Whitepaper

How Lean | Agile Enterprises Push the Reset Button on Performance Management

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Whitepaper

How Lean | Agile Enterprises Push the Reset Button on Performance Management

Traditional Performance Management systems are in deep crisis. Their industrial era approach is unable to meet the demands and thinking of 21st century people and organizations. Lean | Agile enterprises press the reset button and move from an administrative Performance Management process to a successful iterative performance flow.

The results of the SHRM Survey, "HR Professionals' Perceptions about Performance Management Effectiveness," show the hard truth: Only 2% of organizations attest that they practice a grade 'A'. In other words, a staggering 98% of enterprises are not satisfied with their current solution.

Other studies paint a similar picture with a long list of complaints – from employees, managers, and HR alike. Here are some of the most common criticisms:

- Performance Management is driven by calculating incentives rather than defining meaningful and inspiring goals.
- Goals usually are quickly outdated, obsolete, or simply forgotten.
- Goals cannot be translated into daily actions and fail to drive accountability and engagement.
- Cycle times are far too long for a fast-paced, evolving business setting.
- Reviews are all about appraisals and not (enough) about opportunities and development.
- Annual appraisals are too ritualistic and cannot keep up with the need for fast, constructive feedback.
- Bonus models undermine collaborative behavior and do not foster people values.
- Reviews are wasted on explaining a number and not used to reflect, learn, and grow.
- The whole process is bureaucratic and time-consuming, yet organizational development is completely ignored.
- Forced distribution/staked rankings are demotivating and wreck our best people.

So, no matter how you look at it, current practices have long ago lost their intended ability to align goals, encourage joint efforts, and foster great results. They do not inspire meaning and growth, and there is no way they can keep up with the pace and energy of Agile teams.

Rooted in the industrial era, traditional Performance Management approaches are not made for 21st century organizational challenges. We need to push the reset button – now more than ever!

Here are 7 steps to move from an administrative Performance Management process to a successful and inspirational iterative performance flow:

#1: Shift to an iterative, interactive process aligned with your optimal cadence

The accelerated pace of today's business world makes it increasingly difficult to think in multi-year cycles and set rigid top-down goals on an annual basis. You can handle this by reducing the cycle time and implementing an iterative, interactive process. That way you can deliver results while being able to adequately adapt to internal and external changes.

#2: Share an understanding of vision, set inspiring goals, and clarify expectations

We operate in a complex and highly demanding world with an endless need for innovative and mind-blowing results. Being able to inspire people to greatness is imperative. It takes a strong vision that people share (not just a nice plaque on the office wall). This vision is your anchor for a roadmap with inspiring goals that answer the Who/What/Why (but not the How).

#3: Empower self-organizing teams and hold them accountable

The digital age belongs to knowledge workers who think outside the box. No wonder constricting processes and micromanagement are not going down well. Make sure to bring these talents together in collaborative, self-organizing teams and throw fast feedbacks, constant communication, access to data and knowledge, and decentralized decision making into the mix. If you are a manager and worried about accountability; here are the good news: Contrary to popular belief, Agile is a highly disciplined way of working. And Agile teams prove that every day.

#4: Embed individual and organizational learning and development into your workflow

Companies must constantly evolve to meet new challenges and opportunities. Learning and development is a key part of the equation, not only on a personal level but also on an enterprise level. You must provide the time and space for people to inspect and adapt in order to create a learning culture that is supported by work practices and daily routines.

#5: Motivate through mastery, autonomy, and purpose rather than cash incentives

Due to the industrial era belief that money is the strongest (and only effective) motivator for employees, traditional Performance Management approaches are strongly linked to cash incentives. But ever since Daniel Pink's "Drive" (and decades of scientific studies), we know that 21st century knowledge workers are, in fact, intrinsically motivated and driven by mastery, autonomy, and purpose. It is time to rethink your motivational theory.

#6: Eliminate performance ratings and annual appraisals in favor of open dialogue and continuous feedback and sharing

Companies excel at calculating ratings. They judge, force rank, provide infrequent and limited feedback, and assess outdated, obsolete, and irrelevant goals. And then they wonder why appraisals are so despised! Forget performance ratings and annual appraisals. Instead, create a culture of mutual respect where candid dialogues, continuous feedback, knowledge sharing, and learning are integral to the workflow.

