WHITE PAPER

# Take the Pain Out of Performance Reviews

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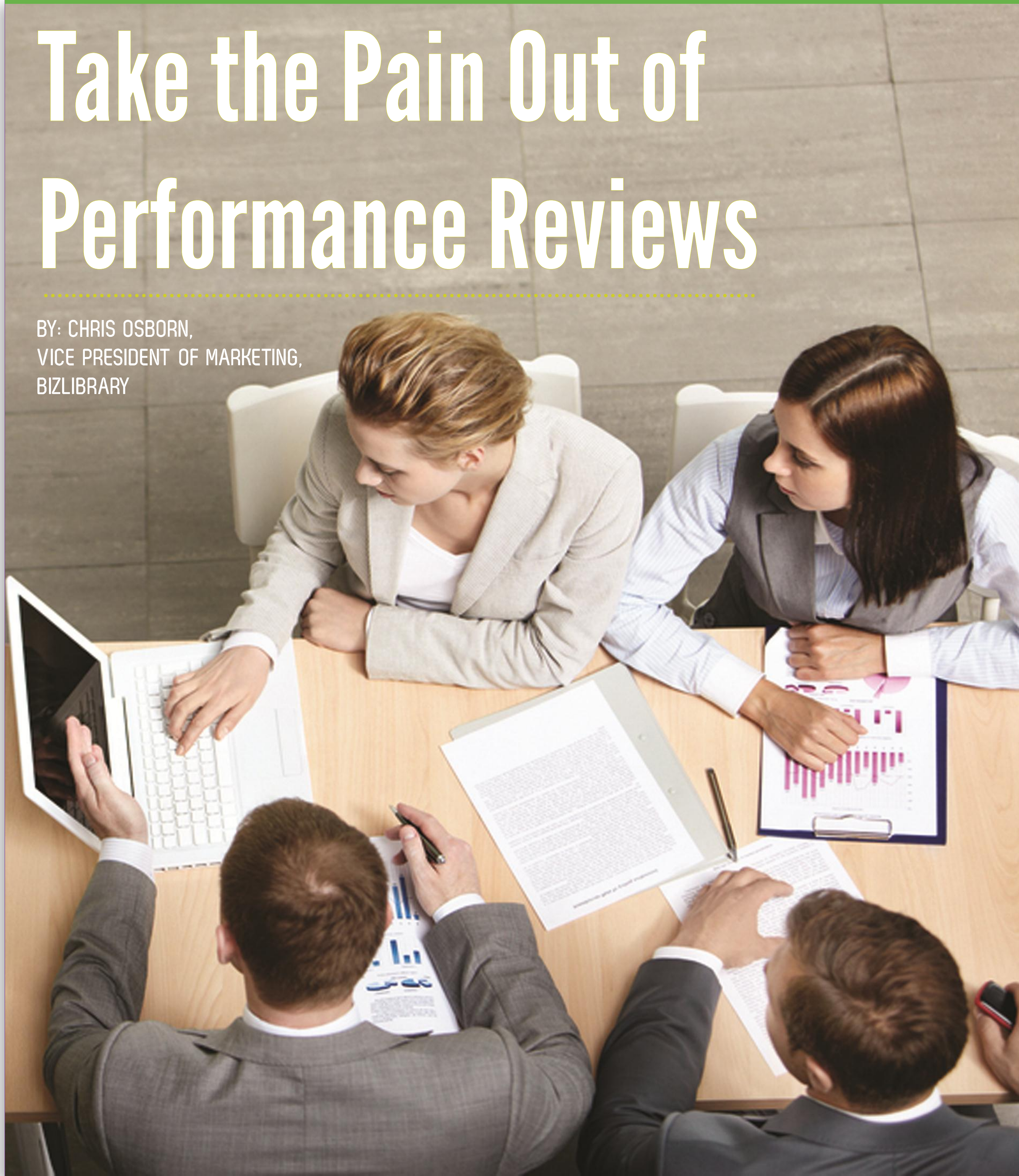

# Today's Performance Reviews Don't Work!

In the field of employee relations and labor/management conflicts, sometimes we have to work hard to find things about which both sides (employee and management) agree. One such area is performance reviews or appraisals. It's just about universally true that nobody likes performance appraisals. But, the effective, accurate and objective evaluation and improvement of each employee's performance holds the key to improving the overall performance of your entire organization.

