The Impact of Tencent's Performance Management Reform on Enterprises and Employees

Chenjia Du
Laiwu No.1 Middle School, Jinan 250102, China

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Abstract: In the context of intensified competition in the internet industry, performance management has become a core tool for companies to enhance efficiency and competitiveness. This paper takes Tencent as a case study, using literature analysis, case comparison, and data statistics to systematically examine the dual impact of its performance management system reform on both the organization and employees. The study finds that while Tencent's original five-star performance system had clear goals, the forced distribution led to internal competition and a complex promotion process resulted in talent loss. After the reform in 2022, the evaluation levels were simplified to three tiers, and promotion authority was delegated to departments. Although this reduced internal competition (the turnover rate dropped to 9.8%, lower than the industry average of 15.6%), the lack of differentiation in evaluations weakened incentives for high-performing employees. It is recommended to optimize the quantification standards for evaluation indicators, strengthen long-term equity incentives, and promote cross-departmental innovation resource integration. The research indicates that performance reforms need to balance efficiency and fairness, and dynamically adjust to align with organizational strategies, providing practical references for optimizing management in internet companies.

1 INTRODUCTION

In today's highly competitive business environment, the correct management strategy of enterprises is crucial for their survival and development. Performance management holds a central position in enterprise management, so delving into its impact on both enterprises and employees is of great significance for optimizing enterprise management. Most companies have recognized the importance of performance management and are actively exploring effective management models. Although extensive research has been conducted on it, there is still a lack of in-depth studies. For example, the scientific nature of evaluation indicators and the communication mechanisms during the evaluation process need improvement, and research on the comprehensive impact on enterprises remains insufficiently systematic and comprehensive. Therefore, this study primarily analyzes the impact of performance management on enterprises, the specific impacts on employees, and methods for optimizing the performance management system. This paper will use case comparisons to thoroughly examine the effects on both enterprises and employees.

2 MANUSCRIPT PREPARATION

Improving corporate competitiveness through performance management operations enables companies to attract and retain top talent, enhance employee performance and satisfaction, thereby boosting overall competitiveness. For example, an internet company established a collaborative system, attracting a large number of excellent technical and management talents, driving technological innovation and business development, thus securing a competitive edge in the market (Burney, Widener & Sally, 2013).

The system simplifies the management process, reduces management costs and improves management efficiency. For example, by integrating the performance management system to achieve data sharing and automated processing, the workload of the human resources department is reduced and the accuracy and timeliness of management is improved.

As the core mechanism of modern enterprise management, the performance management system continuously drives organizational efficiency improvement through strategic decoding, resource allocation, and cultural transmission. This study,

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based on empirical data from multinational corporations, reveals the specific mechanisms of performance management in dimensions such as strategic execution, talent development, and cost control (Liu, 2021).

3 CASE ANALYSIS TENCENT PERFORMANCE MANAGEMENT REFORM

3.1 Introduction of Tencent

Tencent Corporation was founded in 1998, with its headquarters in Shenzhen, and is a globally leading internet technology company. It rose to prominence early on through QQ, an instant messaging tool, and has since expanded into multiple sectors including social media, gaming, fintech, cloud computing, and artificial intelligence. The company owns core products such as WeChat, QQ, Honor of Kings, and Tencent Cloud. In recent years, as competition in the internet industry has intensified and traditional business growth has slowed, Tencent has proactively pushed for performance management reforms to adapt to its strategic transition from "rapid expansion" to "high-quality development." The core of these reforms lies in reducing short-term performance evaluations and focusing instead on long-term value and innovation. The aim is to enhance organizational agility and stimulate innovative vitality. Prior to the reform, Tencent used a five-star evaluation system, where ratings from 1 to 5 stars corresponded to different levels of performance. Among these, employees rated 4 or 5 stars accounted for 15-20% of the total, considered to be outstanding; those rated 3 stars made up about 60%, representing the majority recognized; and those rated 1 or 2 stars accounted for around 15%, seen as underperforming and in need of improvement.

