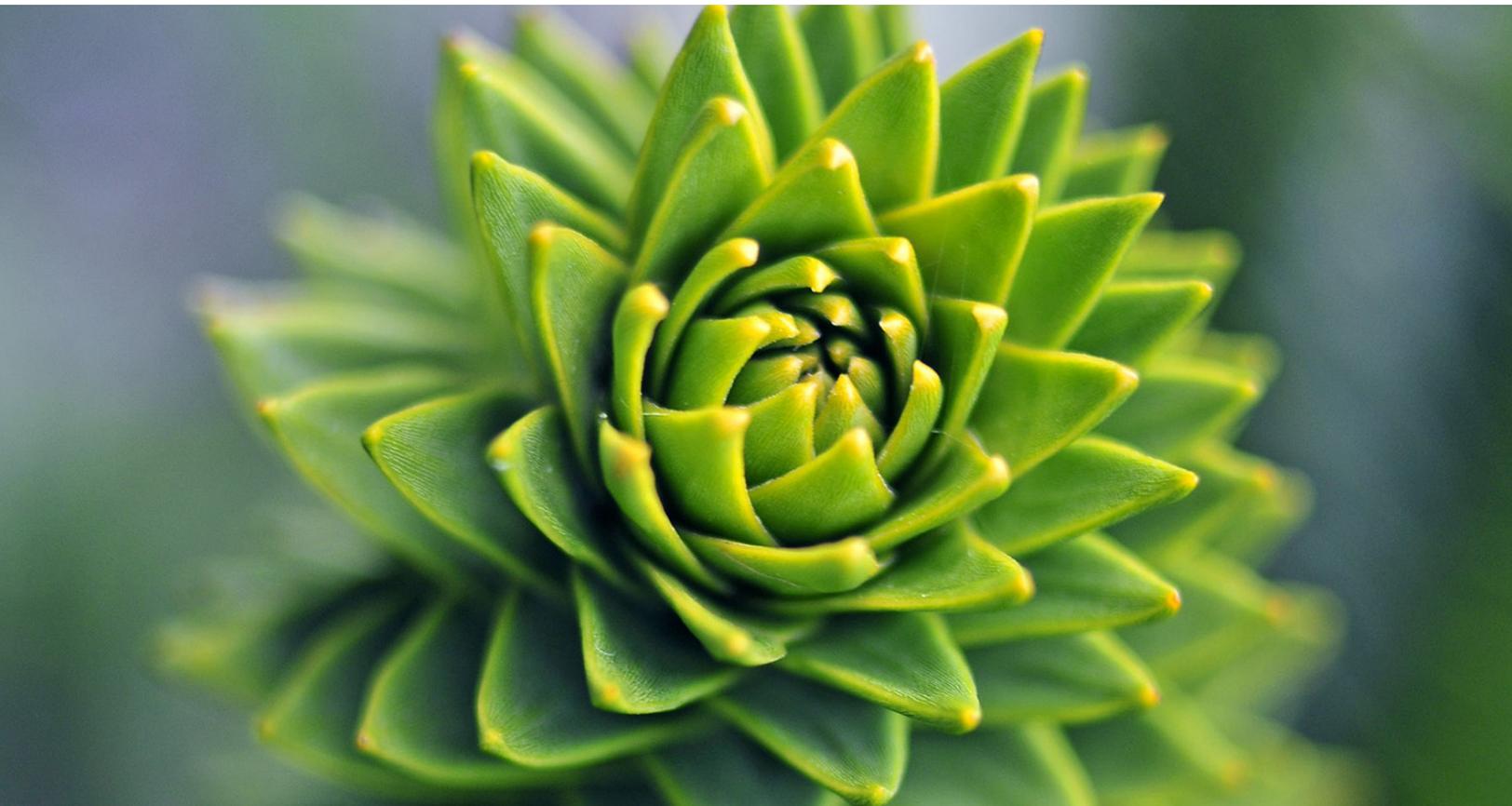


People & Organizational Performance Practice

What employees say matters most to motivate performance

A survey of over 1,000 employees creates a data-backed view of what motivates employees to perform.

