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A Strategic Buyer's Guide: Performance Management Systems

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Why Performance Management Software Matters

For too many companies, performance management consists of an annual review — and not much else.

It's seen as a box to check rather than an opportunity to help employees become more productive or move up the ladder. It's no wonder only 2% — *two percent* — of CHROs think their current performance management systems inspire employees to improve. It's clear that traditional processes are falling short.

Done right, performance management is the foundation of a culture where employees feel engaged, supported, and motivated to grow.

80% of employees who **receive meaningful feedback weekly** are engaged at work.

Retention is as much as 34% higher when employees get ongoing feedback and feel career growth is supported.

Companies with strong talent development strategies see **30% higher revenue.**

See how **Kinetic Construction** supports employee engagement and professional development with ClearCompany.

Performance management software helps you achieve these results. With the right system, you can transform your strategy, empowering your HR team, streamlining processes, and delivering actionable insights to help employees thrive.

We created this guide to simplify the software selection process. From identifying your organization's needs to vetting vendors and asking the right questions, we'll help you find a performance management system that fits your team and drives real results.

Building the Business Case for Performance Software

Before you can choose the right software, you need to get the green light for a new performance management system.

To make a convincing case, first identify who will be involved in approving the budget and making the final purchasing decision.

There are many reasons to invest in a new performance management system:

- ✔ A need for new strategies that improve business outcomes

- ✔ Demand for employee development

- ✔ Align employee and company goals

- ✔ Raise performance standards

- ✔ Retain high-performing employees

- ✔ Improve employee-manager relationships

- ✔ Increase employee engagement and job satisfaction

- ✔ Build stronger, more focused teams

- ✔ Identify opportunities for succession planning and advancement

- ✔ Link compensation to performance

- ✔ Give employees a clear path to promotion

- ✔ Provide more effective feedback to employees

- ✔ Make goals and objectives more transparent company-wide

Take these steps to get buy-in from the business:

1. List each stakeholder's name, title, department, role in the decision-making process, and specific performance management challenges.

2. Identify the issues each stakeholder needs the new system to solve.

3. Determine need-to-have vs. nice-to-have features to ensure everyone agrees on which features are non-negotiable and make the final decision easier.

4. Outline the business case for the new performance management system. You'll need to clearly show the problems affecting performance and how a performance management system would help solve them. Make sure to include metrics to illustrate your points.

You can use the following metrics to make the case:

1. The current estimated or actual time spent managing your performance review process.

2. Analyst findings or reports on companies with performance management systems in place from firms like Gartner and Forrester.

3. Data showing the positive impact of a performance management system from review sites such as G2 and Software Advice.

The Need to Update Your Performance Management System Is Greater Than You Think

$438 billion

Disengaged employees cost U.S. companies an estimated $438 billion per year.[1]

30%

Aligning goals and switching to monthly vs. annual performance conversations can increase revenue by up to 30%.[2]

98%

98% of CHROs are dissatisfied with their company's annual performance review process.[3]

6 Steps for Choosing PM Software

Here's a quick overview of the steps involved in choosing the best performance management system:

1. Set your goals and budget, and determine which features are needs vs. wants.

2. Research and shortlist software vendors.

3. Request personalized demos and walkthroughs.

4. Discuss software options, including pricing models and contract terms, with stakeholders.

5. Choose your vendor and begin implementation!

6. Continuously evaluate the system for efficiency and effectiveness.

1. Define Your Software Goals & Budget

Before investing in a performance management system, get together with the internal team that will be making the decision to understand your organization's software goals and budget. A clear understanding of needs and what you can spend will make it easier to evaluate options and select a solution that genuinely supports your goals.

Your goals are the outcomes you want to achieve by implementing the new software, e.g., set regular performance review cycles; make review processes streamlined and paperless; or gain productivity insights. Align your goals with business objectives to ensure you're contributing to those, as well. For example, your goal of gaining productivity insights connects with the business' goal of increasing revenue.

Set as many objectives as you'd like, but be sure to identify flexible goals vs. nonnegotiables.

Here are some questions that can help your team of stakeholders set well-defined goals and stick to the budget:

☐ What are the current challenges in our performance management process?