Table 1: Implementation standards of assessment indicators (Du, 2025)

Classification of assessment	Description of indicators	weight	performance-appraisal cycle	code of points	Execution process and standards	Results applied
Business evaluation (performance assessment)	Focus on the work results of employees, including: -Work output (e.g. project completion rate, sales) -Customer satisfaction -Contribution of core business	70%	-Every six months (June, December) -Quarterly assessment of some sectors	-Quantitative indicators are quantified (e.g. completion rate, growth rate) -The 5-point scoring system is adopted to calculate the comprehensive score	-The goal setting follows the SMART principle and is confirmed with employees through consultation -Regularly track the progress of the target and adjust the quarterly feedback	-Performance bonus distribution -Promotion priority -High-performing employees receive stock awards
Organizational management evaluation (behavioral assessment)	Assess the employee's soft skills and attitudes, including: -teamwork -innovation ability -communication skills -conscientiousness	30%	It is carried out in parallel with business evaluation	-Qualitative indicators are assessed through 360-degree feedback (superior, colleagues and subordinates) -The same 5-point weighted calculation is used	-The performance assessment is linked to the values, which should conform to Tencent's concept of "user-oriented and technology for good" -Monthly informal feedback to assist in the annual assessment	-Development of targeted training programmes -Low performers may face elimination at the bottom

3.2 Indicators for Performance Check

As shown in table 1, the evaluation criteria, while relatively comprehensive, also have some issues. While performance is emphasized in business evaluations, certain indicators are difficult to quantify, leading to subjective assessments; the behavioral evaluation dimension in organizational management is rather vague, with inconsistent understanding and standards among different managers, making it easy for the fairness of the evaluation results to be questioned.

3.3 The Core Content of Performance Management Reform

Tencent's performance management reform focuses on four major areas: goal setting, evaluation mechanisms, incentive systems, and organizational structure. First, in terms of goal setting, the company is gradually reducing its over-reliance on short-term revenue KPIs, instead introducing Objectives and Key Results (OKR) (Xu, 2019). Management tools to emphasize cross-departmental collaboration and the breakdown of long-term strategic goals. In terms of incentive mechanisms, the reform has significantly increased the proportion of long-term incentives, such as optimizing stock options and promotion channels, encouraging employees to grow alongside the company. In terms of organizational structure, Tencent is reducing decision-making chains through de-layering and establishing business groups (such as CSIG), enhancing agility while strengthening cross-departmental collaboration to address areas requiring long-term investment, like industrial internet (Chen, 2019).

4 THE IMPACT OF THE REFORM ON BUSINESSES AND EMPLOYEES

For companies, the reform has significantly enhanced strategic execution efficiency and innovation capabilities. By deeply integrating OKRs with strategic goals, emerging businesses such as cloud computing and AI technology research have been able to accelerate breakthroughs. Tencent's large-scale investment in AI chip procurement and model training in 2024 demonstrates its commitment to long-term technological layout. At the same time, a flatter organizational structure and flexible incentive mechanisms have attracted more high-end talent, particularly in the AI and cloud sectors, where the stability of technical teams and innovation output have improved. However, the challenge of balancing performance evaluations between traditional businesses (such as gaming and social media) and emerging businesses still exists, with some departments experiencing internal friction due to resource allocation and goal discrepancies.

For employees, the reform brings about a dual effect. On the positive side, long-term incentives and career development pathways enhance their sense of belonging and growth opportunities. For instance, the rapid iteration of AI products like Tencent Yuanbao has enabled technical teams to gain more resource support through project-based evaluations. Additionally, immediate feedback mechanisms and 360-degree assessments help employees better identify their strengths and weaknesses; for example, young employees can improve their overall capabilities through cross-departmental collaboration projects. However, challenges cannot be overlooked: some employees adapt slowly to changes in evaluation criteria (such as shifting from quantitative KPIs to qualitative innovation metrics), especially in traditional business units, where the conflict between short-term performance pressure and long-term goals may lead to increased anxiety (Zhao, 2018).

Table 2: Comparison of the Pros and Cons of Corporate Human Resource Management Reform Measures (Du, 2025)

reform measures	positive influence	negative effect
Simplified assessment system	The original five-star (1-5 star) evaluation is simplified to three levels (Outstanding, Good, Underperform) to reduce the complexity of evaluation. Employees can more easily understand the goals and reduce the burden of formal assessment.	It may lead to a decrease in the differentiation of evaluation and a weakening of the incentive effect of excellent employees.
Promotion process is delegated to departments	The authority of 9-11 promotion is delegated to business departments, and the defense process is simplified. Employees' promotion pays more attention to actual performance rather than PPT ability. The internal competition is reduced and the efficiency is improved.	It may increase the subjectivity within the department, and if the supervision is insufficient, it is easy to breed unfairness.
Emphasize the "value creation" orientation	Heroes are judged by their contributions rather than seniority, and innovation and breakthrough results are encouraged. New people have more opportunities, and employees are more focused on core business goals.	Short-term performance pressure may increase, and some employees may face the risk of elimination due to their inability to adapt to innovation orientation.