> The obvious conclusion is that companies will continue to do performance appraisals despite their shortcomings and despite the many criticisms of them that appear in the management literature. In my opinion, organizations have no choice. Instead of wasting our time debating whether to eliminate performance appraisals, we should be talking about how to make them more effective. The key is to make them part of a complete performance management system, which includes goal setting, development, compensation actions, performance feedback and a goals-based appraisal of performance.
>
> Edward E. Lawler III, USC Marshall School of Business, Forbes, Performance Appraisals Are Dead, Long Live Performance Management, July 12, 2012

So why don't most managers and organizations do a better job with performance reviews? We found a recent article at www.tlnt.com titled "The Top 5 Problems with Performance Reviews (And How to Solve Them). " Here is our take on these problems:

The top 5 problems with annual performance reviews are:

1. **Infrequent**
2. **Subjective**
3. **Not Goal-Focused**
4. **Inconvenient**
5. **De-Motivating**

The simple truth of the matter is most performance reviews today are counter-productive. A 1994 study by the Society for Human Resources Management (SHRM) found that 90% of performance appraisals are painful and don't work and they produce a low percentage of top performers, and the more recent data suggests we have not made any progress.

The annual review cycle is no longer relevant to the way our most successful organizations operate. The marketplace changes too rapidly and is too fluid to wait for a full year to check and see if employee performance was on target or not.

## GOAL MANAGEMENT

We should focus our thinking about how we define performance and think about success as being defined by goals.

According to Bersin & Associates,

**Organizations that manage goals are 26% more profitable than their peers who do not manage goals.**

Bersin explains that these organizations have fully mature performance management systems in place, and goals are a part of the system. but the idea of goal management makes perfect sense.

**Companies which revisit their goals quarterly generate nearly 3X the return of companies that implement top-down goal management annually.**

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## For performance reviews to be effective, we need to pivot away from annual review to a continuous focus on performance based on goals.

The annual review isn't frequent enough nor is it based on the things that matter most, because few organizations built the systems needed to make evaluations fair and objective by tying performance to goals, competencies data and content. Goal management is crucial to success in today's market, and organizations that manage effectively to goals review progress at regular intervals and more frequently than the annual review. The old-fashioned annual review caused disruptions in everyone's work. Managers and employees alike had to stop productive activity and try to piece together what worked and didn't work over the last year from memory, because many organizations did not generate goal driven content about performance in real time. And finally, employees and managers alike usually find the entire process demotivating because the process was not always based upon the mission critical things the employee contributed – **goals and key competencies that really define the employee's value.** And if the annual review was the only conversation the manager had with his employee about performance during the year, you can bet the employee was not being adequately motivated in the first place and the review only reinforced that low level of engagement and motivation.

# New Research Suggests Simple Improvements

There are some great resources available on performance appraisals, and we are seeing the emergence of some new thought leadership in the broad space of employee and organizational performance. While many of the authors suggest somewhat different approaches to the evaluation and review of employee performance, there are some important themes that most of the emerging thought leadership share.

- Performance reviews cannot be improved by simply automating the process, yet automation is crucial.
- Employees and managers have to be focused – laser focused at that – on goals.
- If done well, performance reviews can actually help improve engagement, motivation and performance.
- Conducting and delivering effective performance reviews is difficult and challenging no matter how good the tools might be.

We are also seeing the emergence of some important research that sheds new light on the importance of goal management, which as we saw above turns out to be one of the five biggest problems with most annual performance reviews. As it turns out, organizations that do a good job managing goals are 26% more profitable, have 40% lower levels of voluntary turnover, and were 28% less likely to downsize. How Talent Management Drives Financial Performance, Josh Bersin, Forbes, October 19, 2012. The explanations for these financial results are not a mystery. When organizations manage goals effectively as a part of a comprehensive performance management system, employees and managers have clarity, direction, and purpose.

## TALENT MANAGEMENT

**Figure 1:** Bersin & Associates Talent Management Maturity Model®


According to Bersin & Associates Talent Management Maturity Model:

Level 4: Strategic Talent Management includes fully integrated processes and systems used to make business decisions; talent management is business-driven.

Companies with level 4 talent programs **generate 26% greater revenue per employee than their peers.**

Companies with level 4 talent programs have **40% lower voluntary turnover among high-performers than their peers.**

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Goal management is at the very core of performance management. High performing organizations master the fine art of continuous improvement through performance management using goals.

