

Goodbye Annual Performance Reviews, Hello Feedback

In this article we will explore why annual performance reviews are being scrapped by some of the largest companies and how on-going feedback and coaching is being used as a replacement.

Station House Connaught Road
Brookwood, Woking
Surrey, GU240ER, UK
Company No. 08729822
Website: www.selfstir.com

> Performance Reviews

If you believe that people create value in an organization, then it follows that there must be some way in which that value can be measured. At an organizational level it is possible to look at metrics such as Human Capital Return on Investment, productivity, and revenue, expense and income factors. From an HRM practitioners perspective, performance reviews play a central role in drawing together a holistic set of HR processes; performance management, reward, learning and development and organization development.

At an individual level, targets and objectives enable the line manager to manage and measure individual employee performance. Performance reviews should help employees understand the expectations that the organization has of them in regards to performance and provide a forum for providing support in regards to skills development and accountability.

Good performance management practices are strategically aligned and integrated into business operations on a day-to-day basis. This requires the line manager to provide regular, effective feedback to their employee and they should ensure that targets set are directly linked to the delivery of the organization's strategic objectives. The outcome of a performance review should include establishing and clarity of individual and team goals, focus on areas of performance improvement, including skills and knowledge development and holding people to account.

Performance reviews can be defined as the:

/// formal evaluation of an employee's job performance in order to determine the degree to which the employee is performing effectively. /// Griffin and Ebert (2004: 216)

Individual performance is a central component of both day-to-day and strategic people management. If an organization is to achieve its strategic objectives then it is important that line managers regularly monitor progress. Starting with the end in mind provides the individual, the team and the line manager with a measure of success and the ability to know whether progress is on track. If we don't know where we have been and we don't know where we are going, then we cannot be sure of whether what we are doing is the right thing or not.





Figure 1: Links in the performance management chain (Gifford, 2016)

Performance reviews are used for two reasons:

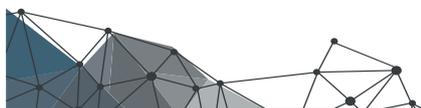
- a) Developmental, to help identify areas an individual can improve performance, informing their personal development and career planning.
- b) Administrative, informing decisions regarding reward, promotions or career development, termination and dismissal.

> What's Gone Wrong?

Research into performance reviews has been available since the early 1920's and there is plenty of evidence that shows a relationship between performance management practices and improving performance. However, recently there has been a backlash from organizations, with headlines in both HR and business press reporting that performance reviews are being ditched. The reasons given are various and probably sound familiar. Common complaints about performance review processes include:

- The process didn't achieve its goals and the system was flawed
- Too much focus on process over outcomes
- Managers are dissatisfied
- The reviews don't yield accurate information
- Employees are left feeling negative
- Triggers employee disengagement
- Constrains openness to creativity and growth

A repeated issue is that performance reviews have become out-dated and are not fit for purpose in the modern digital economy. Ratings or rankings are mechanistic and represent a hang over from scientific management methods where human capital was measured by time and production output. In today's knowledge based economy, attempts to measure employee workplace performance in this way reduce employee performance to a score. Today measurement of success has become more subjective and cannot be measured in the same way as a manual operative role.



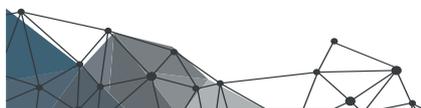
Performance reviews were important when work could be monitored through time and motion studies and when pay reviews were used to hold employees to account. The workforce expects increases in pay when their salary is worth less in an economy suffering from high inflation. Linking pay rises to past performance made sense in an economy faced with inflationary pressures such as in the 1970s. However, over the last two decades Western economies have faced historic lows in inflation rates and some developed economies are combating deflationary forces.

