Your Comprehensive Guide To Effective Performance Reviews

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INTRODUCTION

No matter what your role is, or whether your company is large or small, performance reviews are a reality you have most likely dealt with at some point in your career.

Even if reviews are absent from your company's current infrastructure ("we're bootstrapping! No HR!"), the questions of how to manage and document employee outcomes, incentivize better performance and justify pay, promotion and termination decisions are surely things you will have to address in some way.

As we spoke with managers, HR leaders and employees leading up to this guide, it became clear that the performance review is extremely common, both in practice AND in a single shared sentiment: very few people enjoy them.

The question then arises, **"Well can't we just get rid of them?"** But before you give in to this very appealing temptation, we encourage you to explore the answer to a different question first, **"How do we implement a review system that actually works?"** Because, when done effectively, reviews still serve as a very important tool for employment development, growth and engagement.

As you'll learn in this guide, the review as we know it today began during a very different era in the workplace, and just as we've evolved other management practices, our stance is that

the performance review needs a refresh as well. There's a better way!

WE'RE ON A MISSION TO TRANSFORM PEOPLE MANAGEMENT INTO PEOPLE DEVELOPMENT, AND PERFORMANCE REVIEWS ARE ONE OF THE KEY AREAS TO INVEST IN.

Keep reading to find answers to these questions:

- Where did performance reviews come from and why are they such a common practice?

- Can a person's performance or potential be quantified? If so, what does that quantifiable data look like, and how might it help a business, manager, or employee become better?

- Do we even have to do anything? Can we just scrap performance reviews completely if they're not useful?

- Are there legitimate alternatives to the standard performance review?

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History of the Performance Review:

How We Got Here

The concept of a formal employee performance review got its start in the wake of the Industrial Revolution. As 'scaling up' and machine-enabled mass production became prevalent, productivity arose as the most significant metric for understanding success and, ultimately, profitability. **This infographic** provides a great visual overview of the history of the performance review over the last century.

With scaled-up production came larger corporate work environments, and a greater need for managing those workforces. Frederick Taylor's turn-of-the-century foundational research on workplace design defined and standardized efficiency and productivity in large work environments such as manufacturing, warehousing, supply chains, department stores, and offices.

Productivity design systems were shortly followed by the evolution of whole teams or divisions dedicated to personnel management, the forerunners of modern Human Resources departments. The practice of performance reviews became firmly and finally cemented as a standard workplace practice thanks to the passing of the government-mandated guidelines for all Federal employees. These guidelines, specifically the Incentive Rewards Act, provided legislation for levels and processes around performance management.

As the post-industrial age merged into the Information Age, formal performance management concepts stayed constant, while nearly every other aspect of the workplace was adapting, evolving and exploring reform. This lag explains why we are in such a place of tension today. The performance review process no longer matches the rest of our workplace reality, it's fallen behind.

What stands in the way of progressing the performance review forward?

Unfortunately, because the review has remained relatively unchanged for so long, the 'this is just the way we do things here' status quo is now quite entrenched. Corporate change of this magnitude is hard, but hopefully this brief overview of the history of the performance will help you make the case for why this practice needs to be evolved.

At this point you may be asking, "So what needs to change exactly?" Good question! First, let's dig into the current practices of reviews and then we'll explore alternative approaches for you to consider.

A Snapshot Of The Traditional Performance Review

Performance review systems today tend to run on a spectrum from fully quantitative on one end to fully qualitative on the other, with most organizations falling right in the middle. They might be called Performance Reviews, Employee Evaluations, Annual Reviews, or Employee Assessments.

Here's a quick list of the most commonly used methodologies:

- Rating Scale/Grading systems: These grade-based systems of review were built on the need to quantify employee performance in some mathematically weighted form to build in objectivity to the process, thereby creating a good path and sufficient HR documentation to justify pay, promotion and termination decisions. Some examples include:

- **9-Box Review** (originally created in the 70's by McKinsey)

- **Performance Values Matrix**

- Numerical Scale (typically 1-5 or 1-10, and used in checklist-style evaluations)

- Behavioral Checklist: Similar to a self-evaluation in that it's a grade-type checklist, this is usually a simple checklist used by a manager to rank employees on a scale of meeting minimal expectations to exceeding them.

The below-mentioned evaluation systems often include a graded/scaled component as well but are often combined or supplemented with more subjective, open-ended measures.

Self-Evaluation: This type of review typically consists of a form employees fill out, ranking themselves against a list of values, objectives, and/or characteristics. This list may be customized for the company, department, or manager, or it may be comprised of broadly accepted success characteristics. It may also include some open questions at the manager's discretion.