Generally, we've seen two broad schools of thought about how we can implement solutions to the well-known issues and challenges with performance management and performance reviews. The first school of thought centers on the tools and processes, and almost inevitably leads to efforts that focus exclusively on automating the performance review process. Unfortunately, effective solutions are rarely that simple.

The second school of thought calls for re-engineering the entire performance review process. Obviously, most organizations would prefer to believe that simply automating the process will solve the issues with performance reviews. But – re-engineering the process is the path that leads to performance reviews turning into tools for both employees and managers to actually improve performance.

> Clearly, the annual performance review was designed for a work environment where control of individual employee performance was a key function. In today's team and collaborative environment, that perspective no longer makes sense. Some key questions that need to be answered are: Why are we perpetuating a system that research (including recent brain research) shows is not only ineffective, but counterproductive; and what are better processes to replace the performance review?
>
> Ray B. Williams, Wired for Success, June 27, 2010, Reproduced in Psychology Today

Re-engineering the process requires us to not only use a different set of tools, but a re-engineered process requires a different way of thinking about how we manage the performance of our employees, and by extension our organizations.

## 3 Steps to Improving Your Organization's Performance Reviews

You can improve, or re-engineer, performance reviews in your organization by taking three steps:

1. **Automate the process.**
2. **Focus on goals and performance results**
3. **Apply crowd wisdom**

### PERFORMANCE REVIEWS

According to a 2012 SHRM/Globoforce Survey*:

**45% of HR leaders do not think annual performance reviews are an accurate appraisal for employee's work.**

**42 % do not think employees are rewarded according to their job performance.**

The online survey was conducted by SHRM from December 22, 2011 – January 12, 2012 and included 770 responses.

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All three steps are important, none will work effectively on their own. The first step is automation. Automation is crucial for several reasons. The work environment is changing rapidly, and the pace of change is accelerating. We need tools – web-based automated tools – to do two things: help us keep pace with the workplace and meet the needs of a changed workforce.

Automation helps us **focus on goals**. Automated tools can help us link our performance to data, information and the key competencies that tell us we are on track or if we need to make adjustments. Further, automated tools can give us clear indicators in real time about our progress towards our goals. This type of real time, immediate feedback on performance in consistent with the way highly connected, web-savvy younger people in our organizations take in information, interact in social media and learn.

**Crowd Wisdom** is a concept borrowed from social media. By including a strong social component in your process, you give employees a chance to offer peer-to-peer recognition and encouragement.

**These three steps: automation, focus on goals and crowd wisdom, when taken together, offer a path to making significant improvements in your performance review processes.**

## 1. Automate the process.

The first and most obvious benefit to automating the process is to eliminate the need to track performance records by hand or on spreadsheets. There is no rational basis for continuing to use manual processes in today's technology market. Automation tools are available across the entire spectrum of organizational sizes and industries, and these tools save countless hours and dollars by being far more efficient.

Another major benefit to automation is that your organization can make performance reviews driven by content – goals, facts, data, competencies and learning. A best-in-class tool allows organizations to set goals and measure performance against key competencies using specific, measureable, attainable, relevant and timely metrics (S.M.A.R.T. goals). An automated tool allows you to gather information on performance against these goals on a weekly, monthly or quarterly basis so both employee and manager can watch progress and make any adjustments that might be needed to stay or get on track.

As we said before, organizations that manage goals effectively are more profitable. But we cannot simply set an annual goal, go about our day-to-day tasks and hope we get there at year's end. We have to manage our progress towards that goal on a quarterly, monthly and even a weekly basis. If we are on target, we keep performing to maintain our progress and success. If we are falling short, we make adjustments to get back on track.

### TRANSFORMATIONAL HR

Transactional, or traditional, HR is concerned with the day-to-day mechanics of keeping an organization running. It involves a variety of repetitive, administrative tasks.

Transformational HR takes a step back from routine, and focuses on strategies for aligning HR management with an organization's goals. It involves expanding the traditional role of HR.

Transformational HR expands the traditional HR role into the arena of management, so it becomes a tool to develop business interests and growth. The aim is to turn HR management into a force that can help an organization reach its business objectives and instill those objectives in employees. This enables HR professionals to create value for the organization as a whole.

