

• HOW TO GUIDE •

How To Evolve Performance Management in 3 Phases



INTRODUCTION

*You know your performance management process isn't working - and you aren't alone. Studies show **89% of companies are looking to change their performance management process in the next 18 months.** In this eBook we'll tell you why current performance management strategies are no longer effective and how to evolve and scale your feedback system using Real-Time Feedback to drive results.*

THE NEW WORLD OF WORK

The workforce has changed. Ambitious millennials entering the workforce want to climb the career ladder quickly. They are used to accessing real-time communication channels and interfacing with their peers using innovative mobile apps, software and technology. Since we are constantly connected, whether it be laptop, phone, or tablet, we move fast, collaborate more, and innovate constantly. With millennials in the workforce, communication and management strategies need to evolve to be more real-time.

JOIN THE REAL-TIME REVOLUTION

The new generation wants to work with a streamlined real-time approach to decrease friction and heighten productivity. This efficient method allows them to learn and achieve results at a rapid pace. And as part of an employee's development, they want increased, ongoing Real-Time Feedback from their managers and peers. Your employee feedback and development processes should match this trend. Unfortunately, the static performance management practices of the past don't cut it in today's new world of work.

REAL-TIME FEEDBACK IMPROVES DEVELOPMENT AND ENGAGEMENT

You need more feedback to be able to learn and get better at what you do. As most companies are quickly realizing, the annual review no longer cuts it. Industry giants such as Deloitte and Accenture have both removed the annual performance review and rankings. They have replaced the annual review with Real-Time Feedback and frequent, lightweight Check-Ins. The positive results already speak for themselves!

A CLOSER LOOK AT REAL DATA: THE RESULTS ARE IN

For companies that have moved to Real-Time Feedback strategy, the results are astounding. Deloitte recently released a report that engagement and performance has increased significantly for the groups that have moved to more frequent, lightweight Check-Ins. The graph below represents questions that Deloitte asked their employees as part of their testing as they moved to a Real-Time Feedback & Check-In strategy. The Baseline group, which had the lowest scores across all vectors, was the group that didn't move to Real-Time Feedback & Check-Ins. Their low scores indicate that a fully integrated move to Real-Time Feedback & Check-In strategy is a crucial transformation a company can make if they are looking to improve employee performance management.

What we're seeing

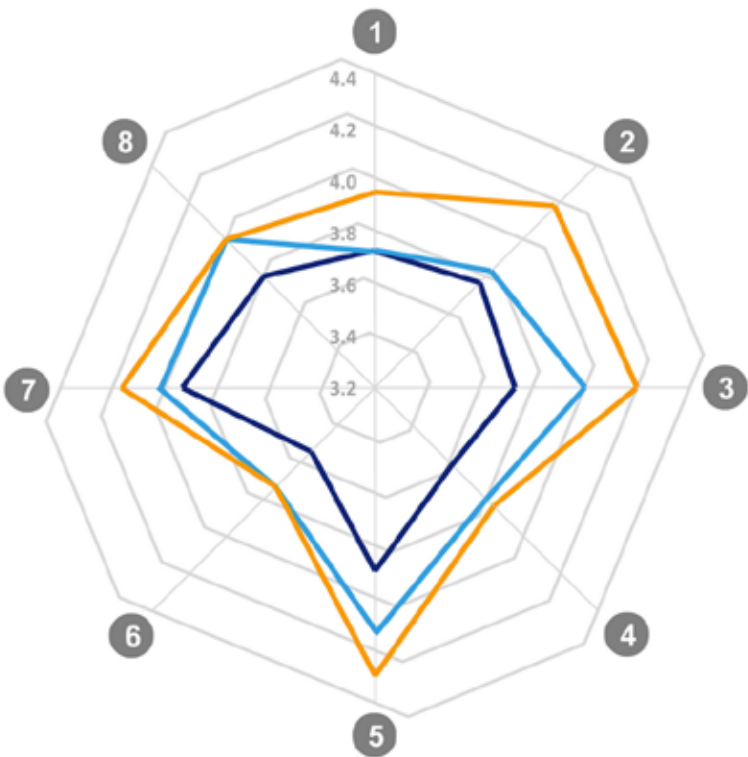
Results so far...