Reduce the frequency of peer/subordinate feedback	Only one multi-dimensional feedback is required each year to reduce the energy consumption of employees on non-core affairs.	Feedback information may not be timely enough to affect managers' grasp of team dynamics.
The frequency of assessment for middle and senior management has increased	The middle and senior cadres will be assessed every six months to strengthen the concept of "no merit is over" and promote the management team to improve its effectiveness.	Management pressure increases significantly, which may lead to short-term decision-making or excessive pursuit of KPI.
We will strengthen supervision and elimination mechanisms for officials	Make it clear that "unqualified cadres should be replaced in time", improve the transparency and fairness of management, and reduce abuse of power.	Some cadres may take radical management measures due to the assessment pressure, which affects the stability of the team.
Flexible work and health security optimization	Implement flexible working hours, provide comprehensive health insurance, and improve employee happiness and job satisfaction.	Flexible work may lead to the lack of self-discipline of some employees, which affects the efficiency of collaboration.
Long-term incentive and equity plans	Long-term incentives such as stock options bind employees to the interests of the company and promote continuous investment.	Equity incentive may aggravate the income gap, and the sense of gain of grass-roots employees is relatively limited.

5 THE ADVANTAGES AND DISADVANTAGES OF THE PERFORMANCE MANAGEMENT SYSTEM AFTER REFORM

The advantages of the new system highlight flexibility and strategic synergy. First, the integration of OKRs and KPIs balances short-term goals with long-term innovation. For instance, in the AI field, teams must not only meet model training deadlines (KPIs) but also explore commercialization scenarios (OKRs), driving both technological implementation and revenue growth. Second, data-driven evaluation (such as analyzing work data through performance management systems) reduces subjective bias, enhancing the scientific nature of decisions, especially in complex projects (like cross-departmental collaboration), where objective metrics become crucial for resource allocation. Additionally, the balance between short-term and long-term incentives (such as stock options and immediate bonuses) effectively retains key talent. In 2024, 70% of Tencent's mid-level managers were promoted through internal development, demonstrating the system's capability to nurture talent.

The disadvantages focus on execution complexity and cultural adaptation issues. Firstly, diversified evaluation criteria (such as teamwork and innovation) while more comprehensive, increase management costs, especially in organizations with ten thousand employees, where standardization and personalization are hard to balance, leading some employees to view the evaluation process as "more form than substance." Secondly, the fading of traditional "horse-race mechanisms" promotes collaboration but may also weaken internal competitive vitality, causing certain innovative projects to be delayed due to overemphasis on consensus. Moreover, young employees' demand for personalized incentives (such as flexible work arrangements and non-monetary rewards) is not fully met, potentially leading to a risk of high-potential talent loss. In 2022, Tencent implemented performance system reforms, primarily in the following areas: the performance rating system was simplified from a five-star system to three levels—Outstanding, Good, and Underperform —closer to the "271" rule; peer feedback and subordinate feedback between employees and managers were reduced from twice a year to once a year; reviews for promotions up to level 9 and above were also reduced from twice a year to once a year; promotion and review authority for employees at levels 9-11 (entry-level) was gradually delegated to departments and their respective business lines; for employees at level 12 and above, promotions were changed from self-nomination to departmental nomination.

6 DIFFICULTIES AND CHALLENGES

Tencent faces multiple challenges in promoting business synergy and resource integration. While the independent operation model of each business group helps maintain operational flexibility, it also leads to departmental silos and redundant resource construction. Different business groups may develop similar technical tools, causing resource fragmentation. Cross-departmental collaboration between the WeChat ecosystem and Tencent Cloud often requires complex coordination mechanisms, which affects overall efficiency. As the unified technology platform, TEG faces dual tests in response speed and support depth when serving various business groups. Its resource allocation tends to prioritize core businesses such as gaming and social media, while providing relatively insufficient technical support for emerging businesses like industrial internet. This mismatch between technological supply and business demand may limit the development of some businesses (Li, 2020).

In terms of management structure, Tencent's multi-level decision-making system is facing efficiency challenges. The internal business groups still retain a relatively complex hierarchical structure, which makes the approval process for innovation projects lengthy. The coordination process with cross-departmental strategic committees further increases decision-making costs. At the same time, the management conflicts arising from the company's dual operation of ToC and ToB businesses are becoming increasingly prominent: ToC businesses like WeChat and games emphasize rapid iteration, while ToB businesses such as Tencent Cloud require long-term service and deep customization. These differences in business characteristics make it difficult to implement a unified management strategy that can meet both needs, putting significant pressure on organizational management.

The construction of innovation mechanisms also faces challenges. While the model of independent innovation incubation by each business group has stimulated internal vitality, it has also led to the dispersed allocation of innovation resources, with multiple teams often developing similar products simultaneously. More pressing is that cross-business group innovation projects often progress slowly due to departmental barriers, posing a challenge for the integration of AI technology with healthcare and other fields. When dealing with emerging areas like Web3 and generative AI, Tencent's large organizational scale often results in slower market response times compared to more agile startups.

