incapable of changing anything. An annual review cannot accelerate performance. It can only record it.

High-performing organizations build performance into the rhythm of work.

Weekly 1:1s focused on near-term deliverables, barriers, and support needs, not status updates. Regular team reviews where progress is shared, feedback exchanged, and priorities adjusted as conditions change.

Managers and peers reinforcing the right behaviors when they occur, not months later, through coaching, recognition, and corrective feedback that show people what 'great' looks like in practice.

Development in small, targeted increments that build capability quickly, rather than annual plans that are never executed.

This is not about adding more meetings. It is about shifting the content of existing conversations, so they become engines of improvement rather than administrative obligations.

One underappreciated shift: the most effective organizations anchor performance in teams, not just individuals. Team-based OKRs or objectives, peer feedback, and shared accountability replace the traditional model of individual targets handed down from above, and creates a culture where performance is a collective endeavor, not a personal audit.

The questions that should be answerable at this stage:

- Are our people performing the right way?
- Are they improving? Are the conversations happening that improve performance and develop people?
- Do we reinforce the behaviors we want to see more of and address the ones we do not?
- Can we pivot quickly when priorities change?

▶ Step 4: ADAPT AND REWARD

Closing the loop with fairness, perspective, and strategic intent.

Effective PM includes periodic moments of reflection, typically once or twice a year, where leaders step back from the day-to-day and take a broader view. These are not performance appraisals in the traditional sense. They are strategic check-ins with three distinct purposes:

Talent and career: What are the individual's career aspirations – and what needs to be true to make that a reality?

Assess and adapt: Is PM still delivering the right performance? What has changed in the strategy or the environment that requires a different standard? What must shift?

Develop the talent base to prepare for the next cycle: How do we build the right capabilities? Where are the gaps? What development, mobility, and succession decisions need to be made now?

Reward fairly: How do we recognize and reward people in a way that is transparent, consistent, and reinforces the behaviors the strategy demands?

The sequencing matters. Reward decisions made without the foundation of Steps 1 through 3 are not PM. They are guesswork dressed up as process.

When done well, these conversations feel connected to work people have actually done, not to a rating distribution imposed after the fact. People understand why they are being recognized, what they need to do differently, and what the organization values.

When done poorly, they are the moment that destroys the trust built by everything that preceded them. And no redesign of the reward system will fix a problem that begins in Step 1.

What this looks like for Helen

Now contrast Helen's experience with what it looks like when the Performance OS is working.

Within two weeks of the planning cycle, Helen is in a room with teams from Product, Marketing, and Customer Service. The conversation does not start with objectives. It starts with a problem: the business has been losing mid-market accounts at a rate that has begun to alarm the board. Exit interviews point consistently to the same theme – customers feel like they are dealing with a company that does not know them.

By the end of the session, Helen knows exactly what she is being asked to do: reduce average response time on the top 20 accounts by 20%, ensure every client has a named point of contact who initiates a quarterly check-in, and surface account risks before they escalate.

She also knows what her peers are doing – Product is simplifying the onboarding experience, Customer Service is redesigning the escalation path – and what her team's role is: to be the connective tissue, the ones who catch friction early, before it becomes a lost account.

Helen goes back to her team. She does not hand them a strategy document. She has a conversation. She explains the business problem, what the firm is doing about it, and what it means specifically for each of them. She doesn't tell people what to do – the conversation starts with her team proposing how they can each contribute the most. For her most experienced team member – strong on relationships, but typically reactive – the objective is clear: shift from responding to problems to anticipating them. Her development focus for the year is structured proactive outreach, with a specific quarterly contact target and a peer she will shadow to see what good looks like in practice. For her newest hire, the expectation is more concrete and bounded: know the top 10 accounts by end of Q1, complete three structured client conversations before mid-year, and bring findings back to the team. Ambitious, without being overwhelming.

In their 1:1s, Helen and her manager do not ask "how is customer centricity going?" They look at the contact log, talk through specific accounts, and ask what is getting in the way.

Once a month, Helen brings the team together to share what they are learning: which clients are responding, which behaviors are making a difference, where the friction still is. Also here, the focus is forward, not backwards. Peer feedback and solving problems together becomes the norm.

Twice a year, Helen and her peers step back for a broader conversation: is the right performance happening, are the account trends moving in the right direction – does anything need to change? Compensation is handled in the same spirit – transparently, anchored to the behaviors the strategy demands, not to whoever argued most convincingly during the calibration.

Once a year, Helen meets with her manager for a broader conversation about her progress and career. She understands what the organization values and what it would take to grow. Her team feels it too. The business moves faster because of it.

Where to start

The Performance OS describes what effective PM looks like at full maturity. But organizations do not need to build it all at once. In our experience, the fastest path to measurable improvement runs through a single capability that sits at the heart of every step in the model: the quality of the conversations leaders have with their people.

Four conversations, in particular, determine whether the Performance OS works in practice or remains a framework on paper:

▶ Clarifying expectations

Most leaders assume shared understanding exists. It rarely does. The single most impactful thing a manager can do is invest time in ensuring every person on their team knows specifically what is expected of them, why it matters, and what great looks like in their context. This is the foundation. Without it, nothing downstream works.