Source: [HR as Business Partner: From Cost Center to Strategic Partner, E-Learning Course]

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If we are falling short, we make adjustments to get back on track. If we are ahead of our goal, maybe we adjust the goal. This is how best practices organizations “manage” goals. This sort of high-touch, high frequency set of check point review of progress allows for employees, managers and organizations to be agile to meet their goals.

It is the relentless reliance on data and information that can point to gaps in knowledge, skills and ability. As such gaps are revealed, you can link learning resources to the employee or employees who need development in order to meet the targets or goals you’ve set for them. Absent an automated tool, such a direct link between content and performance would be difficult – at best, and most likely not possible.

Automation has numerous additional benefits. Among the most significant benefits are:

**Accuracy.** Most annual reviews are based upon a calendar year’s performance. But employees’ actual performance doesn’t magically start over or reboot on some arbitrary anniversary. Automation makes it possible for organizations to take a longer, broader and more realistic view of employee performance and, hopefully, improvement.

**Objectivity.** We’ll cover this in more detail below, but an automated tool allows both employees and managers to enter notes, documents, files, links, etc. as the year unfolds telling a complete, accurate and objective story of performance that is not tainted by the normal human bias of memory based upon recent events.

**Process improvement.** Allows your performance review process to work more like a quality assurance program. Quality assurance doesn’t just happen once a year. It’s a constant in most organizations. An automated tool allows you to operate your performance improvement efforts the same way. You can make adjustments – both positive and negative – as events occur and you see whether you are on course to hit or miss goals.

**Broader performance comparisons.** Creates a mechanism for side-by-side comparisons of employees, teams and departments.

**HR systems integration.** Permits your organization to integrate performance improvement efforts into you compensation plan.

**Workflow integration.** Social and mobile elements get resources for performance improvement and management in the hands of managers and employees on demand, anytime and anywhere.

## BUSINESS BENEFITS

**Reduce costs** – We anticipate reducing recruitment costs by 15% by reducing staff turnover and aligning employee training and development to organizational goals.

**Gain access to critical information in a timely manner.**

**Increase productivity** – We anticipate a 50% reduction in time spent generating appraisal reports and a 45% reduction in time spent requesting and gathering appraisals from managers, saving *X* number of days per month.

**Increase efficiency** – more timely appraisals, improved communication and more accurate data.

**Improve employee engagement.** – continuous feedback and quickly respond to performance issues.

**Increase the level of informed decision-making** – quickly access reports and data and objectively identify skill gaps.

**Risk mitigation and legal compliance** – clear and consistent documentation of training and development.

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Technology platforms allow organizations to add a social and mobile component to your performance management – including learning and development that's never been possible before. This level of interconnection and seamless integration of all aspects of the workplace into a single platform is consistent with the way most people are taking in information and learning away from work already, and it will substantially improve the efficiency with which you can development and train all of your employees.

Automation alone will not solve performance review issues. However, automation is an important first step in solving performance review problems or even replacing the out dated annual review altogether. The next steps are far more difficult, or impossible, without automating your process first.

## 2. Focus on Goals & Performance Results.

When organizations manage to goals they are more profitable. Recent data shows that pretty clearly. So how do they do it, and why does managing to goals have that type of impact (26% more profitable)? What we need to do is pivot away from reliance upon the annual performance review as the lynch pin of our performance management. We need to move to a systematic way of evaluating performance based upon goals supported by data. We need to conduct these evaluations on an ongoing basis as a way to keep our organizations on track and goal focused.

Think about how individuals work towards goals of things like fitness or weight loss. If you have a goal of losing 25 pounds, how do you achieve that goal? How do you start? You probably begin by weighing yourself or setting

a current benchmark. From there, you, and hopefully your doctor, will determine if a weight loss goal of 25 pounds is healthy, wise and realistic. Next, you'll determine a time frame. You can't expect to lose 25 pounds in a week, right? So you set an ultimate goal, establish a time frame for success, and you set signposts along the way. So maybe you want to lose 5 pounds in the first month. You might even set supporting goals like walking 10,000 steps a day within 30 days, and to reach that goal you'll work up to it by adding 1,000 steps a day until reach your target. You will also likely have a set of diet goals that support your ultimate goal, too. So all of these goals and signposts come together and show you as you work through your fitness efforts whether you are on or off track. But as you are working on your ultimate goal, you are continuously measuring, checking data and information and verifying progress. You'll also make adjustments as needed all geared towards reaching that ultimate weight loss goal.

