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Get Rid of the Performance Evaluation? *Enough Already.*

I have been reading all kinds of articles and hearing all the "noise" regarding companies' decisions to get rid of the performance review.

Newsflash: The performance review is *NOT* the issue.

Performance evaluations are only one component of an overall Performance Management [PM] process. And the PM process is quite simple:

- Clear expectations are set in beginning of fiscal year
- Performance ratings are directly tied to fiscal year results
- Calibration of performance ratings across functions is conducted
- Performance ratings are directly linked to "pay for performance" merit + bonus processes

Unfortunately, I have seen many companies overcomplicate the PM process and/or only focus on one or two aspects:

Company A: Performance Review in Place; No Performance Rating; Discretionary Pay Raise

This company used a six-page performance review format, with no performance rating assigned; rationale for the lack of assigned rating was a belief that employees "simply wanted feedback;" pay increases were at total discretion of the CEO; as this start-up grew from 50 employees to 150+, employees became disenchanted; they did not trust how pay increases were allocated and did not understand what value the reviews provided.

Outcome: Significant turnover of key employees, who cited lack of transparency in performance and pay processes and lack of reward for delivering results. They were equally frustrated that there were no consequences for under-performing employees.

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Company B: Performance Review in Place; Performance Rating in Place; No Calibration of Ratings Against Fiscal Year Results; Inadequate Differentiation of Rewards:

This company did not calibrate performance ratings based on fiscal year results. Leadership teams were rated “Exceeds” despite missing their financial plans for multiple years in a row.

Outcome: A culture of complacency and indifference was created as leadership teams were well compensated regardless of business outcomes.

Company C: Performance Review in Place; Performance Rating in Place; No Differentiation of Rewards

This company allocated performance ratings but failed to differentiate the financial rewards. Bonus allocations were granted equally to all team members, regardless of individual contributions.

Outcome: A culture of entitlement and lack of accountability for individual results was created.

What led them to change?

- Company A: Turnover was significant and they were losing key talent
- Company B: CEO was concerned with continued ability to secure financing, given continued misses on annual Operating Plan and frustrated with lack of individual accountability
- Company C: Company was rated 5th out of 5 in their industry peer group; overhead costs were roughly 30% higher than peer group

How did they fix it?

They implemented a comprehensive PM process:

- Expectations were clearly established at the beginning of fiscal year
- Performance ratings are directly tied to fiscal year results
- Performance ratings were calibrated across the organization
- Rewards were differentiated; there were consequences for lack of performance and rewards for meeting and exceeding performance

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Key take-aways:

- Keep the process simple… humans love to over-complicate!
- Be transparent to the workforce regarding both process and outcomes
- All four components of the PM process are critical to success; inability to execute in all areas will result in continued frustrations
- Feedback is feedback… it should be ongoing, timely and specific; an annual review is but *one* opportunity for feedback
- Employees WANT an effective PM process; they want:
    - **Feedback**
    - **Clearly defined expectations**
    - **Understanding of consequences and rewards** for performance
    - **Differentiation of rewards**, particularly merit increase + bonus payouts

So, what are those "big" companies really doing?

I followed up with several of them and guess what? While the annual review is gone, and cool, new mobile apps are in place for continuous feedback, the financial rewards are still granted based on individual in-year contribution. In other words, employees are bucketed into "Missing," "Meeting" or "Exceeding" expectations based on their individual impact within the fiscal year. Forgive me, it is simply semantics… whether you assign an official performance rating of Below, Meets or Exceeds or you are labeled in the category of "Missing, Meeting, or Exceeding"… simply put… **you are calibrating performance against fiscal results and differentiating the rewards [and consequences] accordingly**… and it works.

So what's the "secret sauce?"

The key step most companies miss is the Calibration Session. This is the conversation in which senior leaders engage in direct, honest, sometimes tough discussion of how well their employees did or did not deliver within the fiscal year.

Again, the concept is simple. If an organization misses its financial plan, there needs to be consequences. And conversely, if an organization performs and/or outperforms, employees should reap the rewards.

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"Calibrate performance against fiscal results and differentiate rewards accordingly."

And yes, the overall calibration of an individual's final rating should include both accomplishments and behaviors. So the "jerk" who gets the results but exhibits poor leadership should not be rated highly. And the "nice guy" who tries really hard but simply doesn't deliver should also be held accountable and it be reflected in the final rating.

The Calibration Session, if done correctly, will be one of the most productive discussions a leadership team will have each year.

In addition to calibrating performance, a significant additional benefit of the Calibration Session is the identification of an organization's key talent, which also sets the foundation to follow through on what you should do to develop and retain this key talent. It's all intertwined. Ask yourself:

- Who are the top performers with potential to grow in our organization? Do we as a leadership team even know them? Do we know their backgrounds? Do we know their career aspirations?
- Do those deemed as "key talent" know that the leadership team views them as such?
- What are we doing as an organization to retain and develop these key individuals?

So enough already!

Organizations need to stop focusing on the "do we or don't we," get rid of the annual performance review and start focusing on implementing a simple, straightforward Performance Management process. Why? Because it works. And without it, you will end up like Company A, B, and/or C… with higher turnover of key talent, complacency and entitlement within your organization, and ultimately a negative impact on financial results and loss of your competitiveness within the industry.

…and so long for now.

However, I have been around long enough to know that this topic will resurface every year, especially as the 4Q of the fiscal year [for most] approaches. So, I'll keep this article and republish it again next year!

In the meantime, if you need help, just let me know. I can share many examples of companies that have a successful and meaningful performance management process in place and I'd be happy to help your organization become one of them.

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