- 1. I am really enthusiastic about the mission of the firm
- 2. At work, I clearly know what is expected of me
- 3. In my team, I am surrounded by people who share my values
- 4. At work, I have the chance to use my strengths every day
- 5. My teammates have my back
- 6. I know I will be recognized for excellent work
- 7. I have great confidence in the firm's future
- 8. In my work, I am always challenged to grow

Pulse Survey Questions Copyright © The Marcus Buckingham Company



Deloitte. Results



CUT COSTS WITH REAL-TIME

Implementing Real-Time Feedback and Check-Ins will improve productivity and employee engagement – not to mention providing you with data which helps drive effective performance management. Performance Management is very expensive because it takes so much of each employee's time. And given that annual reviews are proven to be less effective than frequent Check-Ins, these costs are not necessary to incur given new real-time software that is more effective and affordable for your bottom line.

IT ADDS UP: WHAT ANNUAL PERFORMANCE REVIEWS REALLY COST

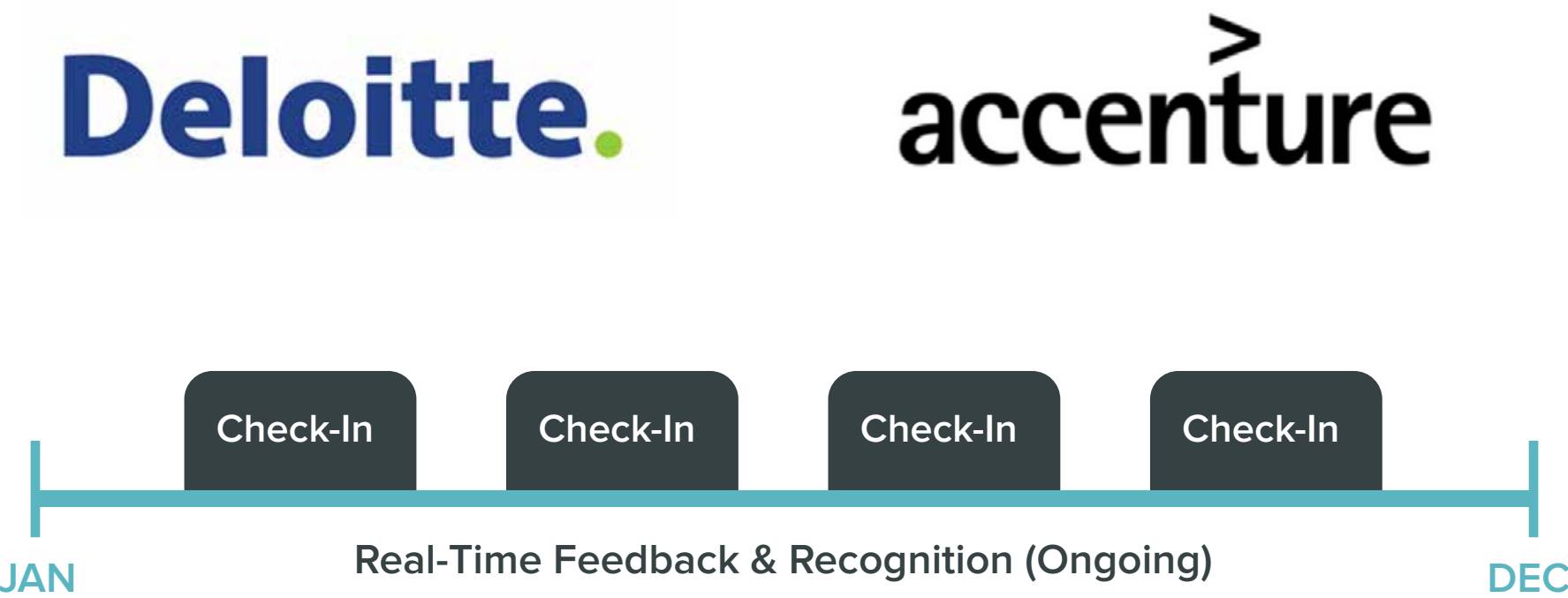
Let’s break down the real costs of performance reviews. For example, the average manager earns \$75 per hour and spends around three hours per employee creating documents, gathering feedback, preparing reports, and holding discussions. The average individual contributor earns \$50 per hour and spends around three hours preparing a list of achievements and success of project deliverables, creating future internal objectives and development goals, and a face-to-face meeting with their manager. (Not to mention the associated anxiety, which can take a toll and cause added time).

