Culture Amp

Raising the standard for performance management:

How to align development and compensation with business strategy

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Why settle?
Letting go of performance management that doesn't work

If you've ever stopped to wonder why your company bothers with yearly performance management reviews, you're not alone. As many as 95 percent of managers are dissatisfied with their organization's performance management system, and 90 percent of HR leaders believe their system does not deliver accurate information about employee performance.

Why do we settle for a dysfunctional, old-fashioned approach to a process that has so much potential? Because even though this process doesn't work, creating a new one is actually quite difficult.

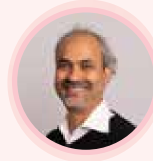
Within every organization, different stakeholders use performance reviews for different purposes, leading to a process with too many contradictions to function well:

Companies	Managers	Employees
Companies want to hold each employee accountable to performance standards while also uncovering information about strengths and weaknesses to maximize individual performance	Managers want documentation to support their hiring and firing decisions while also soliciting honest feedback from employees	Employees want a formal opportunity to evaluate their compensation, but they also want to receive constructive feedback about their performance

If you're reading this eBook, we don't need to tell you that the traditional approach to performance management isn't working. Discussing compensation during a development conversation leaves employees too tense and emotional for managers to accurately assess their development needs, and employers are too ratings-focused to dig deeper into how they can actually help employees improve in a measurable way. Like most organizations, yours is left with a process that takes a lot of time and effort but delivers very little value.

This might seem like an impossible problem. But for all the challenges associated with the performance review process, it's a puzzle worth solving. Effective performance management has a positive impact on employee engagement, motivation and productivity and increases the lifetime value and contribution of employees at every level of a company. And perhaps most importantly, it allows your organization to align individual performance with strategic business goals, driving the overall productivity and profitability of your company.

In order to construct a performance development process that works – that encourages the development of the whole employee and actually improves performance – you will have to focus your current process on the pieces of performance that matter most to employees: compensation and development. Because at its heart, performance management is foremost an opportunity to ensure each employee is aware of their performance and developing to their full potential. As you trace your program back to those roots, you will be amazed by what your company can accomplish.



"Successful products are built by meeting the needs of the customer you're serving. Successful performance management processes are built by meeting the needs of your employees – to know how they're doing, how they can get better, and what they need to do to have a bigger impact in the company."

Srinivas Krishnamurti,
Director of Product, Performance
at Culture Amp

Breaking ground on a functional performance review process

"Companies are distracted by so many challenges around performance management that they often don't realize how important feedback is to their employees. Capturing real data around what managers and employees are experiencing can be the difference between loosely knowing it's a problem and clearly seeing where the problem exists – and when you see the problem, you can act on it."

David Ostberg, PhD,
Director of People Science
and Performance at Culture Amp

Two things stand between your company and a review process that has a positive impact on performance. You'll need to...

Rebuild your existing approach to performance management to make it more effective for your employees and more aligned with your unique brand and business goals.

Rebrand the process to help employees approach what used to be a tense, emotional conversation – Is my manager just building a paper trail to let me go? Am I being rated on a curve regardless of how well I perform? – as an objective, transparent, and productive one.

Rebuilding performance management to align development with business strategy

For many organizations, the performance review is a perfunctory task for managers to check off their to-do lists at the end of the year. If you want your performance review process to be a strategic initiative rather than a tactical one, you need to give employees the room to become vulnerable enough to have honest development conversations. Then you must align those development conversations with your overall business strategy.

Here are the eight steps we recommend for rebuilding your performance management process accordingly:

STEP 01 Host focus groups with your employees

STEP 02 Set a consistent feedback schedule

STEP 03 Separate development and compensation conversations

STEP 04 Drop the bell curve

STEP 05 Articulate a rating scale that aligns with your unique brand and business goals

STEP 06 Incorporate peer reviews

STEP 07 Ask employees to set goals

STEP 08 Proactively protect the new process from bias

STEP 01

Host focus groups with your employees

Much like effective product development starts with your customers, effective performance review development starts with your employees. Capture a snapshot of employee sentiment by hosting employee focus groups about your current approach to performance management. Let employees know that you know the system isn't working and that you welcome their feedback on how to improve it – then follow through with the invitation and take their input to heart as you develop the new process.