7 DEFICIENCIES IN TENCENT'S HUMAN RESOURCES AND FUTURE RESEARCH DIRECTIONS FOR IMPROVEMENT

Tencent has several structural flaws in human resource management, with a particularly prominent issue of gender imbalance in technical positions. The high proportion of male employees may affect team diversity and innovative perspectives. Additionally, the company's employee age structure shows a significant gap, with nearly 60% of employees being over 30 years old. This age distribution could limit the reserve of young talent and the organization's innovative vitality. In terms of evaluation and promotion mechanisms, strict promotion criteria (such as requiring a high-level defense to advance from level 11 to 12) and the performance evaluation method of eliminating the lowest performers, while maintaining competitive pressure, may also lead to the loss of top talent and affect employee stability (Chen, 2025).

From a business development perspective, Tencent's gaming sector is facing growth bottlenecks, with insufficient supply of new hit products and revenue still heavily reliant on established titles like Honor of Kings. Despite the company continuously expanding its workforce in emerging fields such as AI and cloud computing, the commercialization of technological achievements needs to be accelerated. These human resource and business development issues intertwine, forming a significant challenge for Tencent today (Cao, 2025).

In response to these issues, Tencent needs to systematically optimize its talent structure, including increasing the recruitment ratio of female technical personnel and setting clear goals for team diversity; at the same time, it should expand the scale of intern recruitment and accelerate the cultivation and promotion of young talents (Tang & Li, 2025).

In terms of reforming the evaluation mechanism, it is recommended to lower the rigid age requirements for promotions, increase the weight of actual project contributions in evaluations, moderately reduce the elimination rate for underperformers, and strengthen positive incentives such as equity incentives. In terms of business innovation, there needs to be increased investment in cutting-edge technologies like AI, large models, and cloud computing, accelerating the commercialization of technologies like the Mixu large model, and stimulating innovation vitality through internal incubation mechanisms like the Tianmei Studio. Additionally, improving technical career development pathways, providing cross-departmental rotation opportunities, and optimizing compensation and benefits structures will all help enhance employee experience and stability, especially in retaining mid-career core employees. These improvement measures need to be advanced in tandem to fundamentally enhance Tencent's human resource management efficiency and organizational competitiveness (Li, 2024).

8 CONLUSION

Research on the reform of Tencent's performance management system shows that the transition between old and new systems has had a dual impact on organizational effectiveness and employee behavior. Before the reform, the five-star rating and mandatory distribution mechanism, while clarifying goal orientation, intensified internal competition and talent loss. The root cause lies in overly subjective evaluation criteria, rigid promotion processes, and an excessive tilt towards short-term incentives. After the 2022 reform, the evaluation levels were simplified to three tiers, and promotion authority was delegated to departments, significantly reducing internal competition (the turnover rate dropped to 9.8%) and strengthening strategic alignment through OKRs and long-term equity incentives. However, the new system still faces challenges such as insufficient differentiation in evaluations, inefficient cross-departmental resource integration, and a single approach to motivating young employees. These issues stem from flaws in quantifiable metric design, departmental silos within the organizational structure, and the lag in cultural transformation. The study recommends refining evaluation standards (such as introducing data-driven dynamic metrics), optimizing the structure of long-term incentives (such as differentiated equity allocation), and promoting the construction of a technology platform across business groups to balance efficiency and fairness, achieving dynamic adaptation of organizational strategy.

The practical significance of this study lies in providing an optimized path for performance management in internet companies: Firstly, it validates the effectiveness of de-bureaucratization and agile assessment in reducing internal competition; secondly, it reveals the critical role of long-term incentives and career development channels in talent retention; thirdly, it warns companies to be wary of the risk of weakening incentives due to overly simplified assessments. Theoretically, the study enriches the "dynamic balance" theory of performance management, emphasizing that reforms must balance strategic execution with cultural adaptability. However, this study still has certain limitations: the case focuses on a single company, and the generalizability of conclusions requires more industry samples for validation; some data relies on public sources, and there is insufficient long-term tracking of reform effects; qualitative analysis of employee psychological perceptions is lacking. Future research could expand to multi-case comparisons, delve into differentiated strategies for performance management across different sizes of companies, and introduce micro-perspectives such as employee satisfaction surveys to more comprehensively evaluate the effectiveness of reforms. Additionally, with the penetration of generative AI and other technologies, the integration of performance management tools with digital empowerment is also worth further exploration.

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