*by Asmus Komm, Brooke Weddle, and Dana Maor
with Katharina Wagner and Vivian Breaux*



The past few years have been a confounding time in performance management. Disruptions of long-standing workplace norms have led [many employees to rethink their expectations of employers](#) regarding remote work, employee burnout, and work–life balance. Compounding these challenges, an inflationary economy and a slower hiring market have put pressure on employers to “do more” with the talent they already have.

[Organizations have responded to this volatility](#) by seeking new formulas to motivate talent, including rethinking their approaches to performance management. Of course, tweaking performance management is not new: [McKinsey’s prepandemic research](#) found that most companies had made at least one major change to their approaches in the prior 18 months. But recently, we have seen companies consider more sweeping changes. Some have streamlined goal setting and formal review processes, separated performance and compensation conversations, or simply done away with ratings altogether.

McKinsey’s 2024 performance management survey

In late 2023 and early 2024, McKinsey ran an anonymous global survey in 11 countries across continents, with roughly 1,200 respondents. Respondents worked in organizations with 1,000 to over 100,000 employees and held a range of positions, including nonmanagement, frontline management, middle management, top management, and executive level. Respondents’ industries included automotive, technology, industrial manufacturing, energy and power, defense, and semiconductors. The survey asked respondents to rank their level of agreement with 54 statements related to performance management, including the following: “My individual performance goals are clearly linked to my company’s and/or my team’s goals,” “The way my company conducts performance reviews motivates me to perform better,” and “My rating reflects my achievement of my individual performance goals.”

Yet as organizations weigh changes to performance management, it’s difficult to understand what will yield the highest ROI. Leaders are often forced to rely on anecdotal case studies and success stories from others’ experiences to help boost employee motivation to perform. While a plethora of books and articles have been published on the topic in recent years, a “data desert” remains, with a lack of quantitative insights derived from what employees say most inspires and motivates them.

Our survey of more than 1,000 employees across the globe sought to shed light on what matters most to employees and offer a new fact base for employers to weigh varied performance management methodologies (see sidebar, “McKinsey’s 2024 performance management survey”). We tested a range of options to understand employee perceptions, including approaches to goals, performance reviews, ongoing development, and rewards.

The survey responses in some cases confirm what intuition has long suggested. In other cases, responses indicate ways to tailor performance management to the unique needs of an organization. Overall, the responses point to essential areas of focus as organizations weigh performance management redesigns. New data helps to better identify options most worthy of investment, based on sources of employee motivation.

A consistent and clearly articulated performance management framework wins the day

The most resonant overall survey finding was this: performance management is most effective when it features strong, consistent internal logic that employees understand.

In recent years, some companies have shifted away from results-based performance management goals and metrics in favor of measures that balance what an employee achieved with how they achieved

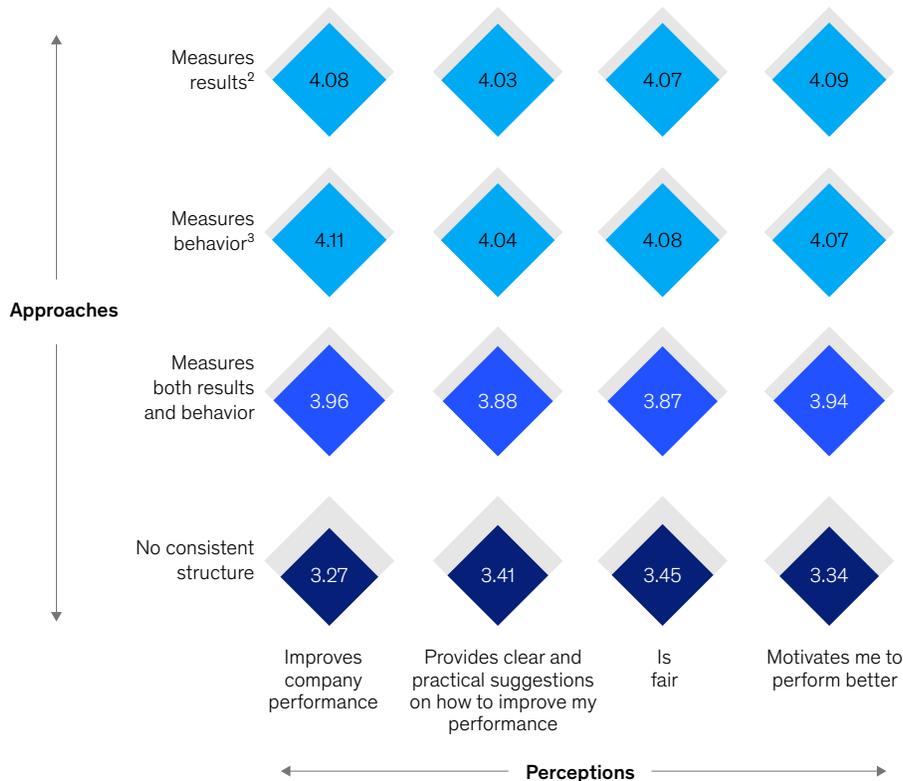
it. The rationale is partly to make employees feel they are assessed in a more holistic way that considers external factors that contributed to their ability to deliver on a result. The holistic approach also measures how well employees adhered to company cultural norms and leadership expectations. However, the survey results revealed that respondents did not view results-based assessments particularly negatively. Instead, what worked less well were systems without clear and easily understood structures, which respondents viewed as significantly less motivating and fair.