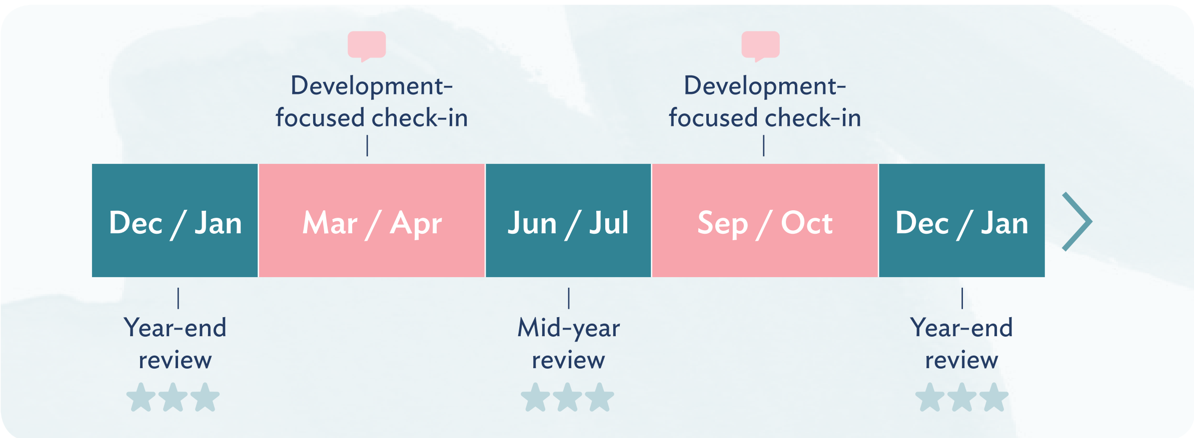
STEP 02

Set a consistent feedback schedule

The most effective feedback cycle is a consistent one. We suggest a schedule of quarterly, development-focused check-ins with a 6-month or year-end review to address compensation. Less official one-on-one meetings – sans paperwork – will enable larger organizations to benefit from the more agile and adaptable approach of smaller organizations.

This layered approach to checking in will give employees a chance to receive timely feedback and act on developmental opportunities before it's too late. And if you've been able to have four or more good conversations with an employee about their development throughout the year, no one will be surprised by the rating they receive at their year-end review.

Continuous performance management



"High growth companies hire very well. If you're hiring the best engineering people in the world and your team is filled with superstars, a forced distribution that says only one person can be a superstar is out-of-touch. If someone's doing really well, reward them. And if you have more people doing really well, that's good for business."

Srinivas Krishnamurti,
Director of Product, Performance
at Culture Amp

STEP 03

Separate development and compensation conversations

Performance evaluations and employee development might seem like they go hand in hand, but experts agree they're best addressed separately. While compensation adjustments might happen once or twice per year based on your organization's schedule, development is about ongoing feedback that informs and encourages growth and improvement – mixing the two will dilute the strength of each.

The best development happens when people are intrinsically motivated and not distracted by external rewards. If tying compensation to performance is a priority for your organization, set objective ratings so you can differentiate salary without distracting your employees from self-motivated discussions about development.

STEP 04

Drop the bell curve

Effective performance management looks at the individual employee independent of the performance of others. It brings the focus to how well an individual lives out the unique values and goals of your business, not how well they do so compared to other employees. This approach leaves no room for rating employees on a bell curve or a forced distribution of rankings, which can be very demotivating for a team of high-performers.

"Rating scales get a bad rap but in many cases that's because they've been poorly designed. Well-designed ratings systems should harness clearly-defined anchors to enhance validity and reduce bias. Work with your team to create more clarity around what each rating means and establish specific criteria for each rating so you can reliably differentiate performance on your team."

