Time to drop your performance reviews?

3 Take-aways and 4 bits

1. There is serious evidence that a bundle of people management practices that fit together to make a performance management system contribute to the business's effectiveness.
2. The bundle is made up of four bits – clear expectations, ongoing coaching, regular reviews and motivating consequences
3. There is some evidence that educated, career-oriented, knowledge professionals are more engaged by an attraction and retention focus that puts emphasis on career development, especially the coaching bit

Thinking of giving up your performance reviews? You might be attracted by what seems to be a new Best Practice trend where big companies are letting their annual performance ratings go. Or possibly you are unhappy with less than great experiences with performance appraisals. But what next? What would work best to motivate performance for you and your organisation?

There are a range of approaches in play.

Morning Star is a California tomato processor with no managers. "Colleagues" negotiate a CLOU (colleague letter of understanding) with work-mates – clarifying performance expectations, and including metrics. Compensation is also negotiated with colleagues – based on a report on (measurable) achievements.

Deloitte has dropped the annual performance ratings of staff (wide business press coverage followed an article about their review of performance reviews in the April 2015 HBR). Team leaders are expected to meet at least weekly with team members – because the evidence was that this was a key factor in building staff engagement ("very frequent check-ins are a team leader's killer app"[1]).

Deloitte also encourages staff to evaluate their "strengths", and to share those. The rationale – team performance is related to team member's use of these strengths. Deloitte still rates performance ("performance snapshots") quarterly (or more often on shorter projects). The performance snapshot ratings come from team and project leaders' decisions about staff eligibility for pay and promotion. Deloitte haven't, as of April 2015, worked out how to share that information with staff though.

Google has, like Deloitte, gone to the data to find what lifts performance[2]. Identifying the 8 behaviours of effective (Google) team leaders has made a significant impact – through the targeting of training to improve less effective leaders. Google teams evaluate their leader and the team itself

[1] Marcus Buckingham and Ashley Goodall, 2015 - https://hbr.org/2015/04/reinventing-performance-management

[2] http://www.theatlantic.com/business/archive/2013/10/how-google-uses-data-to-build-a-better-worker/280347/

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twice a year – how's that for leader's being accountable for their leadership behaviour? Performance reviews are supported by training that helps the reviewers understand and moderate their "cognitive biases".

We can see that some firms have made radical changes to performance management. In the era 1981 – 2001 Jack Welch transformed GM. Welch demanded change from a bloated and complacent conglomerate. The result was a group of businesses that got to number 1 or 2 in their respective industries. Part of what got them there was a performance management approach where people were scaled – the top performers rewarded and promoted, the bottom (10%) performers fired.

Under Welch GM created $300b in value. Was 'rank and yank' performance management the best approach to challenge the complacent culture of the time? GM is now moving from a group of businesses employing production people focused on operational efficiency to one employing highly educated people charged with developing high tech products. Does it make sense in motivating these people to move from annual ratings to a feedback app that provides fast information about how they are seen by their peers?

Is there one best, new way to motivate performance, or does it depend on who your people are and what your people strategy involves?

The evidence indicates that some approaches may be better suited to firms with a different mix of staff or using a different people strategy. Behavioural economists Nicholas Bloom and John Van Reenen have asked a range of businesses what they actually do around performance management. Businesses that have expensive, well-educated employees tend to emphasise approaches that attract and retain such people rather than focusing on rewards or "fixing-firing" approaches[3].

Across the board there do appear to be some fundamentals.

1. Clear expectations. Morning Star uses the CLOU. Research at the individual, team and organisation level consistently shows how "setting clear performance expectations" is fundamental[4]. Some fundamentals – goals should include behavioural and development targets as well as the "hard" measures.
2. Regular check-ins for feedback, course corrections and development guidance. Feedback does not always contribute to performance improvement – a major review estimated that one third of feedback drives performance down rather than lifts it up[5]. It helps if the feedback is about results and behaviour, not personality. It is more likely to be useful if the feedback is given and seen as a guide to development rather than a judgement ("how can I help you to do it better next time?")[6]. As Deloitte has found, when done well – very frequent opportunities to provide supportive feedback are the team leader's killer app.