These findings stress that when it comes to building the overall framework for performance management, consistency and simplicity win the day (Exhibit 1). Approaching each element of performance management separately had a lower effect on motivation to perform. Instead, the way the four pillars work together made a difference for respondents. Approaches with a coherent, connected framework across goal setting, performance reviews, feedback, and rewards correlated with the highest motivation to perform. [Each company can design a fit-for-](#)

Exhibit 1

Employee respondents were most positive about clear, consistent approaches to performance management.

Organizations' approaches to performance management, by respondents' perceptions (1 = low, 5 = high)¹



¹Survey responses based on 5-point scale (strongly agree, agree, neutral, disagree, don't know); n = 1,182.

²Defined as performance management measures based on meeting performance goals linked to financial or operational KPIs.

³Defined as performance management measures based on adherence to company cultural norms and leadership expectations for achieving performance goals. Source: McKinsey 2024 performance management survey

The survey responses suggest employers may be overemphasizing ratings frameworks and overlooking the criticality of how ratings are given.

[purpose approach tailored to the needs of its organization](#), ensuring core elements are well connected and articulated to employees.

Goal setting has impact when goals are measurable and clearly linked to company priorities

Goal setting has long been accepted as a critical tool for improving performance. The survey puts some hard data behind the decision to invest time and energy into goal setting: 72 percent of respondents cited it as a strong motivator. However, the “what” and “how” of setting those goals are less definitively understood. The survey results shed light on both questions.

What makes an effective goal? The survey revealed that employees felt more motivated when their performance goals included a mix of both individual and team-level goals and when their goals were clearly linked to their company’s goals. Respondents also reported feeling more motivated by goals that felt measurable (Exhibit 2).

However, the survey also suggests that just as important as the content of a goal is the process by which it is set. Employees tended to be more motivated and perceive the performance management approach as fair when they were involved in the process and the goals were updated throughout the year to align with team and company priorities.

These findings suggest high ROI when managers spend time throughout the year counseling employees on updates to align goals with current business priorities and articulating the connection between individual and team goals.

Performance reviews with skilled managers are crucial to employee performance

As employers meet evolving employee expectations, many have rethought their approaches to performance reviews by focusing on changes to ratings. Some have shifted from numerical scales (for example, one through five) to word-based systems (for example, from “underperforming” to “exceeds expectations”) or have done away with ratings altogether.

But the survey showed that different ratings scales (for example, those that measured results versus behavior) yielded negligible differences in how much motivation employees reported.