David Ostberg, PhD,
Director of People Science
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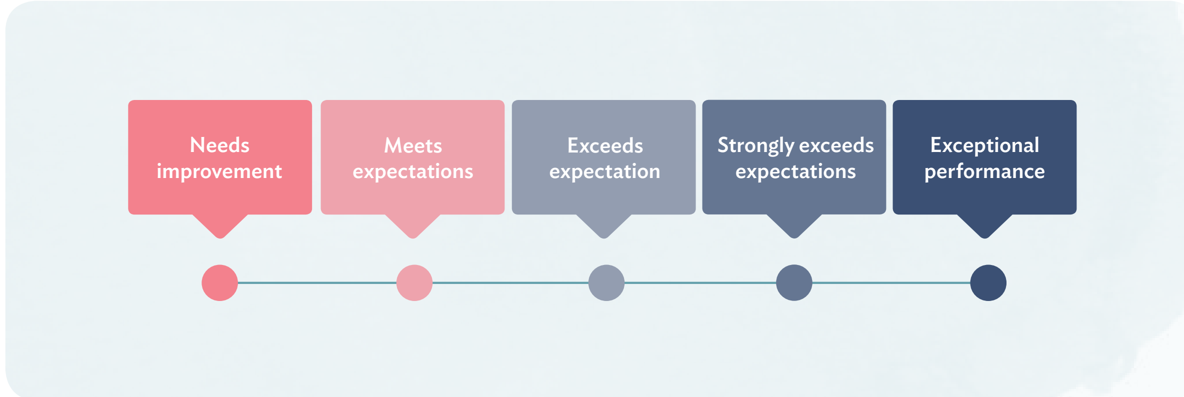

RATING SCALE EXAMPLE

STEP 05

Articulate a rating scale that aligns with your unique brand and business goals

As you move away from rating employees against a bell curve, you'll have the opportunity to bring focus to the attributes and values you want to encourage within your company. This is your chance to identify the behaviors you want to see in your employees and build an environment and a culture where those behaviors are valued – because no matter how much you may preach the importance of teamwork, you're undermining that message if you promote and reward employees who have only a record of individual achievements.

Be prepared to share the scale you'll use with the employees who will be rated against it. If you tell employees you are eliminating the rating system only to use it behind closed doors with the executive and management teams, it will breed mistrust and damage the employee-manager relationship.

STEP 06

Incorporate peer reviews

Despite the risk of subjective and personal bias, peer reviews are a foundational practice for capturing a comprehensive look at employee performance. When enough peer reviews are gathered from the right mix of people, you get a more representative view of a person than you would with just one reviewer. Peer feedback can be useful in both evaluative situations like performance reviews and in the context of development.

STEP 07

Ask employees to set goals

Each employee should set goals or Objectives and Key Results (OKRs) and evaluate them quarterly. Depending on how important goals are to your organization, this process may or may not be officially documented, but it should at least be transparent so that teammates know what everyone else on their team is working on.

For example, one company may not want to document goals because they change too fast to be worth the effort. Another company in the same industry might assign a lot of value to goals and therefore want them documented in an official way. Make the decision based on what works for your unique company and aligns with your values. Whatever the case, be sure to involve employees in developing – or at least having input into – the goals they're expected to impact.

STEP 08

Proactively protect the new process from bias

Even with the best intentions, managers and peers inevitably bring bias into the performance management process. As you rebuild your approach to performance, incorporate bias blockers into each step of the process to make reviews and feedback conversations as objective as possible.

For example, when one tech company hosts calibration sessions to discuss internal promotions, managers reference a physical card with bias-blocking questions on it, such as, "What has the person done?" and, "Talk about impact." These simple reminders help managers avoid being influenced by an employee's personality and bring the focus back to the employee's work, rather than something like their sense of humor. You might also want to incorporate more fundamental measures of performance into the process, such as how the work is getting done rather than simply what work is getting done.

"In many cases, and especially as more employees work remotely or in distributed teams, managers don't see what their direct reports do every day. Constructive developmental feedback from peers that work with an employee on a daily basis can provide valuable insights."