[3] Nicholas Bloom and John Van Reenan, 2010 - http://eprints.lse.ac.uk/28730/1/dp0982.pdf
[4] Gary Latham, Lorne M. Sulsky and Heather MacDonald, 2007. In The Oxford Handbook ofHRM
[5] Kluger and DeNisi, 1996. Psychological Bulletin
[6] DeNisi and Kluger, 2000. Academy of Management Executive

3. Formal reviews. Results against performance standards or goals were what formal reviews have tended to be. In many retention-focused businesses they are more likely to emphasise checking where the person is at in terms of alignment between their career aspirations and the business career paths. Goals are more likely to be for career development within the business. Recent Linked In research of ANZ job movers found that 41% (of 719) moved employers to further their career[7] – how many of those might have been helped to find in-firm career tracks?
4. Performance consequences. Incentives are hard to get right. But a classic study[8] found that incentives had greater impacts on productivity than training, goal-setting or appraisal. It is important to realise that "incentives" vary according to who is being incentivized. Getting ahead in your career, and the visible signs of that matter to some (ever noticed that academics and politicians love high profile conferences?). Google found that the chance to hang out with thought leaders in the business was right up there for their people.

An older study of listed American businesses found that the extent that they used these four approaches (including results-focused formal reviews) made a significant difference to their return on investment and productivity[9]. More of these performance management practices meant better shareholder returns. More recent research by McKinsey consultants and economists from the London School of Economics replicated these results for manufacturers across Europe as well as the US[10].

It is important to note that while there is good evidence of financial pay-offs, there is evidence too that good performance management (as defined above!) contributes to patient outcomes in hospitals and indicators of employee's work-life balance[11].

What should you or more particularly, your leaders do? Remember that its leaders who clarify expectations, provide feedback, coach for development, or not. The simplest approach would be to do a Google – find what your successful leaders do that the others don't. Then bottle that.

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[7] Linked In, 2015 - https://business.linkedin.com/en-au/talent-solutions/resources/job-trends/anz-job-seeker-trends-why-and-how-people-change-jobs

[8] Guzzo and others, 1985. Personnel Psychology

[9] McDonald and Smith, 1995. Compensation and Benefits Review – RoI was 6.6% for performance managers vs. 4.7% for those not using performance management; sales / employee were $170,000 vs. $126,000.

[10] John Dowdy and others, 2005 - http://cep.lse.ac.uk/management/Management_Matters.pdf. These researchers assessed 9 behavioural aspects of performance management – covering the "Big 4" above. They also included another 5 aspects of human resource management and 3 aspects of lean manufacturing. An average increase of 1 on the 5-point scale measuring company performance on these would have resulted in a 6% increase in total factor productivity (expressed another way – the equivalent of employing 11% more people. That's quite a saving. A note on working with "bundles" of people management practices – the evidence seems to indicate that it is the combined impact of such a management mix that makes the difference – meaning you need to think of how your practices hang together.

[11] Nicholas Bloom and John Van Reenan, 2010 - http://eprints.lse.ac.uk/28730/1/dp0982.pdf

One caution – what makes your leaders effective might not be the same as what makes the Google or Deloitte leaders wonderful. If you are leading less skilled, low wage people in a process-focused "just do it" work systems – you might want to manage by the KPIs. There is evidence that incentive systems in such an environment help – not just to lift performance, but also to "sort" staff – those not earning incentives leave[12].

If you are concerned about keeping good staff, and developing their ability to add even more value – then you will be looking at growing your people leaders as coaches. Their support to their people is probably the major contribution to both holding on to and lifting the performance of effective people.

Your major performance management challenge in this environment is motivating your leaders to lead their people and their team well. And how do you motivate them to do that?

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[12] For example – Harrison, Virick and William, 1996. Journal of Applied Psychology