Our organizations should manage goals the same way. We'll set a goal. Check to make sure it is a wise, attainable and realistic goal for the organization.

### CONTINUOUS FEEDBACK

" Do managers always have to be the ones providing coaching, feedback and development support?

The answer is no. Historically, employees have relied on others in their network to supplement what managers cannot provide. Social technologies enable employees to do this to an even greater degree by helping them connect more easily with experts and colleagues who can support them. For example, employees can use online communities of practice, social learning environments and professional profiles to find people who can coach and develop them. Some technology solutions enable peer-to-peer feedback, which immediately reinforces positive behavior ."

Stacia Garr, Bersin & Associates, Blogpost July 18, 2011, [Why Social Talent Management Technologies Matter].

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We'll lay out a plan to achieve the goal with a clear understanding of how we will measure our success. But our measures of success will not be limited to the end result. We are going to need to know how we are doing as we work towards achieving our goal, so we need to identify the signposts we can look for as indicators of progress along the way. We also need to know what OTHER activities or efforts will support our ultimate organizational goal, and we need to know how to measure progress along those supporting or dependent goals. Just like progress on our weight loss program, we need to know what is working and what is not, so we can make adjustments before we get to the end. That's what effective goal management means and involves.

Effective goal management requires that goals are incorporated into the day-to-day work flow and culture of the entire organization. So think about what that does to the annual performance review? It becomes irrelevant to the effective management of goals. **Goal management requires that our employees and managers are far more engaged on a daily or weekly basis about how we've defined success in terms of their goals.**

Another key aspect to generating performance evaluations that are goal driven and objective is to link them directly to the key competencies associated with each employee's job role. In an ideal world, we are held accountable for performance of competencies that will promote the goals against which our success will be measured.

Competency-based performance remains the best methodology for an objective and fair evaluation of employee performance. The issue for some organizations is that they are not always adept at selecting the key competencies at the correct level of mastery for each employee, and this creates uncertainty and confusion. So – how do you select the key competencies that will really make a difference in each employee's performance?

The diagram below outlines three kinds of competencies: core competencies, job-family competencies, and job specific competencies.

**Core Competencies**
Cultural or organizational

**Job-Family Competencies**
Sales, Operations, Administrative Functions, Customer Service

**Job-Specific Competencies**
Perform a particular job at a successful level

## AUTOMATE THE PROCESS

"As business strategies and objectives evolve, development program design must naturally shift. Add or subtract emphasized competencies or behaviors, revisit content, adjust timing, hone delivery methods, and take other actions to ensure that your development program closely aligns with strategic goals and truly helps leaders build the skills needed to achieve them."

Carol Morrison, i4cp, February 15,2012
Article, Leadership Development: The Never-Ending Journey

### Implementing Competency-Based Training

1. Begin with the end in mind
2. Identify core competencies needed to reach organizational objectives
3. Establish job role standards
4. Assess each employee's current level in comparison to desired level
5. Identify performance gaps
6. Develop Individual Development Plans (IDPs)
7. Assess performance after IDP

Ask yourself – what are the skills and knowledge this employee genuinely needs to perform this job at the level we define as successful? You'll want to keep the number of competencies to between three and five. We recommend no more than seven or eight. By keeping the number small, you keep everything simpler, and that' keeps things easy to understand and measure. It makes life easier for everyone. Also, when you keep the number of key competencies to a small number, each one is important and both the employee and the manager can focus their energy and time much more efficiently. An easy place to start is to look at your current top performers in the role. What do they do well? Can you reproduce those competencies in others? If so, you are on the right track. If not, you need to select a different combination of competencies.

The advantages of goal management for performance reviews and management are really substantial, and they help explain the increased revenue per employee and reduced turnover. **Employees perform best when they have a clear understanding of what we expect them to do, how we define success and when they know we are there to support and help them.** Continuous feedback is also a proven factor in employee engagement and motivation. When we give our managers and employees objective, goal-based data about performance they can review and work with on a daily or weekly basis, we create a set of expectations that this type of continuous performance feedback will be there. Further, as managers and employees are working together on goals, employees can get the development they need when gaps arise or managers can add resources to ensure teams hit targets. This sort of real-time agility forms the basis of goal management and achievement in this fast-paced market.