Manager-Evaluation: Similar to the first example, except this is filled out by the employee's direct supervisor. In some cases, both may be part of the review process, and

the actual review meeting then may include comparing the two evaluations and discussing the differences and similarities in responses.

Peer-Review: This may be done separately, or in conjunction with either or both of the above evaluations. It is based on the idea that both the employee and managerial perspective is limited. This missing perspecitves makes it possible for an employee to miss a blindspot, or to perform well for a manager while undermining a team when the manager's not present. Conversely, managers can be prejudiced against certain employees, and top-down-only leadership infrastructure means managers often have the power to pick winners or losers through the review process. Ultimately, this process assumes that peers and/or subordinates may have a valuable perspective to consider.

360 Review: A variation of the previous type, this type of review expands on the idea that feedback on an employee's performance should come from all directions within an organization--Managers/leaders, peers, and subordinates. **This type of review** seeks to eliminate some of the problems of top-down performance management, which had, in some situations, given managers almost unqualified power over subordinates. The aim of this type of review is also to reveal more subtle aspects of employee performance, such as how they may influence the team, division, and company in positive and negative ways.

Compensation or Bonus Evaluation/Decision: Whether objective or subjective, qualitative or quantitative, graded or checklisted; no matter the methods or combinations of methods used in standard Performance Review methodology, there is often a significant expectation that employee compensation decisions will be at least partially connected to a review. General knowledge is that this is the time employees should ask for a raise, or employers should communicate one, or at least communicate what they are recommending to the HR/Finance team following the review conversation. If a friend or colleague mentions they just finished their review, one of the follow-up questions could easily be, "Are you getting a raise?" This connection to compensation, either perceived or valid, causes one of the biggest problems with the traditional review model. We'll explain more below.

Problems With Traditional Performance Reviews

What's the matter with using any of the methods above? There are three main problems with the traditional performance review process:

A frequency problem: If we were to ask you how you performed last week and then asked you to provide 2-3 examples to support your answer, you'd probably have no problem completing this task. But what if we asked you to do the same exercise, but for last month? And then what if we extended that to the last six months? Finally, what if we asked you to summarize your entire past year's performance? This simple exercise illustrates the challenge we face when our review cycles become longer. We struggle to remember details and suffer from what researchers call 'recency bias.'

Our organizations are too fast-paced and agile these days to only discuss performance once a year. Instead, we need to be having **continuous feedback conversations** to develop our staff on an ongoing basis.

43% of highly engaged employees receive feedback at least once a week

An accuracy problem: Inevitably, whenever using a numeric scale of any kind, we are assigning a quantifiable value to the people on our team. These values can then be compared to each other. We can see employee A's value compared to employee B to determine who is better or worse in each category. This all sounds fine on the surface until we stop to ask, how accurate is this data? What does a 5 on the 'strategic thinking' scale mean compared to a 4 and is this scoring criterion objectively being used across every manager and every team? Does a 4 mean the same thing to each manager, especially knowing that there are 188 known cognitive biases at play, impacting every decision we make?

A competing motivation problem: When compensation is tied to the review, employees feel the need to defend their livelihood rather than listening to grow. As David Morgantini explains, "In addition, you run into the

People development is an ongoing process, not a once-a-year conversation.

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fundamental problem with growth vs performance. In a growth review, you need to be humble in order to recognize the areas you need to grow. In a performance review, you need to be confident in order to maximize your earnings/save your job, etc. Trying to do both with one framework is a recipe for failure (almost certainly on the growth side)."

Because of these three problems, some have called for the complete removal of performance reviews, or at the very least the numeric sections of them.

UCLA Professor Samuel Culburt's 2008 book Get Rid of the Performance Review! encouraged companies to throw out quantitative methods and invest instead in an ongoing conversational process between manager and employee.

Several large companies have experimented with ditching the formal annual performance review as a metric for compensation and productivity and adopted more real-time employee performance feedback methods.

Why Don't We Just Get Rid Of Them?

According to a 2019 study from **Gallup**, 55 percent of workers believe annual reviews don't improve their performance. If the practice truly is a holdover from a different era of the workplace and if it really does suffer from such fatal flaws, why not just get rid of them entirely?

It was this conclusion that led to the rise of more and more companies choosing to ditch the traditional review process altogether. However, those who abandoned the review entirely began to experience **a surprising downturn** in performance and a drop in effective communication. In fact, 92% of employees agree that "negative (redirecting) feedback, if delivered appropriately, is effective at improving performance.

