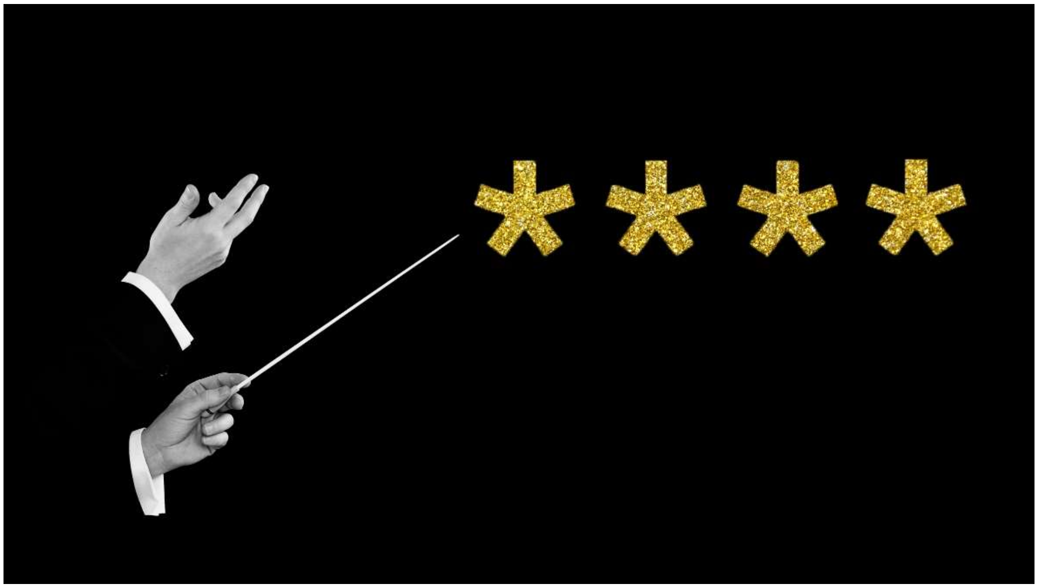
How to Conduct a Great Performance Review



Dissatisfaction with performance appraisals is pervasive. They are seen as time-consuming, demotivating, inaccurate, biased, and unfair. A McKinsey survey indicates most CEOs don't find the appraisal process in their companies helps to identify top performers, while over half of employees think their managers don't get the performance review right. A Gallup study is more negative: Just one in five employees agreed that their company's performance practices motivated them.

These attitudes create a self-reinforcing dynamic. Managers do cursory reviews that are really up or down compensation announcements, not feedback. Employees then see the "appraisal" as non-existent or unfair and approach the next review with that attitude. Busy managers facing quarterly goals then try to avoid the unpleasantness and do even more cursory, drive-by reviews, and a downward spiral continues that promotes a culture of underperformance.

Some firms have stopped performance ratings entirely. As another McKinsey study notes, however, when "organizations scrapped the performance ratings, they found a need for a form of annual documented administrative evaluation to make employment decisions, such as promotions and raises. To address this need, these organizations often implemented 'ghost' ratings—a system of evaluation that is, ultimately, just another annual performance rating." In other words, meet the new boss, same as the old boss.

In this article, I examine performance review best practices and attempt to help managers refine how the process is planned, conducted, and repeated. Following these recommendations can improve employee performance, while also giving managers a more effective structure for how to have these sometimes difficult, but necessary, conversations.

Rethinking Performance Reviews

Rethinking performance reviews should not mean getting rid of this essential managerial responsibility. So, what's the purpose and key components of an effective performance review process?

The purpose of reviews is two-fold: an accurate and actionable evaluation of performance, and then development of that person's skills in line with job tasks. For recipients, feedback has intrinsic and extrinsic value. Across fields, research shows that people become high performers by identifying specific areas where they need to improve and then practicing those skills with performance feedback. Multiple career studies indicate the importance of on-the-job versus other types of experience. One study from as far back as 1988 (and updated 20 years later with similar results) found that work experience (job assignments, organizational relationships, and especially performance feedback) accounts for about 70% of the professional-development learning relevant to career advancement, with about 15% each for formal training courses and life experience (hobbies, interests, family: the other things you do and love outside work).

For the giver of feedback, the process is key to getting people to practice the right things, prioritize opportunities, and clarify accountabilities owned by the individual versus the manager or the company. It's also key to effective leadership. The higher you rise in any organization, the more dependent you are on subordinates' performance. This reality has implications for what managers must do before, during, and after a review.

What to Do Before the Review

In ongoing work with their employees, managers must first make clear the standards, including ethical standards, by which performance will be judged: what's important and how much you expect. This may seem obvious, but it's often not done because new managers are unsure or uninformed about how unit goals align with strategy; because experienced managers may have lost touch with market or strategy changes; or because over time turnover in management results in mixed signals about performance.

Second, performance reviews are about what people do for a living and often their pay and job assignments. These important topics take time to discuss. You must make time on your calendar to avoid quick reviews that leave people feeling confused or unvalued. Managers must also take the time to pay attention to peoples' behaviors far in advance of the actual review date if they're going to be helpful about the impact of those on-the-job behaviors on others in or outside the organization. You want people focused on the relevant causal relationships and not just enacting the natural human tendency to ascribe credit for good outcomes to oneself and the causes of bad outcomes to someone or something else.

Third, effective reviews require a judgment about causes of a person's performance. For example, are performance issues the consequence of deficiencies in motivation or ability? Some people may work hard, but lack certain capabilities: Can training and coaching enhance those capabilities? Others may have the abilities but lack motivation: Can different incentives or processes increase motivation? Still others may seemingly lack both motivation and relevant ability: Is this the right job for that person? Can a performance improvement plan help, or a different role where their abilities can be better utilized? Or is it time to replace this person?

