The Performance Appraisal System: Is It Worth Our Time and Effort?

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What we’ll cover today

- The latest “talk” about performance systems
- Your opinions
- Statistics
- Neuroscience research on assessment
- Responses/changes by companies in performance systems
- Small group discussions – working with your performance systems
- A tested approach
Some people say....

“The worst-kept secret has long been the fact that the yearly ritual of evaluating (and sometimes rating and ranking) the performance of employees epitomizes the absurdities of corporate life...

(Ewenstein, Hancock, and Komm, McKinsey Quarterly, May 2016)
Some people say....

...Soon enough, a ritual most executives say they dislike will be so outdated that it will resemble trying to conduct modern financial transactions through carrier pigeons.”

(Ewenstein, Hancock, and Komm, McKinsey Quarterly, May 2016)
Statistics from SHRM and the CEB*

- 95 percent of managers are dissatisfied with the way their companies conduct performance reviews.

- Nearly 90 percent of HR leaders say the process doesn’t yield accurate information.

- The average manager spends more than 200 hours a year on activities related to performance reviews.

- A company of about 10,000 employees spends roughly $35 million a year to conduct reviews.

CEB – Corporate Executive Board
So, what do you say???

Please take a minute to reflect:

- *Do you have a performance system?*

- *What does it include?*

- *Do you use it?*

- *What value is it bringing to your stakeholders?*
Workplace drivers for performance system change in the US

- Work is increasingly customer-centric, complex, global and virtual; rendering general measurement systems irrelevant
- More team-based work across functions, cultures, time zones – requiring a systems perspective
- Harder to get valid data on performance through single sources
- Speed of decisions is outpacing annual/semi-annual time consuming processes
- Knowledge work and drive for innovation predominates
- Time spent is well below the value the process provides.
More and More, Business Is Personal!

Organization Wants and Needs

Individual Wants and Needs

“I have the opportunity to use my strengths everyday” (Gallup Survey)
Neuroscience tells an interesting story about traditional performance systems*

What’s wrong with labeling, rating and ranking?

- Labeling and numerical ranking people puts us in a “flight or fight” response pattern: “brain hijack” triggered by a perceived attack, inhibiting our ability to reflect and converse freely, if we know anyone is ranked higher.

- “Fixed Mindset” vs. “Growth Mindset” (**Dr Carol Dweck)
  - Fixed Mindset assumes that intelligence and talent is fixed at birth
  - Growth Mindset assumes that people learn, grow and improve all their lives

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Neuroscience tells an interesting story about how to improve performance systems*

- SCARF hypothesis posits 5 organizational factors having a major effect on human reactions:
  - **Status** – the perception of being better or worse than others
  - **Certainty** – the predictability of future events
  - **Autonomy** – the level of control people feel over their lives
  - **Relatedness** – the experience of sharing goals with others
  - **Fairness** – the sense of being treated fairly and equitably, especially in comparison to others

- Build systems that support a growth mindset and reinforce or neutralize these 5 (SCARF) factors

Unintended consequences of the status quo

- The “system” is seen as a justification for ratings and budget decisions rather than actual performance
  - Performance discussions are usually stressful, even when positive, e.g. are associated with competition with peers over a limited pool of rewards
  - Ongoing conversations and coaching, not ratings, have the biggest impact on performance

- Looking backward to past performance tends to inhibit growth and change
  - Limits opportunities to link personal capability, performance and strategy
  - Reflects a “fixed mindset” vs. “growth mindset”

What are US companies starting to do differently? The solutions are evolving...

- Frequent and ongoing conversations
- Continuous feedback in real time, e.g. creating “apps”
- Focus on employee coaching and development
- Multiple sources of feedback, e.g. crowd-sourcing
- Engaging the 70% in the middle
- Differentiating performance among the highest and lowest performers for feedback and compensation
- Unbundling performance feedback conversations from compensation conversations
- Discarding ratings altogether

Some companies breaking new ground...

- **Deloitte** – following 2-year pilot, global implementation
  - Check-Ins on progress and individual/team development needs
  - Frequent conversations between within teams about work
  - Separate performance and compensation conversations
  - Performance snapshots – 4 questions, 4 times/year
  - Pulse surveys on team leadership
  - “Analog” system – focus on conversations
  - “Digital” approach - gathering and sharing lots of data on individual, team and organizational performance

...a long-term, development-focused approach
Some companies breaking new ground...

- **Microsoft** – 2013 redesign away from the “bell curve”
  - No more ratings, distributions, annual reviews
  - Goal-based – these matter more than ever
  - Team-based measurement and development
  - Focus on horizontal contributions across functions, work groups
  - Emphasizes continual learning and growth
Globally, it’s a different picture...

- “Recent Research has found that only 6% of employers in Africa, Europe and the Middle East have moved to ratingless programs or have considered doing so.” 

- Urgency to revamp performance systems not as great as that for talent attraction and retention

- Performance philosophies vary greatly by culture
Interesting “conundrum” - Hot off the presses!

“CEB surveyed more than 9,000 managers and employees across 18 countries and found that those who worked for organizations that had scrapped ratings from the review process actually scored the performance conversations they had with their managers 14 percent lower. Employees who’d gotten a top score under the old ratings system missed them most, with satisfaction scores dropping even further. And among the group that had no ratings, the number of employees who believe their organization differentiates pay by performance dropped eight percent, the survey found.” Jena McGregor, Washington Post, June 7, 2016
What’s getting in the way of implementing a more developmental performance approach?