Based on these results, plus a mountain of empirical research, there is a much stronger case to be made for the modification of the review rather than the complete removal of it.

Let's look more closely at a few of the companies that have modified the way they do reviews and see what we can learn from them.

The Organizations Choosing A Different Way

General Electric

In 2008, GE made the decision to **replace EMS**, an employee review system that had been in place since 1976. The new system, based on regular touchpoints, is forward-focused and prioritizes "actionable conversations." GE wanted this to be a holistic shift in the way they approached people development, rather than just a one-off initiative, so, during the roll-out they also changed the wording from "performance management" to "performance development," in order to reflect the new mission. Additionally, they separated compensation from the new system, but clarified that...

"Managers will need to know their employees so well that they can articulate their impact and behaviours, and then rewards are aligned to both, rather than merely relying on a performance label."

This obviously puts a lot more pressure on managers to intentionally know and develop their employees rather than simply checking boxes on a form once or twice a year.

Accenture

Beginning in September 2015, Accenture built their own performance management system to move away from numeric rankings and traditional annual reviews. **The new system** is intended to be far more flexible and is also based heavily on the practice of ongoing feedback.

Adobe

In 2012, Adobe spearheaded **a makeover of their performance review system**. The Adobe Check-in system was so popular internally, that it has since been marketed as a stand-alone product for other companies to use who are seeking a similar change.

Deloitte

Deloitte made the decision to evaluate and replace their system of annual performance reviews after discovering that their, "current approach to performance management, annual 360 feedback, **was wasting a shocking 2 million hours per year**." As they evaluated how to improve this process, they found that their highest-performing teams were those who consistently reported the belief that...

"I have the chance to use my strengths every day."

So, when they began development of the new system, they kept the mission clear: "Spend more time helping people use their strengths." **The new system** depends on weekly performance reviews, and the documentation comes in the form of a "Process Performance Snapshot," a four-question form filled out by managers. The increased frequency is a big part of the new process, as the four indicators become part of a weekly score that employees can see, track, and act on.

The Organizations Choosing A Different Way

Microsoft

Microsoft's system of stacked ranking performance reviews took a big hit in the 2012 article 'The Lost Decade,' which pointed to the systemic problem of managers being forced to rank employees on a scale from top to poor performers. Top-performing teams and poor teams all fell generally into a bell curve, with the top handful earning rewards and the bottom handful facing correction, demotion or termination. This, obviously, created a cutthroat internal culture, where teammates saw each other as competitors rather than allies. Microsoft's new system replaced this culture with a process called 'Connects,' intended to emphasize collaboration, teamwork, and peer-engagement.

Gap, Inc.

Gap had a traditional performance review process that was consuming way too much time and attention for both managers and employees, and producing underwhelming results. The new Performance Management process, GPS, stands for "Grow. Perform. Succeed." Monthly performance 'touchpoints' replace the annual review, helping to course-correct problems and highlight successes. No ratings or rankings are involved, and compensation rewards follow a "reinvest in success" model. The company developed a supportive rollout process with learning modules to help managers make the shift in helpful feedback conversations and compensation distribution.

Medtronic, Inc.

Medtronic also moved toward a real-time performance feedback system in 2011, focusing on coaching and employee development and ditching rating-based systems. The new "Performance Acceleration" system focuses on managerial coaching and is future-focused, not past-focused, behavioral feedback.

Goldman Sachs

Goldman Sachs overhauled its performance review system in 2016, keeping a 360-review format, but reducing the number of reviewers from ten to six.

Amazon

Amazon has been famously criticized for its competitive culture, including stacked ranking methods and an unspoken rule that employees are asked to prioritize work over everything else in their lives. This cutthroat culture became even more ruthless when they launched an anonymous anytime feedback tool in 2015. This tool, "allowed employees to give anonymous feedback to anyone at any time." This feedback could then be used on performance reviews and a New York Times article cited internal sources saying, it's a "a river of intrigue and scheming. They described making quiet pacts with colleagues to bury the same person at once, or to praise one another lavishly. Many others… described feeling sabotaged by negative comments from unidentified colleagues with whom they could not argue."

In an attempt to correct this behavior, Amazon modified their feedback tool and created a system called, 'Connections,' which allows managers to pulse their teams every morning with a different question on a scale of 1-10. There are over 500 questions in the library, it's still anonymous, and managers will get a roll-up of the results if at least 40% of their team answers the question.

But Do They Really Work?