Given these basic premises, **an organization with 500 employees dedicates upwards of \$200,000 to an annual review on time alone.** Remember, this only includes time spent, and does not include work opportunity or HR resources. Everyone in a company is affected by an annual performance review, and larger companies and corporations can see the cost of performance reviews reach the millions. Adobe spent 80,000 a year on performance reviews which costs an estimated \$25,000,000!

CASE STUDIES: Deloitte and Accenture

Why Industry Leaders Are Starting the Movement to Evolve Performance Management

This year, industry giants Deloitte and Accenture got rid of the annual review, solidifying the consensus of years of studies that annual reviews alone don’t cut it - more frequent Check-Ins are a more effective use of time.



INSIDE LOOK AT DELOITTE AND ACCENTURE

Deloitte announced that the annual review consumed close to 2 million hours of employee time each year. In order to better utilize their workforce hours, their new system will abolish cascading objectives, once-a-year reviews, and 360-degree-feedback tools. These outdated methods will be replaced with a software-based system that is nimble and agile. It will rely on Check-Ins that ask four key questions to create an environment of constant learning and development.

Accenture, one of the largest companies in the world, has also made the same strategic move to abolish the annual review. In doing so they have reaped the benefits of cutting costs and increasing performance using more effective management methods. They are leading the way in showing that all the time, money and effort of annual reviews don't accomplish the goal of improving employee performance. Currently, six percent of Fortune 500 companies have gotten rid of rankings, and this number will continue to climb in the next 18 months.

PHASES OF EFFECTIVE EVOLUTION

So you want to understand how to implement the same leading performance managemnet strategies used by industry leaders? Fortunately, there are three phases of the real-time evolution that are simple to implement when you understand the basics. In the next chapters, we will break down exactly how to evolve your own Performance Strategy in order to improve performance, productivity, engagement and therefore company ROI.

Phase 1: Annual Performance Review

Phase 2: Annual Performance Review with Mid-Year Check-Ins + Real-Time Feedback

Phase 3: Real-Time Feedback + Performance Check-Ins

PHASE 1: ANNUAL REVIEW



Unfortunately most companies remain in Phase 1, which only utilizes a single, annual review for performance management. While it makes sense that most companies are currently in Phase 1, which has been utilized for over 30 years, it is now an outdated method of developing employees and assessing performance.

WHY ANNUAL REVIEWS DON'T WORK

Most employees and HR executives will agree that this process is very expensive and not very effective in providing results. There are three main reasons why annual reviews are not effective:

1. **Recency Bias**
2. **Associated Anxiety**
3. **Ineffective Development Strategy**

RECENCY BIAS

Recency bias is the term given to a bias that managers have to place more weight on an employee's recent performance instead of looking at the scope of an individual or team's work over the year. Even the best managers struggle with recency bias as it's an impossible task for managers to accurately remember what an employee has done over twelve months. Because of this, reviews are often inaccurate.