David Ostberg, PhD,
Director of People Science
and Performance at Culture Ampp

Common performance review biases

COMMON BIAS	DEFINITION	PREVENTION STRATEGY
Recency bias	When reviewing an employee's performance, managers focus on the most recent time period instead of the total time period.	Notes based on more frequent check-ins helps managers develop a full picture of an employee's performance and development over time.
Primacy bias	When reviewing employee performance, managers focus on information learned early on in the relationship, like first impressions.	Notes based on more frequent check-ins helps managers develop a full picture of an employee's performance and development over time.
Halo/horns effect bias	Allowing one good or bad trait to overshadow others, i.e. letting an employee's congenial sense of humor override their poor communication skills.	Focus on tangible outcomes like impact or actions of employees over any personal traits like appearance or personality.
Centrality/central tendency bias	The tendency to rate most items in the middle of a rating scale.	Make questions clear and based on tangible outcomes like impact or action. Shortened rating scales may also limit this bias.
Similar-to-me bias	The inclination to give a higher rating to people with similar interests, skills and backgrounds as the person doing the rating.	Use an impartial rubric based on company values and developmental goals to evaluate performance.
Idiosyncratic rater bias	The impulse a manager has to rate another person's skills based on their own strengths and weaknesses.	Use an impartial rubric based on company values and developmental goals to evaluate performance.
Confirmation bias	The tendency to search for or interpret new information in a way that confirms a person's preexisting beliefs.	Make questions clear and based on tangible outcomes like impact or action. Shortened rating scales may also limit this bias.
Gender bias	The unequal treatment of individuals based on attitudes about gender or gender stereotypes.	Use an impartial rubric based on company values and developmental goals to evaluate performance.
Law of small numbers bias	The incorrect belief that a small sample closely shares the properties of the underlying population.	Notes based on more frequent check-ins helps managers develop a full picture of an employee's performance and development over time.

Rebranding performance management to encourage employee buy-in

Just knowing that your company's performance review process has been restructured will have a positive effect on the employees who have come to loathe the tradition. But there's still a lot of work to do when it comes to eliminating negative connotations and rebranding how your company manages performance.

Here are three steps we recommend for rebranding performance management to encourage employee buy-in:

STEP 01 Set a reasonable implementation timeline

STEP 02 Train managers to reinforce the new process

STEP 03 Transparently communicate the new process

"If a manager cannot give an answer when an employee asks the question, 'How can I get better?' the process is not working. Managers need to be able to articulate what factors go into the evaluation and rating process so that every 3- and 4-star employee can see a path to being a 5-star employee."

Srinivas Krishnamurti,
Director of Product, Performance
at Culture Amp

STEP 01

Set a reasonable implementation timeline

Shifting your performance review process from a traditional yearly evaluation to a more frequent modern model will take time. After all, you can't rate employees on their ability to meet expectations they didn't know about in advance. Give employees at least 3 months from the announcement of the new performance management process to assess their progress for the first time, and approach that first conversation as a "practice round" to ensure employees understand exactly what is expected of them before they are held accountable for the new standards.

STEP 02

Train managers to reinforce the new process

Managers act as representatives of your business, which means they must be equipped to answer questions and give feedback that is aligned with the company's new approach. Otherwise, employees will not get the information they need to stay engaged and motivated and may decide they need to move to a different company in order to do their best work.

"Whether your brand is built on transparency, vulnerability, or a customer-first philosophy, reward and promote employees based on their alignment with those values to create an environment that reinforces the behaviors you want to see."

David Ostberg, PhD,
Director of People Science
and Performance at Culture Amp

STEP 03

Transparently communicate the new process

When the time comes to communicate the new performance management plan to everyone within your company, treat this as seriously as you would any other change management initiative. While no one within your organization will be blindsided by the changes because each employee had the opportunity to weigh in on the topic in the focus groups, be as transparent as possible through the final stages of the transition. Prepare to spend a lot of effort in making sure employees, managers and executives understand what the new performance management process is like and what will be expected of them.

We recommend a two-pronged approach to communicating the new process. First, organize formal training opportunities in formats like executive memos and presentations, webinars and one-on-one manager meetings. Then support these efforts with more informal training sessions hosted by internal champions who are trained to walk team members through the new process and explain the reasoning that went into each piece of the process. Close the feedback loop by providing an outlet for ongoing feedback via email or performance management software.

Conclusion

Drawing out the best performance from every employee

In a competitive talent market, your approach to performance reviews should enchant top talent with a vision of how they will work, grow and achieve their potential at your company – not reign them in with a process that fixates on their past performance and limits their potential. An effective and performance-enhancing review process creates a seamless loop between feedback and development and outlines a clear path to improvement and advancement for every employee. It encourages open and honest dialogue between employees, managers and companies to inform development opportunities for growth and drive better individual performance – and it aligns actual day-to-day performance with long-term strategic business goals.

Culture Amp

Don’t settle for a broken performance review process

Use Performance by Culture Amp to help your employees develop faster and drive organizational growth.

Learn more