All of these examples may sound great on the surface, but do they really work? In order to answer that question, we first need to know what 'works' means. Let's go back to the basics and remember what performance reviews should ideally provide for a company:

In the past, they've been used to:

- Justify pay, promotion or termination decisions
- Motivate better performance by documenting areas for improvement
- Create documentation for the employee record

Instead, we believe that our expectations for performance reviews should be adjusted to serve these three purposes:

1. Provide direction for the future, leading to better, future-focused performance.
2. Document employee progress or lack thereof. Reviews should function as periodic milestone moments, for both employees and managers to stop and reflect on past learnings and future goals.
3. Create opportunities to increase rapport, clarity and maximization.

Quarterly Review Cycle (Test)

VIEW ALL REVIEWS

YOU ARE REVIEWING	REVIEW PERIOD	ASSESSMENT DUE DATE
Kalle Pierce	May 1 - Aug 1, 2021	Aug 5, 2021

What 3 things are you going to focus on in Q3 to help you grow and develop?

- Being proactive
- Building trust with my coworkers
- Personal development and communication skills

Leadr U Final Assignments- Book Report

Kalle did a great job jumping in and focusing on personal development and growth this quarter diving into reading a few books as well as taking on some new projects outside of her daily role obligations.

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But Do They Really Work?

What do we mean by rapport, clarity and maximization?
In our research, we found that the highest performing teams share three characteristics:

RAPPORT
Hold caring conversations, communicate personal investment, generate open and honest relationships between reports and leaders, develop a culture of trust.

MAXIMIZATION
Coach employees toward opportunities for learning and growth to maximize strengths. Development paths or career tracks may provide helpful guidance for employees looking for growth.

CLARITY
Create alignment on past, present, and future results and expectations.

PSYCHOLOGICAL SAFETY
The belief that within the team it is safe to speak up with differing opinions, new ideas and to take a chance on risk-taking experiments without fear of punishment.

These characteristics function best when a fourth element is present: psychological safety. In short, psychological safety is the belief that within the team it is safe to speak up with differing opinions, new ideas and to take a chance on risk-taking experiments without fear of punishment.

Based on these updated criteria for the function of the performance review, let's explore specific ways to improve the process.

An Updated Vision for the Performance Review: What They Could Be

Performance Reviews essentially seek to unearth questions of purpose and fulfillment, develop future potential, and consider past employee behaviors within a team and organization.

Reviews can also be used to build employee loyalty and investment by providing future-based insights for the person, team, and organization, as well as generating clarity about past, present, and future results and expectations. A review should envision a hopeful future where an employee can grow into their best performance potential.

What should an updated performance review process include? Here is the list of essential elements:

Determine The Purpose: It's critical to ensure both parties know the purpose and expected outcome of the review process. Improve communication? Improve opportunities for learning and growth? A chance to reflect and document progress. A culture of transparency, feedback and growth. Agree on the purpose and communicate that clearly to all.

Separate Pay, Promotion and Termination Conversations From the Employee Review Conversations. Compensation updates should be separate conversations. This removes the need to quantify employees, and some potential defensiveness from the employee to fight for their livelihood.

Increase the Frequency: Break the "feedback only happens annually" habit of thinking. Determine a good frequency of the review cycle for your organization. You might not call them reviews; other common terms for these regular meetings are "check-ins" or **"one-on-ones"**.

Regular Check-in's: Set up the discipline of regular check-ins, ideally weekly and at least bi-weekly.

Think Like a Coach: Switching to a coaching-based mindset rather than a management-based approach

Go Strengths-Based: A recognition of each **employee's unique strengths** and how those strengths are used to help the team succeed. Personality assessments are not only fun, but also a helpful tool when first starting out with strengths-based leadership.

Define Expectations: Create a clear understanding of success for each role. This requires **effective goal-setting** and accurate job descriptions.

Document Everything: Put in place a system for documentation of things such as agenda items, notes, goals and progress towards those goals, learning assignments, feedback requests, etc. Documentation is the antidote to recency bias.

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Reduce The Emphasis on Numeric Ratings: Consider Removing or limiting ratings-based assessments (1-5, 9-box and 360-review) or at the very least, de-emphasizing them in favor of self-reflections and qualitative data.

Two Perspectives: Document both the employee and manager perspective. Then, compare these perspectives in a coaching conversation to explore the differences. Ensure the two parties re clear on what areas are up for evaluation.

Future-Focused: Rather than a running list of areas of weakness or room for improvement, move to a future-focused mindset. Spend more time looking forward than you do looking back.

