AIA Best Practices:
Annual performance reviews

Five alternatives (and why you should consider them)

By Sharlyn Lauby

Summary

Performance reviews are important for evaluation and feedback, but few people think they actually improve employee performance. These five alternatives will help your firm create a review process that drives future success.

Introduction

The fast pace of work today and constantly changing business models are having an impact on a significant aspect of work culture—the annual performance review. Before you quit reading, let me say this isn't one of those "Let's ditch the performance review" articles. Performance reviews are important. Managers use performance reviews when evaluating employees for promotions and transfers. Organizations use performance appraisals in making compensation decisions. So, having regular documented performance discussions is valuable to the organization.

It's also valuable to employees. People want feedback about their performance. They want to know that they're doing a good job. And when they need to change their performance, employees want their manager to tell them. They don't want to be left in the dark and continue to do their work incorrectly.

A study conducted by the Human Capital Institute (HCI) indicated that only 30% of survey respondents thought their performance management process actually improved employee performance. Many HR and business leaders view traditional performance management processes as a high effort, low return, check box activity.

The "old" ways aren't working

It will come as no surprise that the business world has significantly changed over the past decade. We've seen the emergence of smartphones, tablets, social media, and much more. Lots of business processes have changed as a result of innovation.

Unfortunately, the traditional annual performance review hasn't. As a result, many organizations are examining their approach to the traditional performance appraisal. Before looking at alternatives, it's important to understand the two main challenges within the current process.

Performance rankings are basically taking a list of employees and ranking them from best to worst. At first glance, this might seem like a very easy way to measure performance. However, here's an example of where it gets challenging. Let's say the company has 10 sales representatives, each with a goal of $1 million. At the end of the year, the company ranks the 10 sales reps—the worst rep sold $10 million. Yes, that's right. The worst sales representative exceeded the goal ten-fold. That's the challenge with rankings. The ranking is often not properly aligned with individual and company goals.

Rating scales are the typical 1-5 scale with a 5 rating being "exceeds" and a 1 rating representing "below standard." The biggest challenge with rating scales has to do with how the numerical ratings are defined. Especially when it comes to the number 3. While most performance reviews attach a "meets standard" to the number 3, it's still difficult to sell employees on the concept. The number 3 often gets interpreted as "average." There's also the ratings of the other numbers, which can be subject to bias. Managers open themselves to criticism and perceptions of manipulating the ratings.

This isn't to say that companies shouldn't use rankings and ratings. Organizations need to look at their business needs and decide if rankings and ratings accomplish their performance management goals. But for many companies, it's time to admit that rankings and ratings just don't work.

Alternatives to consider

It raises the question, what can be done to improve the performance review? Here are five alternatives that organizations are using to talk about performance.

1. **Eliminating the performance review.** I know I mentioned earlier that this isn't a "ditch the performance review" article. But it does bear mentioning that some companies are doing it. The same HCI study found that performance reviews are the second most disliked work activity by managers, after firing employees. So it's no surprise that DELL completely eliminated performance reviews to align with the changing nature of work. That being said, in organizations where the review isn't viewed favorably, completely ditching it could be seen as a good sign. Of course, it will take some change management classes to get everyone accustomed to a new way of doing things.

2. **Shorter reviews.** Given the negative conversations about the annual reviews, some organizations are promoting the notion of "no boring performance reviews" in their recruiting and retention strategies. For example, most employees know what they've done in the past, so performance reviews with a past performance component can be viewed as repetitive or boring. Deloitte is experimenting with a four question review session, where two of the responses require a simple yes or no. This might not be the entire review session, but it does shorten the amount of time spent on things that have already happened. The shorter review doesn't conjure up the same negative feelings.

3. **Regular “check-in” sessions.** While Adobe didn’t eliminate the annual review, it did create a regular “check in” system. This meeting (sometimes known as a one-on-one meeting) still focuses on performance and goals. Instead on being done annually, it might be conducted monthly or quarterly. It typically doesn’t involve a formal form, but with today’s technology, it can be documented online. If an employee accomplishes a goal in Q2, instead of waiting until the end of the year to hear about it, another goal can be set. On the flip side, if goals need to be revised, that can be done sooner versus later.

4. **Real-time feedback.** This activity is often used in conjunction with the “check-in.” Instead of waiting for the check-in, managers and employees provide each other with specific feedback in a timely fashion. GE’s new performance management program includes an “insights” feature where any employee can give or request feedback. Many organizations are looking at real-time feedback both inside and outside of the performance review process. It’s based on the idea that every moment can be a learning opportunity and a powerful motivational tool. Organizations need to make sure both managers and employees are trained to properly deliver and receive valuable feedback.

5. **360 or multi-rater reviews.** In today’s collaborative workplaces, it’s important to receive feedback from more than management. Multi-rater reviews allow employees to receive feedback from their immediate supervisor, colleagues, staff, and sometimes customers. The results of the review are used as a coaching and development tool. Like real-time feedback, it’s critical to give proper training to everyone involved in the process, so good feedback is shared.

In looking at performance appraisal alternatives, one thing is clear—performance is about the future. Employees know what they’ve done in the past. Having an employee meeting to discuss a year’s worth of past performance isn’t valuable. What is valuable is having conversations about future performance.

The "new" performance review is future focused

Regardless of the nature of the

Performance conversations are important to keep businesses and employees moving in the same direction, but that doesn’t mean the annual performance review shouldn’t be transformed to fit with today’s work environment. The key consideration is the company’s culture and business goals. Any performance appraisal process needs to accurately reflect performance, be administratively effective and efficient for HR and managers, and accepted by employees as a valuable tool.

There is still value in the performance process, so organizations are looking for more effective ways to deliver performance reviews. And employees are looking for timely, consistent feedback. There are many methods to achieve both of these goals. Human resources, management, and employees can work together to create a process that works for everyone.

About the contributor

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