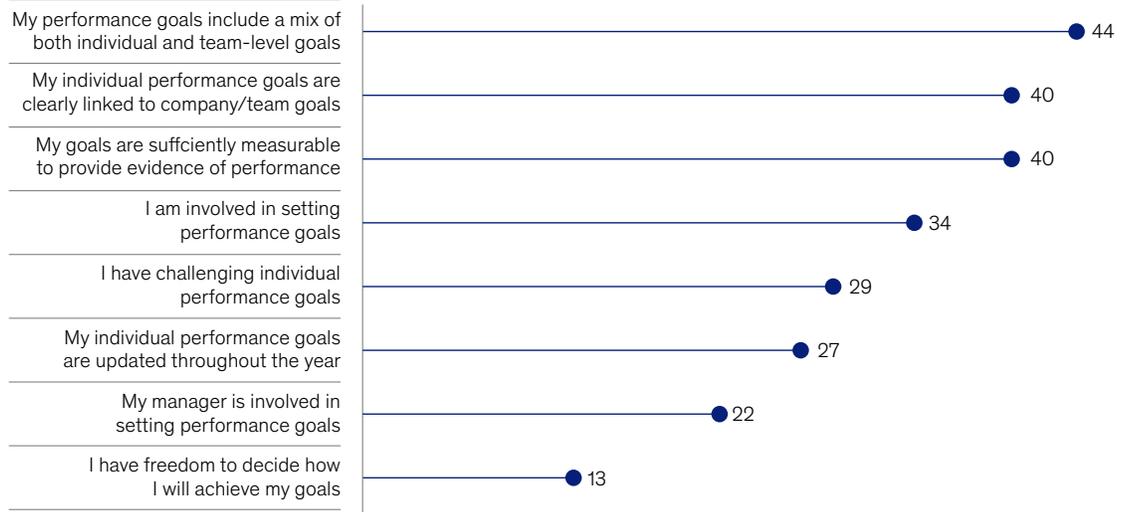
There was also no significant difference between receiving no rating and receiving a rating on a two-point scale (such as a “pass or fail”) or a three- or five-point scale.

Instead, the survey responses suggest employers may be overemphasizing ratings frameworks and overlooking the criticality of how ratings are given. Our survey indicated employees were significantly

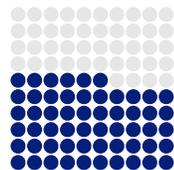
Exhibit 2

Employee respondents felt most motivated by measurable goals and those linked to company and/or team goals.

Share of respondents stating that approach to goal setting increased motivation,¹ %

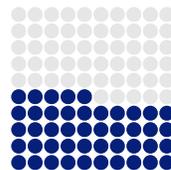


Goal-setting approaches most often observed in use together



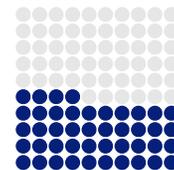
56%

of respondents who had goals that **were a mix of team and individual goals** also had goals that **they were involved in setting**



45%

of respondents who had goals that **they were involved in setting** also had goals that **were updated throughout the year**



44%

of respondents who had goals that **were a mix of team and individual goals** also had goals that **were sufficiently measurable**

Source: McKinsey 2024 performance management survey

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more motivated by performance reviews when they were offered by a skilled manager and reflected the individual achievement of a performance goal. This was especially true when managers were involved in setting goals and, therefore, well informed when it came time to assess performance (Exhibit 3).

Investments in manager training to foster meaningful development discussions pay dividends

The survey data also shows how big a difference ongoing development discussion outside the review cycle can make. Only 21 percent of respondents who had no development conversations felt motivated by their companies' performance management, compared with 77 percent of those who received ongoing feedback.

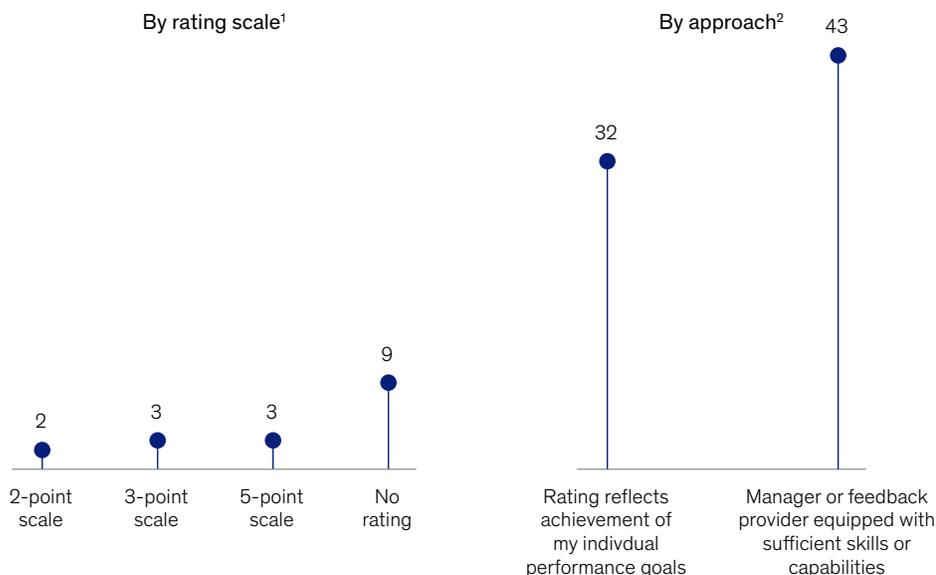
When it comes to providing feedback, manager training is critical, given that nearly 25 percent of survey respondents said their managers or feedback providers did not have sufficient skills or capabilities to conduct their performance reviews. At large companies (with 10,000 to 50,000 employees), 34 percent of respondents cited this lack of skills. Large companies in particular could designate [more power and resources to middle managers](#)—traditionally the most passionate and capable coaches within an organization.

