The Rise of Performance Development

The End of Annual Reviews

A new model of assessing employees, called continuous performance development, yields real-time feedback and a more engaged, productive workforce

Is the annual performance review really dead? Especially in today's rapidly changing digital age, it's no surprise that everyone in the workplace—from senior executives down to individual contributors—is beginning to question the process that incites talk of yearly raises, outdated goals, and usually uncomfortable meetings.

For many businesses, the annual employee performance review has become more of a burden than a benefit. As they adjust to the agile nature of today's workplace, companies are getting less and less value from traditional performance-management processes. Enter a new model, continuous performance development, which transforms employee evaluations from an onerous, once-a-year ordeal into ongoing conversations that focus more on real-time feedback. Traditional performance management can stifle an employee's engagement and doesn't enable workers or help them progress toward their goals. In contrast, *continuous performance development* is designed to improve manager/employee collaboration and coaching, increasing business operational excellence in today's ever-shifting marketplace.

Farewell to the Annual Review

Both front-line managers and C-suite executives are more than ready to retire the annual performance evaluation, according to research interviews conducted by Claire Schooley, principal analyst supporting application development and delivery professionals for Forrester Research.

A survey from Deloitte found that only 12 percent of human resources (HR) leaders view their performance-management processes as highly effective in driving business value.

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"Neither managers nor employees felt that they were getting any value out of this kind of periodic performance appraisal," she says. Managers reportedly spent an average of 7.5 hours per direct report on annual performance reviews, which they largely viewed as a waste of time. Meanwhile, employees were solely focused on whether they would receive a raise or a bonus instead of their performance or what they could do better, Schooley says.

About 10 percent of Fortune 500 companies have done away with the annual performance review, according to Cliff Stevenson, a senior research analyst for the Institute for Corporate Productivity.

Likewise, corporations such as Microsoft have junked systems that used numeric scores or qualitative labels to compare employees to each other. "The idea of somebody being rated once a year with a number actually reduces employee engagement," according to Josh Bersin, principal and founder of Bersin by Deloitte.

New business structures require new thinking about how managers and employees interact on an ongoing basis. Traditional performance-management processes were based on hierarchies where people were told what to do by their bosses; and if they didn't get their job done, they were demoted or didn't get a raise, Bersin notes. "Now, we're trying to empower people to be more creative and proactive at the front line, so we have to create goals and measurement systems that come from the bottom up, not from the top down," he says.

That means transforming the traditional annual or bi-annual review into a leading performance-development process that's fully integrated into the daily workflow. New strategies must extend beyond yearly goal setting and routine "check-the-box" evaluations.

Keeping Up with the Modern Workforce

Increased adoption of more effective performance-management processes is due in part to expectations of a youthful workforce—the millennial generation—raised with technology and social media. "Young people today have much higher expectations for empowerment, creativity, and rapid progression at work," Bersin says. "It's no big deal for them to go online and see what everybody else is doing, and chat, and compare notes."

With job-seeking tools at their fingertips, millennials also are more likely to look for new employment if they feel dissatisfied or ignored. "Young people want continuous, concise feedback, and they say 'If you can't give it to me face to face, give it to me on my mobile device,'" Schooley says.

"If we don't get feedback at work, we become nervous, suspicious, and generally less productive," Bersin noted in a 2015 Forbes article aptly titled, "Feedback Is The Killer App." Today, employees of all ages ultimately want more flexibility, the option to work from home, and a sense of purpose on the job, he says.

But some managers may need time to get on board with other aspects of continuous performance development—most significantly, the uncoupling of compensation from performance reviews. This change could alarm HR professionals who nervously anticipate legal problems if compensation or bonuses aren't linked to ranking or other metrics, Schooley notes. It could even upset employees accustomed to receiving an annual review followed by a raise and/or a promotion.

The shift, however, reflects new thinking about the motivation of the American workforce. According to Deloitte's 2016 report, employees value culture and career growth at almost twice the rate at which they value compensation and benefits when selecting an employer.

"Two decades ago, we thought we knew what motivated employees, and that was perks, benefits, and salary. We thought that compensation drove engagement, behavior, and performance," Kris Duggan, cofounder and CEO of BetterWorks, says. "But that hasn't been borne out."

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To combat outdated approaches to performance management, many companies are turning to enterprise software companies such as Redwood City, California–based BetterWorks, which provides an agile, automated software platform that facilitates frequent, ongoing conversations between managers and employees. Using customizable templates and automated reminders to set structure and cadence, the platform ensures that meaningful exchanges take place between employees and managers or among team members.

"There's a lot of data that shows if you have conversations with your people every quarter or couple of months, instead of every year, they will be more engaged," says Duggan. "It could involve just two questions: What's working well? What's not working well?"

Duggan adds that these conversations should be data based and focused on real-time progress: "What happened last week, and what's happening next week?" he says. Rather than giving delayed feedback on goals set several months ago, managers should be able to react to events that just happened. And by turning one-sided performance reviews into actual conversations, performance development becomes less about criticism and more about the company's needs, in Duggan's view.

Among the many companies adapting to more complex employee demands and new approaches to performance management is Instructure, a Salt Lake City, Utah–based educational technology company that recently adopted a continuous performance development model using the BetterWorks platform. "Traditionally, there had been an end-of-year annual performance review," recalls Troy Anderson, director of partnerships for Instructure.

The level of visibility that the BetterWorks platform provides for employees and managers resonated with Instructure. "We said, 'Yes, that's shared accountability, that's ownership, that's all of us holding each other accountable,'" Anderson says.

At Instructure, everyone from the CEO to the most recently hired employee now uses BetterWorks. "This technology is a natural fit," Anderson says. "We think it drives engagement, and that drives accountability."

What companies like Instructure have found is that continuous performance development produces more data about employee productivity than do stilted annual reviews or rankings that might be tainted by office politics.

"If you want to evaluate a team leader's performance, you can look at the engagement level of the people on that team," Bersin explains. "If you want to evaluate an individual's performance, you can now look at all the check-in conversations and development conversations you had, and all the goals and projects you've worked on during the year. All that information is available."

Taking the Performance Development Leap

The transition to an effective performance-development model may not always be smooth sailing. Such models pose their own challenges.

While providing employee coaching may seem time-consuming, a transparent and collaborative goal-management process makes it a lot easier.

For example, coaching is an integral part of the process, but many managers may be uncomfortable in that role. As Schooley puts it: "If you say to a manager, 'Okay, one of your main responsibilities is coaching,' many of them will say, 'Whoa, but I've got all these other jobs to do.' For the typical manager, evaluating employees is not something they can easily do on a day-to-day basis."

While providing employee coaching may seem time-consuming, a transparent and collaborative goal-management process makes it a lot easier. When managers can see what their employees are working on and how they're progressing, they have deeper context and insight into their employee's goals, making coaching more meaningful and effective

Making these changes to the way companies work is crucial because the shift to continuous performance development isn't likely to cease any time soon. Companies such as Adobe have invested heavily into training their managers to be good coaches and are now reaping the benefits, says Schooley. According to Duggan, productivity increases by 21 percent when companies switch to a performance-development model.

There are, said Duggan, three phases for performance development: "Plan, execute, and engage." He believes that executives should ask themselves the following questions: "Is there a living, breathing company plan that everybody can see? Are we able to turn our company plan into quarterly goal executions that are open and collaborative? Are we facilitating frequent conversations between managers and employees to ensure that people are performing at their highest level?"

The answer to all three questions should be "yes." The likely result is a far more engaged—and productive—workforce.

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