## 3. Apply Crowd Wisdom

One of the core structural issues with traditional, annual performance reviews is that they are rooted in an outdated way of thinking about how businesses run and employees work and contribute in today's market. Performance reviews used to be about control. And in a traditional hierarchical work structure, control of employees was a key function of management. That's not true in a modern team-oriented and collaborative work world.

Successful organizations in this marketplace are agile, collaborative, and innovative, and share information quickly and broadly. This is a high touch, technology -driven work world, and we are seeing significant changes in the way businesses do things that are inspired by and borrowed from Web 2.0 and social media. Our current performance review and management methodology ought to be content-based. This content should be rooted in real-time information tied to performance-based goals, information, data, learning and any other resources our employees might need to be successful.

### INTERPERSONAL SKILLS

As you think through the need to increase the frequency of interaction with employees on the part of your managers, and as you look for ways to ensure you improve the objectivity of the data that will inform you evaluation of employee performance, keep in mind the interpersonal skills your managers will need to master.

- Emotional Intelligence
- Giving Feedback
- Coaching and Mentoring
- Communication
- Decision Making

So how might this work? What would a successful and effective performance management and performance review system look like if our organization behaved like this? First, we already know that best practices tell us that continuous feedback is the best way to boost employee performance. The problem is we don't usually provide our managers effective tools that facilitate giving continuous feedback to employees. Managers and employees alike should be able to see quickly where they stand in relation to their goals in real time. Nobody should wait until the end of a quarter or end of the year to know the hit or missed a goal.

We usually just leave it to year end reports or to managers to inform employees. But we can't rationally expect managers to write a memo about progress towards a goal, take it to HR to add to a "personnel" file every day or even every week. It simply will not happen. But what if your managers could simply add a short note from their desktop about an employee's success when it happens? Now – this might not happen as often as we'd like either, but if we can set a reminder that tells each manager that they have not made a note in their direct report's record this week, we get a lot closer to getting the sort of real time input we need from our managers.

A sales manager might want to make a "journal entry" after the conclusion of successful sales presentation. Maybe the sales rep did not land the deal, but she used a new and creative style of presentation delivery, got excellent feedback from the prospect, and made an excellent professional impression on behalf on the organization. Normally, such an event would simply go down as a "lost" sale. But if her manager could make an entry in her journal about her creativity, her presentation skills and professionalism, the manager gets a more complete picture of her true performance that a simple "lost sale" being added to her close rate number at her annual performance review.

Another important benefit to recording things as they happen is that we won't force our managers to recall a full year's worth of work when it's time to complete the evaluation form. They can have a ready-made journal showing week-by-week progress, goals, successes, and mistakes for each employee. When a complete picture like that can be available at the manager's fingertips, we give the manager a powerful tool that eliminates a bias towards recent events both good and bad. Our mangers can see a complete record of each employee's performance.

An automated tool can also facilitate employee involvement in assessing her performance. So if an employee feels especially good about a project, she can add a note or upload a great presentation. The two-way exchange of information in real time offers a valuable opportunity for manager and employee to align both their expectations and actual assessments of performance during the course of the year rather than waiting for the annual review.

Step back from performance management for a moment, and let's think about the way most of our colleagues communicate with their friends outside of work. Let's also consider how they look for information and learn away from work.

## EMPLOYEE RECOGNITION

According to a 2012 survey by SHRM/Globoforce, organizations that measure the ROI of their employee recognition programs, HR leaders observed increases in key metrics.

Percent of HR leaders who say they observed an increase in these metrics as a result of their recognition program:

**63% Employee productivity**
**61% Employee engagement**
**58% Return on profit margin**
**52% Customer retention**
**51% Employee retention**
**50% Return on equity**

More than half of survey respondents saw increases in productivity, customer/employee retention, employee engagement, return on profit margin, and return on equity as a result of their employee recognition program.

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Let's also consider how they look for information and learn away from work. For most of our colleagues, the answers lie in social networking, social media and the Internet. Most people connect freely on Facebook for social purposes, Linked In with professional contacts and networks. They might maintain Twitter accounts for a variety of reasons, and they may enjoy blogs, Pinterest, 4square, Yelp, or any number of sites where the content is user-generated. For most people, they will turn first to Google (or another search engine) or an app to look for information. But the interaction will be on their terms, conditions and at their convenience.