Finally, stars often have both high motivation and ability: What can be done to reward, retain and learn from the stars' behaviors?

These are not easy judgments to make about human beings. But they're necessary and imply different action plans. Without them, it's difficult to be mutually productive during the review.

What to Convey During the Review

Here are five steps useful in guiding a performance review conversation:

Convey your positive intent.

A review is about feedback aimed at increasing the recipient's effectiveness. If you don't really have this intent— for example, if you believe that issues of motivation and/or ability overwhelm the potential contribution, then you're not really having a performance conversation, and you can ignore the following steps. The conversation you should have is one in which you discuss moving that person out of that job.

By contrast, consider a review with a promising employee with whom you have invested time. You might clarify your intent by noting, "You've done a good job settling into the role and orienting yourself to our firm. Your challenge now is to transition to more independent roles over the next year. That means less specific task direction or intervention is available for you when problems arise. So I'm counting on you to handle more on your own, and I'll be evaluating that at our next review."

That employee might respond, "I understand, but can you then sponsor me for training in areas where I'll be more independent and clarify the judgments and decisions where you want to stay involved versus those where I now have more say-so?" Both parties are now working on agreed-upon behaviors, not simply slogans like "be more strategic" or "demonstrate leadership qualities."

Describe specifically what you have observed.

The more specific and descriptive your feedback about strengths and weaknesses, the more likely the other person will understand. Describe illustrative or critical incidents which indicate the impact on performance. Too much performance feedback is of the "do good and avoid evil" variety. That may sound harmless, but overly general feedback increases feelings of defensiveness, rather than openness to behavior change, because it involves broad judgments and invites counterpunching rather than discussion.

For example, saying “Your presentation was bad” is little more than a perception and an exhortation to “get better.” Saying, “Your presentation didn’t include information on demographics, total life-cycle costs, and payment terms” makes it easier to receive negative comments and take corrective action because both manager and employee can now concentrate on elements that can be improved.

State the impact of the behavior or action.

Many employees are unaware of the impact of their actions on outcomes. That’s why we have managers. But managing means discussing cause-and-effect linkages between behaviors and outcomes. For example, it’s one thing to say to a salesperson, “You didn’t connect with the buyer.” It’s quite another to say, “You interrupted people throughout the meeting, and this resulted in that buyer being less open to listening to your ideas.”

Remember that people won’t change their personality after a performance review. Focus on the behaviors within a person’s control. This also helps to minimize a common cloning bias in organizations: Is there a problem with that person’s performance *or* is their performance achieved using a style that their manager would not use to do the job? Always be clear about the difference.

Ask the other person to respond.

Effective reviews are a two-way transfer of information, not only directions from a manager. Most people want to know about their performance. But the Rashomon effect is alive and well in firms; two people can observe the same event or outcome yet interpret it differently.

Dialogue is important, therefore, not just because it’s polite and typically characteristic of effective organizational cultures, but also, because it tests assumptions and reasoning. Does my view of your interactions with colleagues make sense? Here is the data or other input I’m using to make this assessment: What am I missing? Is it an issue of resources or something else? Here are the priorities in our unit: Do you understand, and do you agree? If not, why not?

Dialogue also opens other relevant purposes of a review: the possibility that the manager’s behaviors, policies or management style may be part of the performance problem and opportunity.

So What? Now What?

A review is incomplete without a discussion of next steps in which both parties take appropriate responsibility for change options. But responsibility for this closure rests with the manager. On what assets can you capitalize to increase effectiveness? Are there assignments that can increase learning, deliberate practice, or other elements relevant to core tasks? Can HR help? What is the timetable and benchmarks to use in measuring progress after the review?

What to Do After the Review

The biggest impact from performance conversations is often what happens after the review. Too often, nothing happens: The review is an isolated annual event and therefore has little real impact. But research on behavioral change and the continuous improvement required for innovation highlights the importance of setting goals and providing ongoing feedback about progress toward goals.

Put regular follow-ups on the schedule.

Technology is lowering the costs of doing this. For example, a study of programs designed to increase peoples' savings find that follow-up text messages, simply informing the person of their savings rates versus others, are about 80% as effective as in-person meetings. Other studies, in areas ranging from health care to voting to energy usage to drinking habits, find that these reminders significantly affect behavior and improve outcomes.

Managers can use these technologies to provide regular feedback. The key is making follow-ups an iterative process from which individuals and the firm derive value.

Look for patterns.

Regular follow-up also provides managers with the opportunity to look for patterns and create a virtuous cycle of assessment and investment by potentially reallocating money, time and people to align better with strategic imperatives.

For example, in a firm facing a complex technical sale with a 24-to-30-month selling cycle, the VP of sales detected the following pattern that emerged from reviews: It was taking nine to 12 months to complete the trial or proof-of-concept portion of the selling task — a cash-drain for a VC-funded startup. He also saw commonalities in what reps said that customers wanted in trials. So, the firm developed a platform that took customers through the process with the assistance of the operations group, *not* salespeople. The result has been to reduce the selling cycle to 12 to 14 months and make better use of limited sales resources.

The venerable maxim still applies: "People join companies, but they leave managers," because feedback and coaching are crucial for professional growth and development. It's striking how many successful people, when asked about their careers, point to a manager who provided them with useful (even if initially unwanted) feedback. In turn, they come to realize that, as managers, they must demonstrate that they care about their people and are worthy of trust in assessing performance.

Written by: Frank V. Cespedes
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