☐ Which parts of our current system are most time-consuming or inefficient?

☐ Are there any compliance or reporting requirements that the software needs to address?

☐ Does our budget account for the initial implementation and training as well as ongoing support?

☐ What is our timeline for research, purchase, and full implementation?

Pro Tip

Prioritize your non-negotiables, but don't overlook future growth. Choosing a system that adapts as your organization evolves saves time, money, and headaches down the road.

2. Create a List of Preferred Vendors

Once your goals and priorities are in place, it's time to research potential vendors. Start by identifying software providers with positive reviews and expertise in performance management. Check whether their solutions align with your non-negotiable features and budget. Keep your list small — no more than five or six vendors — to keep comparisons manageable.

Here are some factors to consider as you make your list of performance management system vendors:

- ☐ Does the vendor typically work with similarly-sized businesses? You wouldn't want to demo a system that works best for small businesses when your headcount is in the thousands.

- ☐ Is the vendor experienced in serving your industry? Systems designed with your sector's specific needs in mind will likely provide more relevant tools and features.

- ☐ Will the system integrate seamlessly with your existing tools, including HRIS platforms, payroll systems, or collaboration tools?

Pro Tip

Look for case studies or testimonials from companies in your industry to see how the software performs in similar environments.

3. Request Tailored Demos

Once you've narrowed down your list of vendors, reach out to them to schedule personalized demos. Demos are your opportunity to see the software in action and understand how it could solve your issues and boost your performance management strategy. Be upfront about your goals, requirements, and pain points so vendors can tailor the presentation to your needs.

Ensure that key stakeholders, such as hiring managers or IT leaders who will work closely with the system attend demos. Their input ensures critical details aren't overlooked. Take notes and discuss each session with the team afterward.

During demos, be sure to think about:

- ☐ The system's user-friendliness and whether it seems intuitive for employees at different levels

- ☐ The level of customization available to fit your organization's unique needs, from workflows to branding

- ☐ How in-depth the system is able to go with reporting and analytics to track performance effectively

Pro Tip

Prepare a checklist or evaluation form beforehand and share it with all stakeholders to easily compare demos based on functionality, ease of use, and alignment with your goals.

4. Weigh Your Options

After the demos, bring your team together to compare your options. Review each vendor's pricing models and features side by side. Make sure you fully understand what's included in the price — for example, are implementation and training part of the package, or is there an additional cost? Also consider long-term costs, such as subscription fees, updates, or your own projected headcount growth.

This is also the time to discuss contract terms with vendors. Look out for details like minimum contract lengths or cancellation policies, and be ready to negotiate if certain terms don't feel like a fit.

Pro Tip

Don't automatically jump for the cheapest option. Prioritize value for money by focusing on how well the system can meet your needs over time.

6. Continuously Evaluate Your Software

Implementation is just the beginning. To make sure your performance management system continues to meet your needs, schedule regular evaluations. Use reporting tools within the software to assess its impact on your goals.

You might consider:

- [ ] Has employee productivity improved?

- [ ] Are performance reviews happening more efficiently?

- [ ] What feedback are employees and managers providing?

- [ ] Have you leveraged the system's analytics and reporting tools? If so, have you made any unexpected discoveries or effective improvements based on what you learned?

Keep an eye on your organization's evolving needs and ensure your system can scale or adapt accordingly. Plan for regular check-ins with your vendor to explore updates and additional features and keep them informed on business developments that might require system upgrades.

Pro Tip

Treat feedback like gold. Both data and user input will help refine how you use the system and ensure it's contributing to your business goals.

5. Make a Decision & Begin Implementation

Once you've selected a vendor, it's time to move forward with the implementation process. First, review the contract carefully (yes, even the fine print), and clarify timelines, responsibilities, and support levels during the implementation phase. Once everything is signed, work with the vendor to set up the software and plan the rollout.

Make training a priority. Provide team members with the resources and guidance they need to get comfortable with the system. Partnering closely with the vendor during this phase can streamline data migration and troubleshooting.

Pro Tip

Assign an internal project lead to oversee the entire process, moving it forward and acting as the main point of contact between your team and the vendor.