## They are pulling valuable content and communications to themselves when they want it and when they need it.

Contrast this world to the way many organizations function. We push performance management to the managers once a year. We require the employee to complete a self-evaluation. Nobody pulls these forms to themselves because there is something valuable for ether manager or employee in the performance evaluation documents. Usually, performance reviews are awkward. Frequently they are adversarial, inaccurate and just plain demotivating for both employee and manager. They rarely – if ever – paint a complete picture of the employee's contribution to the organization. Just based upon the structure of the process, is it any wonder the process is rarely viewed favorably?

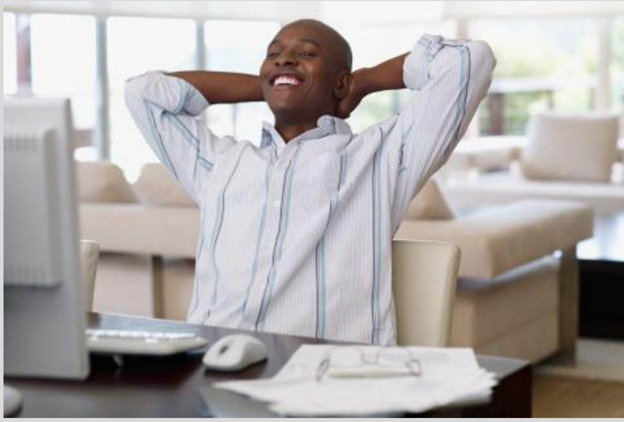
Peer-to-peer recognition is a vitally important piece of this puzzle, and involving our peers helps bring the entire process into line with the way our employees rationally expect our internal systems and processes to work anyway.



## Top 10 Key Drivers of Employee Engagement for virtual employees

1. Recognition.
2. Career Development.
3. Direct Supervisor/Manager Leadership Abilities.
4. Strategy and Mission (especially the freedom and autonomy to succeed and contribute to the organization's success).
5. Job Content (the ability to do what I do best).
6. Senior Management's Relationship With Employees.
7. Open and Effective Communication.
8. Coworker Satisfaction/Cooperation (the unsung hero of retention).
9. Availability of Resources to Perform the Job Effectively.
10. Organizational Culture and Core/Shared Values.

Kevin Sheridan. 2012. The Virtual Manager: Cutting-Edge Solutions for Hiring, Managing, Motivating, and Engaging Mobile Employees



Employees deserve recognition for their accomplishments. In fact, we know that recognition can be very motivating for most people. Peer-to-peer recognition can be highly engaging and motivating. Most performance management platforms provide a mechanism for employees to tell each other they've made a valuable contribution. By capturing this type of feedback, you are capturing a much more complete picture of an employee's performance and contribution than the traditional annual performance review ever did. Think of the way Facebook, Linked In and Twitter work. We can "like" or "retweet" a post. That's exactly how social media works, and by bringing this same sort of sharing of content and ides to the workplace we move a step close to bringing the wisdom of the crowd to the evaluation of our employees' performance.

The wisdom of crowds and the great contribution of social media to many of our lives and organizations cannot always be cleanly and neatly measured in dollars and cents. But that does not diminish the impact, nor does it diminish the value of being engaged in social media. The value is being a part of something greater than just yourself. To find and then to belong to a greater community of people with shared interests has value. Likewise, the success of our employees has value that sometimes goes beyond the profit and loss statement. And let's not lose sight of that, either.

## Conclusion

The annual performance review will live on, but it does not have to be the drag on motivation and productivity it's been in the past. The key is to pivot our thinking away from performance management as an event that occurs once a year between one employee and one manager towards performance reviews that are goal-driven and nearly continuous, based upon data and progress towards goals.

Performance management has to be about performance improvement, employee engagement and success. And these mean we have to focus on the purposes for which we strive at work. In other words, we have to focus on goals. We measure our ultimate success on whether or not we achieve our goals. And this means we need to work with content on a daily basis, and we need to be engaged with our employees on a daily basis as we coach and guide them to success. While the outcomes are going to be measured against goals, we are going to achieve those outcomes one day at a time, one employee/manager relationship at a time. Ultimately, that's what a successful re-engineering of the performance review process will facilitate.