▶ Giving feedback and reinforcement

Feedback is only useful when it frequent and occurs close to when the behavior occurred. The shift from annual reviews to ongoing, real-time feedback is the highest-leverage change most organizations can make. It is also among the most underdeveloped capabilities in the average leadership population.

▶ Enabling development

The most effective development does not happen in annual planning cycles. It happens in small, targeted increments connected to current work, addressing problems people are facing. The conversation that matters is not 'what are your development goals for the year' but 'what do you need to learn to get better at what you are doing right now?'

▶ Talking talent and career

Honest conversations about aspirations, potential, trajectory, and career direction build the trust that makes everything else in the PM system work. Most leaders avoid them because they are difficult. That avoidance is expensive in lost engagement, misaligned expectations, and talent that walks out the door wondering why no one ever told them where they stood.

Many leaders struggle with these conversations. Some avoid them entirely. Others conduct them in ways that create confusion rather than clarity. None of this is a character flaw. These are skills, and like all skills they can be built through coaching, structured practice, peer feedback, and visible role modeling at the senior level.

The practical implication is this: organizations do not need to redesign their PM system before they start seeing results. In our experience, organizations that invest seriously in these four capabilities see measurable performance improvement within two to three quarters, well before any structural redesign is complete.

Master these four conversations across your leadership population, and the Performance OS largely builds itself.

The bottom line

Improving performance is not about reinventing PM. It is about returning it to its original purpose: enabling people and teams to do their best work in service to the strategy.

The organizations that execute best are not the ones with the most sophisticated processes. They are the ones that create clarity at the top, translate that clarity into focused team and individual accountability, build the habits that improve performance in real time, and reward people in ways that feels fair and reinforces the behaviors the strategy requires.

The principles are clear. What separates the organizations that improve from those that don't is not knowledge – it is the discipline to apply them consistently, and the honesty to diagnose where the current system is falling short.

One final point – and in our view the most consequential one for leaders navigating transformation. Most organizations treat PM as a mechanism for managing today and transformation as a separate initiative for tomorrow. That separation is a mistake.

The infrastructure that aligns effort, builds accountability, and embeds new behaviors is the same infrastructure transformation runs on. Without effective PM, transformation remains a leadership aspiration – visible at the top but never landing in the organization. With it, transformation becomes executable. People know what is changing, what is being asked of them, and what success looks like in the new model.

PM is not the administrative layer beneath strategy. Done right, it is the operating system that makes strategy real.

Start the conversation

If your PM system is not delivering the performance your strategy requires – or if you're not sure whether it is – we'd like to talk. Reach out to M|pact Global to schedule a conversation with your leadership team about how you can overcome the performance delusion.

A focused conversation with your leadership team is often enough to surface what is getting in the way and agree on where to start.

To schedule that conversation and overcome the performance delusion, reach out to Marco Mingolla, our Performance Management Practice Leader at marco.mingolla@mpactg.com or schedule a call by clicking here.

THE PERFORMANCE OPERATING SYSTEM

Identifying the critical steps to executing your strategy and improving performance

STRATEGY EXECUTION AND PERFORMANCE

How we deliver the right performance to execute our strategy

- What performance do we need, where, and why to execute our strategy?
- What does 'great' look like in practice, not in general, but for this function, this team, this market?
- Does our current PM system reinforce this standard or undermine it?
- If it undermines it, what must change and who is accountable for changing it?

ENABLING PERFORMANCE

How we enable the right performance

Enabling structures (Operating Model)

- Structure and role clarity
- Decision rights
- Processes and workflow
- Tech and tools
- Metrics and dashboards
- Resource and talent allocation

Enabling behaviors (Leadership Culture)

- Leadership performance habits
- Alignment and focus
- Accountability and commitment
- Abilities and capacity
- Cohesion, collaboration and trust
- Effective reinforcements

THE CAUSAL CHAIN

How we ensure everything and everybody line up to deliver the right performance

1. Strategic Alignment

Are our leaders aligned on what performance is needed where and when – and what 'great performance' looks like?

- Enabling structures: priorities, governance and cross-functional alignment
- Enabling behaviors: executive alignment and cohesion, role-modelling and shared beliefs

2. Execution Focus

Do our people work on the right things, the right way?

- Enabling structures: team OKRs, accountability and workflows
- Enabling behaviors: purpose, clarity and commitment

3. Performance Acceleration

Are we improving performance the right way and in the flow of work?

- Enabling structures: performance data, multi-source feedback, team review cadence and JIT development
- Enabling behaviors: reinforcements, feedback and communication

4. Adapt and Reward

Are we adapting to strategy shifts and rewarding fairly?

- Enabling structures: market and strategy status, performance and talent reviews, reward mechanisms
- Enabling behaviors: fairness, transparency and trust

FOUNDATIONS

Human performance enablers:

- Clear and meaningful direction
- The ability to do great work
- Growth and forward momentum
- Supportive, trust-based environment

TALENT SYSTEM

Talent + Performance = Strategy Execution

- Talent and Succession: right people, right place
- Performance Management: right work, right way

DECISION TOOL

Continue / Start / Stop

- Continue: what is working and must be protected or strengthened?
- Start: what must we introduce to execute our strategy?
- Stop: What is undermining performance and must be removed?

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