Must-Have Performance Management System Features

Modern workplaces thrive on continuous feedback, real-time updates, and insights you can actually use.

Gone are the days of static, once-a-year performance reviews. Today, a great performance management system empowers employees, managers, and HR teams alike.

From tracking progress on goals to sparking meaningful conversations between employees and their supervisors, the right system keeps everyone aligned and accountable. Add in AI-enhanced data analytics, and you've got a tool that measures past performance and drives future growth.

Take a look at some of the top features to look for in an effective performance management system.

Basic Functions

- Set team and individual goals
- Deploy performance reviews smoothly
- Easily collect appraisal information
- Export performance data
- Use performance data to inform managers of top performers

Unique Functions

- Align and manage goals
- Allow goal and task feedback from managers
- Real-time progress updates
- Visual representation of goal progress
- Public recognition functions for engagement
- Social collaboration elements
- Library of performance review templates, including 360-degree reviews
- Automated and customized review workflows
- Custom reports and dashboards with AI-enhanced analytics
- Compensation planning tools or integrations
- Employee engagement surveys

Questions To Ask Your PM Vendor

The choice to go with one software solution over another depends on a unique mix of factors for every business.

It's helpful to have every detail on hand so you can accurately evaluate systems with leadership and make the most informed choice.

We created a checklist of questions you can keep close by during performance management software demos. Ensure the systems you consider are covered when it comes to accessibility, simple integration, flexibility, affordability, optimal training and support, and high functionality.

Vendor Comparison

1. How long has the vendor been in business, and how many clients use the software?

2. What industries and size of business does the vendor typically serve?

3. Who guides the development of the software, and are customer suggestions usually considered or implemented?

4. What types of customer reviews does the company receive, and how does it respond to negative reviews?

5. What awards has the vendor received?

6. How are technical and customer support functions rated?

7. What does the customer service program look like?

8. How often are feature updates or improvements released? How are customers informed?

9. How often does the system get new features? What are some features coming out in the next release?

Software Functionality

10. Does the system include performance review templates?

11. Can I create custom reviews?

12. Can I create my own rating scales?

13. Does the system automatically notify or remind employees to complete open performance reviews, including manager reviews and self-assessments? Can I customize these notifications?

14. What does a completed review look like?

15. Can I create custom reports and dashboards to look at specific data , including performance by department or review cycle completion rates?

16. Does the system offer integrated Learning Management System (LMS) features, such as creating, delivering, and tracking employee development programs?

17. Can the system recommend learning paths or training content based on employees' performance reviews or identified skill gaps?

18. Can the system leverage learning and development data to enhance performance insights?

19. Is the performance management system part of an integrated talent management ecosystem? Can we expand its capabilities in the future with additional modules, features, etc.?

Integration

20. Can the system integrate with our other HR systems? (List the HR systems you're using)

21. Will any third parties need to have access to our performance data?

Training & Support

26 How much time is needed to onboard and train HR, managers, and employee users to the new system?

27 If our employees have technical issues completing reviews, is there an account manager or support team they can reach out to?

28 Does the system provide ongoing training support, for instance, when new HR employees begin using the system or when new features are released?

Data Management & Security

29 What is the system hosted on, and is the data file fast, reliable, and able to grow?

30 How is data exported, and can it integrate into other systems?

31 What security measures does the system provide to protect employee data?

Implementation

32 What is the timeline for implementation?

33 How does the implementation process work?

34 What do we need from our IT department during and post-implementation?

Cost

35 What is included in the package or offer? What's the additional cost of any features or services that are not included?

36 What are the contract and payment terms?

User Experience

22 What is the user experience like for HR employees managing reviews?

23 What is it like for managers and reviewers?

24 What is it like for employees being reviewed?

25 What is the technology experience level of the average user, and how does this system accommodate those who aren't as tech-savvy?

Start Your Search for the Perfect Performance Management Software

A great performance management system drives growth, aligns goals, and boosts employee engagement.

ClearCompany's award-winning Performance, Engagement, and Goals solutions could be just what your organization needs. Built to drive success, we're ready to meet your talent needs.

Get Your Personalized Demo