Another argument suggests that focusing on managing by objectives and goal setting doesn't work (Williams, 2011). In the digital age it is virtually impossible to set goals for complex tasks and the emphasis on collaborative working makes it hard to separate individual contributions to performance. The shift to team based and collaborative working in the last few years has reduced the ability for organizations to develop metrics, which fairly hold individual's accountable for results. Furthermore, performance review cycles tend to run on an annual basis but organizations annual time horizon doesn't sit comfortably in a dynamic environment where agility and flexibility in responding to market demands means annual objectives become obsolete. Too many or too few goals are ineffective and even if goal setting did energize and motivate employees it can lead to unhealthy behaviours and the individual focusing on the wrong things.

Cost both in time and in the expense of systems and processes to support the performance review process is also a factor, specifically in regards to the value placed upon outcomes of the review process. The technology company CEB estimates that it cost \$35m to conduct performance reviews for 10,000 employees. That's a lot of investment in a process that both managers and employees feel negatively about, and where evidence of returns on investment is difficult to determine.

// Performance management as practiced by most organizations has become a rule-based, bureaucratic process, existing as an end in itself rather than actually shaping performance. Employees hate it. Managers hate it. Even HR departments hate it. // Laszlo Bock, SVP of People Operations at Google

There are additional issues in regards to the way in which performance review are conducted. From a psychology perspective the issues of unconscious bias has been under the spot light with research highlighting that language used to describe men and women during performance reviews distorts performance ratings e.g. the word assertiveness is viewed negatively in female reviews, but positively leading to promotions for men. Badly managed performance reviews and decision-making processes therefore open the organization up to diversity and discriminatory issues and the possibility of litigation. The reaction of employees to a performance reviews is in part influenced by personality e.g. self-efficacy but it is perceptions of procedural fairness where an employee feels they have been unfairly treated which can lead to demotivation.



Extinction Trends

Employers are questioning value of traditional performance management with 6% of Fortune 500 companies getting rid of rankings. Over the last few years a number of high profile organizations, such as Deloitte, Facebook and Accenture have publically discarded performance appraisals declaring them out dated.

In 2013, Microsoft did get rid of a rankings system, and has instead replaced it with a process, which judges employees against each other. The focus is on offering real time feedback and moving from managing performance to developing it.

In 2015 Accenture also got rid of its performance review process, which resulted in all but 10% of performance review process being replaced with a more fluid system, but in its place Accenture introduced a system of on going feedback, which seeks to regularly support and position workers to perform better in the future. In removing the irksome tick box exercise the idea is to give managers more time to talk to their staff about performance improvement. Gap and Medtronic have also transformed their processes.

Even though over half of HR leaders and three-quarters of senior leaders think that annual appraisals are ineffective, two thirds of leaders thought they were still a relevant practice in their organization (CIPD, 2016). A recent survey by CEB (2016) showed that 42% of managers and employees surveyed said that existing performance review processes needed to be changed or redesigned because they were overly complex, inconsistent and backward-looking.

However, the removed of the annual performance appraisal system does not mean that the performance review is going to be extinct any time soon. The articles that do sound the death knell for performance reviews offer case studies as opposed to research-based practice. The new practices however, present little evidence as to what is effective, with results from a CEB (2016) survey showing that organisations who have got rid of performance reviews have seen employee productivity drop by up to 10% and employee churn increase.

The Future

It is time to say goodbye to antiquated performance management systems that rely on line managers sitting with their employees on an annual basis reviewing targets that were set twelve months earlier and painfully working their way through an unwieldy performance appraisal document. This was never an effective method of performance review and comes from a place of trying to systematize what should be day-to-day interactions between line manager and employee.

If performance rankings and ratings are removed it is essential that a continuous cycle of frank yet supportive performance conversations, regular feedback and open communication occur within the organization. These performance conversations should



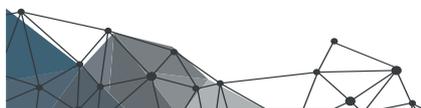
be two-way. Managers should use constructive feedback to motivate their employees to improve their performance, and employees must be given a mechanism to be able to feedback and reverse mentor their line manager regarding the quality of their performance conversations. Since managers are instrumental in providing a bridge between organization and individual performance expectations, managers must be trained to provide clarity about performance and development, using evidence based feedback on how the employee is performing and progressing.