#7: Accept that handling poor performance is a leadership mandate and don't hide behind Performance Management

Organizations misleadingly believe that their Performance Management will miraculously separate their people into groups, rewarding the stars and dealing with the low performers. They might even apply forced rankings to guarantee an adequate separation between the two. Stop pretending! You don't need annual reviews to know your players. Accept that handling poor performance is a leadership mandate. And no approach will (nor should) take that responsibility away from you.

1 Shift to an iterative, interactive process aligned with your optimal cadence

The accelerated pace of today's business world makes it increasingly difficult to think in multi-year cycles and set rigid top-down goals on an annual basis. You can handle this by reducing the cycle time and implementing an iterative, interactive process. That way you can deliver results while being able to adequately adapt to internal and external changes.

The Performance Management cycle is typically aligned with the financial reporting and HR calendar, which run on an annual basis. Consequently, most organizations set performance goals once a year. According to the 2014 ERC Performance Management Practices Survey, only a small number of companies make it a semi-annual (7%) or quarterly (2%) occurrence.[1]

Yet, no matter what industry you are in, you are likely to experience the accelerated pace of today's business world. It has become increasingly difficult to think in multi-year cycles and set rigid top-down goals on an annual basis.

A Performance Management system that is set out to define and evaluate goals every 52 weeks is simply not able to keep up with the speed and demands of the digital age. This is especially challenging for Agile teams working on a 1 to 4-week cadence.

The lengthy 1-year cycle robs you of the opportunities to learn and adapt to internal and external changes. However, you can respond by shifting to an iterative, interactive performance process and by reducing the cycle time to best fit the flow of your value streams.

Getting the cadence right is the first step towards accomplishing an optimal balance of responsiveness, predictability, and reliability. Make sure to understand the importance and impact of varying times in order to establish the right cadence for your teams. You don't want to have iterations that are too short (<1 week) for real achievement and learning, nor do you want them too long (4 weeks +) with the risk of losing focus and agility. The majority of teams run on 2-week iterations. If in doubt about your flow, this might be a good starting point for you too.

Each iteration follows a clear path with the common ambition of delivering tangible results to the customer(s). This is the ultimate goal of Lean | Agile teams. And that makes performance their key driver.

[1] http://www.yourerc.com/assets/ce/Documents/survey/research-studies/14-Performance-Management-Practices-Survey.pdf

University of California, Berkley accurately defines Performance Management as an "ongoing process of communication, which includes clarifying expectations, setting objectives, identifying goals, providing feedback, and reviewing results." [2]

Agile approaches embrace all these elements in such a way that they are not only the core parts of each cycle, they are also deeply embedded in the workflow and routines. But this is not done in a top-down approach. It is a collaborative effort involving each team member.

The shift to an iterative, interactive Performance Management process will give you a competitive advantage in a fast-paced, complex business world where the ability to learn fast and adapt swiftly is key.

[2] http://hrweb.berkeley.edu/guides/managing-hr/managing-successfully/performance-management/concepts

2 Share an understanding of vision, set inspiring goals, and clarify expectations

We operate in a complex and highly demanding world with an endless need for innovative and mind-blowing results. Being able to inspire people to greatness is imperative. It takes a strong vision that people share (not just a nice plaque on the office wall). This vision is your anchor for a roadmap with inspiring goals that answer the Who/What/Why (but not the How).

Regardless of your trade or company size, you are likely to operate in a highly demanding, complex, and fast-paced business world. Being able to set meaningful goals and inspire people to greatness is a key competitive advantage. That puts more pressure on Performance Management than ever before.

Unfortunately, years of mismanagement have led to Performance Management systems that are simply uninspiring, and they are a long way from the intended aim of sharing common objectives and channeling energy toward achieving these goals. Instead it has become a necessary evil, dreaded by managers and employees alike. And most organizations treat it as an administrative process rather than one critical to business outcome.

Studies show that 50% of managers have difficulty driving accountability, 87% complain their employees are not actively engaged in achievement, and 93% say their people cannot translate a goal to actions. [3]

It is not that employees don't want to work on their given goals. But often they don't really understand the goals or what their contribution is. Or they feel their goals are irrelevant. Then, when daily tasks take over, these goals are soon forgotten.