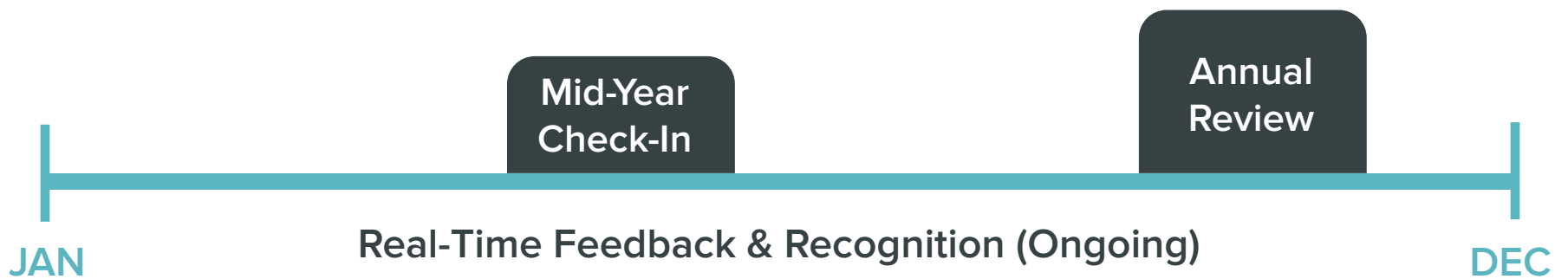
ASSOCIATED ANXIETY

It's no secret that annual reviews create a lot of anxiety. Employees are often surprised with any negative feedback received during the review as managers tend to not give enough feedback during the year. When increased employee anxiety is coupled with tense managers forced to give feedback that is not always positive, the result is lower engagement and productivity.

INEFFECTIVE DEVELOPMENT

It's impossible for employees to develop if they only receive feedback once a year – especially when that time is filled with stress and anxiety that spur defensive reactions, rather than effectively receiving feedback and working on changes. Employees need ongoing, immediate feedback directly after an event to be able to change their behavior.

PHASE 2: ANNUAL PERFORMANCE REVIEW WITH MID-YEAR CHECK-IN + REAL-TIME FEEDBACK



Layering in Real-Time Feedback and a Mid-Year Check-Ins on top of the annual Performance Review is the most popular next step in evolving the performance management process. Because a lot of companies are not ready to completely discard the annual review, Phase 2, which keeps the annual review in addition to new methodology, is a great next step.

WHAT IS REAL-TIME FEEDBACK?

Real-Time Feedback is a mechanism for employees to organically give each other feedback in the moment, directly after something happens. Ideally your Real-Time Feedback system is used on a weekly basis, so employees are getting feedback consistently.

WHY REAL TIME FEEDBACK IS CRITICAL:

- Real-Time Feedback provides **lightweight, simple, ongoing development**. By adding Real-Time Feedback, employees get immediate feedback so they can improve more quickly.
- Real-Time Feedback allows the **annual review to be 80% done before it's started**. With Real-Time Feedback, data can be collected throughout the year, so the annual review is prepopulated with data.

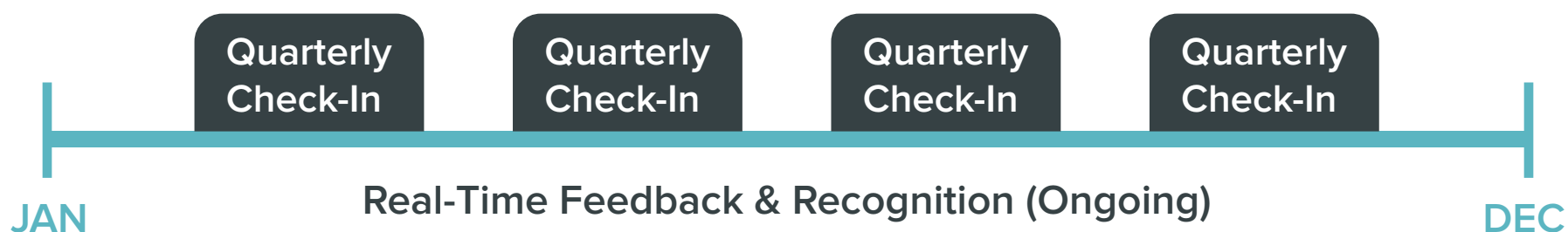
“The beauty of getting Real-Time Feedback throughout the course of the year is that at the end of the year, when you get to the performance review, 80% is written for you. Reflektive Software makes it easy for managers - content is already written for them and so they don't have to start from scratch.”