In addition managers should be equipped to coach and empower employees. Their role as line manager must be clearly delineated from being the expert providing wisdom to their acolytes. Instead managers need to be coach, mentor and guide, helping individuals and their teams to find purpose and seek constant opportunities for learning. Performance reviews in this setting should be focused on helping people to grow in their job. Managers should be trained to give appreciative feedback focused on employee strengths which is a better basis for improvement than deficit based approach (Kluger and Nir, 2010).

Timeliness of feedback is essential, and reviews should, where appropriate, be instantaneous, with line managers offering coaching in the moment and engaging in on going performance development discussions with their employees. This type of feedback is based upon the feedback intervention theory (Kluger and DeNisi, 1996) which proposes that if an individual understands that there is a discrepancy between what needs to be achieved and current performance it will motivate them to perform better. A combination of coaching and feedback therefore informs employees about the gap between expectation and performance, enables expectations to be adjusted and gives space for the line manager to monitor employee reaction.

An important factor in feedback intervention is in relation to goal setting, which should be based on broad outcomes in order to avoid setting irrelevant objectives where goal achievement is the only measure of performance. If outcomes based goals are inappropriate then it is possible to set goals focused on progress measures based on improved performance in key areas such as skill or knowledge development. For complex jobs, line managers should consider goals focused on the quality of an employee's behaviour or learning goals (Porter and Latham, 2013). Learning goals are also useful in the short term, whilst individuals are transferring learning, which will help to support individuals in applying their learning to their work (Brown and Warren, 2009). Whatever goal setting strategies are used, the line manager should focus on setting agile small-scale goals and ensure they provide regular real-time feedback.

In an environment where collaboration is key, feedback shouldn't be limited just to that given by the line manager. CEB (2016: 7) highlights how peer feedback supports line managers to "more effectively assess and discuss employee performance in an environment where employees must increasingly work with peers to be effective." Where employees are line managed remotely, it is also worth noting that there is no performance downside to using technology in reviewing performance as there is no difference between in person feedback and feedback given via technology (Neubert, 1998).



> Coaching

Coaching practice is well established, but many who are new to the practice of coaching may not yet understand how coaching can achieve a dramatic effect on personal, team, and organizational performance. In the organizational setting, there is a growing practice of developing coaching skills for managers to be able to align individual employees with the organizational strategy and release high performance (Foster, 2017).

When it comes to coaching in an organizational setting, the emphasis has been on releasing high performance and in many ways coaching is a performance review process. Programs such as developing line managers to be coaches often support this form of performance coaching. Good coaching has the ability to positively impact not just on the individual, but also on their team, line manager, and the wider organization.

Performance coaching can contribute to improved efficiency and effectiveness in managing tasks and employee development relating to real-time work issues. Specifically, performance coaching is focused on the following elements:

- **Thinking:** Developing the intellectual capacity of the individual to analyze issues and solve problems including improving their knowledge regarding their role in managing themselves and others.
- **Relational:** Focusing on developing healthy relationships with a variety of people significant to the success in role including managing communication and conflict when it arises.
- **Action:** Cultivating an awareness of the skills and capability resource available and developing the capacity to apply capabilities appropriately, including improving decision-making, planning, and scanning the environment for challenges and opportunities (Foster, 2017).

> How SelfStir can help

SelfStir offers a platform for 360 feedback to be used as a method of performance review and personal development. The system integrates behavioural models and innovative technology to help individuals gather feedback from a number of sources. This will provide both the employee and managers a wider range of perspectives, increasing objectivity in the review of performance, making the process fairer. The system also allows multi-source feedback to be done more frequently and supports personal development planning, making it a critical tool for performance improvement.



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