8 Questions to Ask About Your Review System

As an executive or an HR director who wants to try a different approach, it can feel overwhelming to know where to start. How well performance reviews work at any given organization already depends on a variety of factors. Here are some questions to ask if you intend to examine the effectiveness of your own company's review process.

1. What are our company values and culture around employee/manager communication and performance?

2. Is there internal employee support for the existing system, or is it viewed negatively?

3. Do we have enough trust and rapport built into the organization, which allows employees a certain degree of honesty in having conversations around challenge, opportunity, failure, or progress?

4. What is the frequency of our current system, and is it effective? Do we risk being affected by 'recency bias' when it comes to reviews (ex., an employee has completed a dozen great projects; however just prior to his/her performance review, there was a project that ran late.)? Because of the low frequency of traditional performance reviews, recency bias might mean a manager tends to focus on the most recent projects instead of viewing an employee's whole contribution.

5. Are performance reviews connected to employee compensation? If we remove this connection, how will we make promotion and compensation decisions?

6. Are we focused exclusively on the past in our reviews? How can we make these more future-facing?

7. If peer-review is a part of our existing process, are we ensuring that competition and suspicion between peers isn't damaging overall trust and productivity?

8. Are we balancing our focus between addressing weaknesses and encouraging and building on employee strengths?

Ready to Make the Switch? Follow These 5 Steps

Are you ready to begin to update your review process? Congratulations! But make sure to keep in mind that this can be a scary change for both employees and managers. Here are a few tips to help you manage the transition well:

1. Communicate expectations and purposes clearly. Any systemic change is going to feel threatening or scary.

2. Clearly outline why it's changing and how it will look. Discuss the hope of the new system and the visionary 'why' of the new system. This change is to spend more effort developing team members and should reduce the stress they feel regarding reviews. Ensure your communication is framed with your staff in mind.

3. Begin manager training to teach on any philosophical changes. For example:

   • Removing numerical ratings or stacked rankings
   • Going future-focused rather than past-focused
   • Thinking like a coach - mindset is everything. Remember - our goal is to transform people management into people development for the long-term benefit of our organization and the people who run it.

4. Do as much of the legwork as possible, including things like structured reflection prompts or templates for managers to use.

   • An example: What did you try to improve during this review period? How did that work out?
   • What did you learn that has helped you grow?
   • How will you apply those learnings going forward?
   • What's one thing we could adjust about our systems, process and methods that you believe would improve our team's performance?

5. Bring in new software to help you manage the process, keep organized on-going documentation and roll out the updates consistently across all teams.

If you've made it this far, it's clear that you're on a mission to invest in your people on a deeper level. If this feels overwhelming, think of it as an ongoing process where it's okay to have iterative change. During each step of the process, remember:

People want to be led, not managed.

Congratulate yourself for doing your part to develop leaders at every level of your organization!
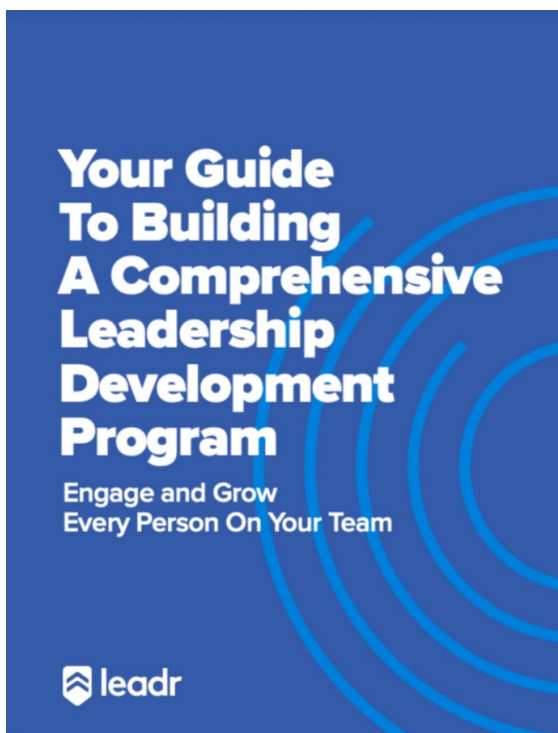
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We're often surprised when an employee is disengaged, yet we've failed by not giving them something to strive toward through their own development plan.

We get a lot of questions about how to develop people in a customized but scalable way, so we decided to create this eBook as a tool to help leaders like you implement your own programs within your organization.

This eBook contains

- A walk through how we here at Leadr created our internal leadership development program, LeadrU
- The necessary components of a successful and engaging leadership development program
- Templates and language to get you started building your own plan
- BONUS: A downloadable leadership development template to utilize at your organization