- **Landon Pearson**, Vice President, Human Resources & Talent Acquisition, DemandBase

- Real-Time Feedback removes recency bias and therefore improves the accuracy of the annual review. Real-Time Feedback gives employees data collected throughout the year at their fingertips when writing reviews. The results? They can remember what's happened over the full year, rather than remember the last few months.

- Real-Time Feedback makes for **annual reviews with no surprises and no anxiety**. Since employees are given feedback throughout the year via Real-Time Feedback and the mid-year Check-In, they already know where they stand when the Annual Review occurs and will have no need to stress unnecessarily.

PHASE 3: REAL-TIME FEEDBACK + QUARTERLY PERFORMANCE CHECK-INS



Although only a few companies have taken the leap and moved to the third and final phase, they are already seeing great initial results. This is because Phase 3, which removes the annual review completely, is the most successful and efficient method of employee performance management. It utilizes a system that only has Real-Time Feedback and four Quarterly Check-Ins.

WHAT'S A CHECK-IN?

A Check-In, which we suggest to be conducted quarterly, is a three to five question mini-review. **A quarterly Check-In serves to create a checkpoint where managers sit down with employees to have a face-to-face conversation about performance and development.** Compared to an annual review, it is much shorter, takes less time, and creates an environment where employees are receptive to feedback instead of defensive.

HOW TO TRANSITION TO PHASE 3

The biggest barrier to moving to Phase 3 is completely abolishing the annual review, along with the ratings/rankings that come with it. Typically, calibration and compensation processes are all dependent on the ratings/rankings that come from the annual review. In order to move away from annual reviews completely, you need to figure out how to revise your calibration and compensation processes. Here are two methods of doing this:

METHOD 1: KEEPING YOUR RATINGS

Maintaining ratings for each Quarterly Performance Check-In can be a positive as long as it is set to keep them internal within the management team. Ratings in this phase are only beneficial when they are NOT communicated to employees. Instead, recommended best practices entail establishing the ratings to be reviewed at the end of the year. At this time a calibration meeting is held where HR teams up with managers to look through these metrics. They can then make an informed decision on compensation changes and/or promotions.

METHOD 2: TIME TO TO ABOLISH RATINGS ALL TOGETHER

In order to truly move through Phase 3, you'll need to abolish ratings all together. Instead of relying on quantitative numbers that can't provide the whole picture of employee performance, HR and managers discuss an employee's performance based on qualitative data. This qualitative data is pulled from the Quarterly Performance Check-Ins. This conversation takes a bit longer than the alternative discussion using ratings/rankings, but ultimately is more effective. Since it is very difficult to summarize an employee's performance with just one number, this methodology is ultimately more thorough and fair.

Note: it is fine to have ratings for certain questions on the Check-In, however, in this method there is no Overall Score Rating.

SAY GOODBYE TO YOUR ANNUAL REVIEW (AND HELLO TO INCREASED PERFORMANCE)

If you can remove the Annual Review, you save your employees a LOT of time. With this time, you can have more frequent, lightweight Check-Ins. This fosters an environment where employees and managers are having regular discussions on performance and development. In addition, these discussions, which are free of anxiety also reduce recency bias. By doing this, you can create a highly engaging culture that drives high performance.