- Under-developed coaching skills among managers in *almost every business polled*
- Insufficient systemic motivation and reinforcement for coaching and learning
- Difficulty linking pay and performance w/o the ratings – uncharted ground

Organizational culture and systems!

“Culture is a system, a complex frame of reference that consists of implicit **patterns** of traditions, beliefs, values, norms, symbols, behaviors, and meanings that are shared to varying degrees by interacting members of a “community.” It is of unquestionable logic to its “players.”

*Anthropologist’s Definition*

“Culture is the software of the mind”

*Geert Hofstede*

“The way we do things around here!”

*Edgar Schein and The Rest of Us*
Culture is more powerful than anything else!
Where is the power in these systems?

- **Performance Appraisal**
  - Annually rating people against a set of universal standards, which may or may not be goal-related

- **Performance Management**
  - Annually planning, assessing and developing against goals and other standards with clear measures and rewards

- **Performance Development**
  - Developing strategic talent capability and learning culture through ongoing planning, JIT feedback, coaching, development and engagement

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Aligning culture and performance systems

Work in pairs: (10 minutes)

Examine your current culture

- What 2-3 (existing) norms/behaviors are necessary/critical for your organization’s strategic success?
- What (1-3) norms are really getting the way?
- What (1-3) norms do you need to embed, but don’t have yet?

Identify opportunities for change

- What one or two changes could you make right away in your performance system to support these desired culture behaviors (norms)?
How we measure and raise performance is a strategic decision and a cultural driver!

✔ Tailor for the unique needs of your business
  - What does your business need to do to be successful?
  - What do you want a performance system to do for your business?
  - What key roles /teams make the difference (vs. good enough)?
  - Look at roles /teams in the context of the whole system – what are the vertical and lateral flows and dependencies? With external stakeholders?
  - Design talent system(s) to support desired culture and performance
  - Ask leaders for their recommendations for compensation and development rather than a rating
How we measure and raise performance is a strategic decision and a cultural driver!

✓ Treat people as investments and partners

- How can you best contribute to the business?
- What ideas do you have for meeting broader goals? For improving results day-to-day?
- How can you stretch/develop yourself in the process?
- What really motivates you to do your best?

Toss the carrot and the...
How we measure and raise performance is a strategic decision and a cultural driver!

✓ Change your language regarding performance, then reinforce with consistent actions

- Language matters – it shifts the paradigm
  - APPRAISE vs. MANAGE vs. DEVELOP

- Be transparent in communicating your performance process’s goals and fit with strategy and desired culture

- Invest (in a big way!) in coaching and conversation skills, continuous learning, and supporting technology

- Reward managers who “walk” the learning culture
Performance Planning and Development Model

1. Mutually plan for best results and desired culture

2. Provide “just in time” specific feedback and coaching on goal achievement and operating to values-based behavior

3. Partner on development planning and implementation

4. Link pay and performance where it counts

Integrate user-friendly mobile technology throughout…
Performance Planning and Development Model

1- Mutually plan for best results and desired culture

- Mutually establish clear goals – individual, team, strategic, operational
  - Link to mission, vision, strategy and customer needs
  - Clarify roles / accountabilities as much as possible
  - SMART

- Establish and commit to a few critical individual and team behaviors
  - Reflecting mission, strategy and core values
  - “Checking in” against these as “operating norms”

- Monitor trust levels within and across work groups and stakeholders
  - Surveys
  - Work flow breakdowns
  - Inter-personal conflict
Performance Planning and Development Model

2- Provide “just in time” specific feedback and coaching on goal achievement and behavior

- Conduct frequent check-ins on progress, problems and needs
- Keep conversations short and focused
- Seek to understand and appreciate systemic impacts (e.g., organization changes, customer issues, work-flow glitches) on goal achievement
- Regularly gather data on leadership effectiveness, results, engagement, customer satisfaction
- Coach for learning rather than blaming (Continue/Stop/Start)
- Institute regular team debriefings (Plus/Delta)
Performance Planning and Development Model

3 - Partner on development planning and implementation

- Implement a formal development process for individuals and teams
  - Reflecting on individual / team needs and wants
  - Holding effective conversations regarding mutual needs and wants
  - Mutually-designed plan for short- and longer-term development
  - Firm commitment of time and resources to fund the plan

- Ensure development resources are easy to find and use

- Stay mutually accountable for:
  - Meeting budget requirements
  - Focusing on strategy relevant learning activities
  - Measuring the impact of development actions
4 - Link pay and performance where it counts

- Ask managers to make compensation recommendations: “what would you do with this employee?” vs. “how would you rate him/her?”

- Differentiate pay where it actually makes a difference for your business, e.g. Top and bottom

- Focus on attracting and retaining top talent, solid contributors, and long-term intellectual capital

- Use variable, “just-in time” (e.g. bonus, in-kind) rewards for teams and individuals
“The world isn’t really on an annual cycle for anything.”

Susan Peters, CHRO, General Electric

Max Nisen, “Why GE had to kill its annual performance reviews after more than three decades,” Quarz.com, August 13, 2015.
Sources and Further Reading

- Lee Hecht Harrison, “The Changing Nature of Performance Management.” Web presentation for SHRM, pdf download. 4.27.16
- Jena McGregor, “This big change was supposed to make performance reviews better. Is it making it worse?” *Washington Post*, June 7, 2016
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