But how can employers empower managers without creating excessive workloads? Because both managers and employees often [find the process of providing and receiving feedback taxing](#), some companies try to limit these exchanges to only once a year. However, given the decisive benefit of

Exhibit 3

Employee respondents felt more motivated by performance reviews given by a skilled manager than those based on a specific rating scale.

Organizations' approach to performance reviews increases motivation, % of respondents agreeing



¹Survey responses based on 5-point scale (strongly agree, agree, neutral, disagree, don't know); n = 1,182.

²Survey responses based on participants' selection of ratings format that most reflected their organizations' approach; n = 1,182.

Source: McKinsey 2024 performance management survey

regular feedback that our survey revealed, a better approach may be to equip managers with the right tools. [Generative AI can make it easier for managers to deliver better feedback](#)—for example, by synthesizing insights from the colleagues who work closely with an employee.

Rewards that include nonfinancial incentives provide a boost

Money matters, of course. But the survey also suggests that, as work–life expectations continue to shift, nonfinancial rewards, like opportunities for upskilling or professional development, can play an increasingly important role in performance management strategies.

The survey showed a strong relationship between employers' use of both financial and nonfinancial rewards and employees' perceptions of their personal motivation and performance improvement. The survey also shed light on a unique distinction:

employees were more likely to perceive that their organizations' performance management systems were improving *company performance overall* when nonfinancial rewards were used. Taken together, these findings suggest that nonfinancial rewards can serve as a critical booster for the success of a cohesive performance management system (Exhibit 4).

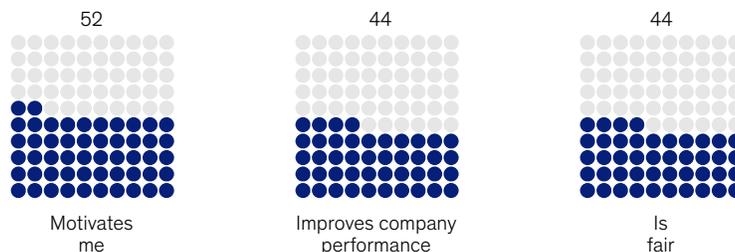
Previous McKinsey research has found that [nonfinancial incentives should appeal to five sources of meaning](#): society, client, company, team, and self. These findings align with abundant social science research.¹ Nonfinancial incentives could include an immediate manager's praise, a step-up opportunity to lead a high-profile project, greater autonomy, or more workplace flexibility.

Nonfinancial incentives, like other aspects of an effective approach, should be both frequent and explicitly tied to desired behaviors. They can be used to reward progress toward large, company-

Exhibit 4

More than half of employee respondents felt motivated when financial rewards were combined with nonfinancial rewards.

Characteristics of organizations' approach to rewards, % of respondents agreeing



Source: McKinsey 2024 performance management survey

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¹ Jena McGregor, "What companies get wrong about motivating their people," *Washington Post*, November 25, 2016.

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wide goals; small, private goals specific to individual employees; or career moves, among other things. Thoughtful deployment of these rewards can help reinforce elements from across the four pillars of a cohesive system.

Economic volatility and shifting workplace norms have sparked many employers' renewed interest in creating the right performance management

formula. Our survey suggests that cohesive overall design and effective execution are the most important focus points.

As organizations consider their approaches across the four performance management pillars—goal setting, performance reviews, ongoing feedback, and rewards—we urge them to pay close attention to the “what” and the “how” to motivate and inspire employees.

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