When people start out with a half-hearted commitment, goals lose their meaning and relevance when they encounter additional client demands, shifting priorities, emerging technologies, new strategic focus – you name it.

Organizations try to respond by setting the right type of goals. But often the effort is in vain. They either set goals that are so abstract and overarching that people don't really know what to do with them, or the goals get so very specific and detailed that they are outdated by the time they get to work on them. Even companies who have check-in(s) during the performance cycle don't adjust goals, even though they know that the validity of the goals must come up when they discuss the progress.

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[3] Infographic Workboard: How to Set and Achieve Goals

Having said that, people actually do accommodate changing circumstances in their daily activities. But this adaptive behavior somehow changes towards the end of the performance cycle, when they feel the need to refocus on the original goals in order to pass their appraisals. Not because these goals are suddenly reasonable again but because the system obliges them to do so in order to get a good performance review – and hopefully a bonus and a promotion with a salary increase.

This way your employees might achieve excellence in their appraisals, but at what cost? The organization does not necessarily get the best results, and resources might simply be wasted. All because we have a system in place that measures them on something that seemed like a good idea months ago.

How can we, as organizations, ensure people work enthusiastically on the things that matter if our processes encourage them to complete obsolete goals in order to be considered high performers?

Agile enterprises understand the power of inspiring goals and the need to understand, commit, review, and adapt these goals on a regular basis. It is an integral part of their workflow.

But it is not just the 'what' that matters. It is the 'why' that matters just as much or even more, especially for knowledge workers. And when they understand the 'why', they are more likely to offer solutions that are innovative and insightful.

Therefore, setting goals must be done in a collaborative way rather than a top-down approach. Don't get me wrong, it is still the task of leadership to give direction and align overall goals with the corporate roadmap. But there must be transparency, clarity, and interaction to enable a dialogue with the people responsible for delivering value.

However, the conversation with the team is not just about communicating goals and getting their buy-in. It also includes clarifying expectations and defining how results will be measured. We discuss their leeway, potential dependencies, and risks, and the teams consider their velocity. So that when the teams give their commitment, they know exactly what they are getting into and are confident that they will be able to come through. When you ensure your goals are understood and shared, you get real commitment.

But we don't stop at that. Performance management in an Agile enterprise is an ongoing process of communication, including clarifying expectations, setting objectives, identifying goals, providing feedback, and reviewing results.

And their constant companion is a strong corporate vision. I am not talking about a vision that is only a meaningless statement on a nice plague on the office wall, but one that employees understand, relate to, and strive to follow in everything they do. And one that will guide the results they deliver. But it takes inspiring leadership and a willingness to set your teams up for success.

3 Empower self-organizing teams to plan and hold them accountable

The digital age belongs to knowledge workers who think outside the box. No wonder constricting processes and micromanagement are not going down well. Make sure to bring these talents together in collaborative, self-organizing teams and throw fast feedbacks, constant communication, access to data and knowledge, and decentralized decision-making into the mix. If you are a manager and worried about accountability; here are the good news: Contrary to popular belief, Agile is a highly disciplined way of working. And Agile teams prove that every day.

In developed and even emerging economies, there is a strong emphasis on knowledge work over industrial skills. Consequently, employment in those knowledge-based economies are characterized by an increasing demand for more highly skilled knowledge workers.

According to Wikipedia, knowledge workers include anyone whose job it is to solve "non-routine" problems that require a combination of convergent, divergent, and creative thinking. In other words, these are the people responsible for exploring and creating new ideas, products, designs, and models – all that great stuff that keeps 21st century enterprises going.

As organizations (and in a larger sense as a society), we depend on their ability to challenge, innovate, and create. We employ them for their skills to think outside the box, yet we expect them to follow our predefined (industrial era) processes to a tee. We ensure compliance by controlling and micromanaging them every step of the way, even if we do not know what steps are actually needed for a specific solution – because it has never been done before.

It goes without saying that this mix does not sit well. That's why we need to embrace a different approach so that the intrinsically motivated and highly talented people can deliver the kind of performance we expect from them, the kind of performance they are capable of delivering. The growth of an organization is tightly linked to its ability to attract and engage the right talents and find a way to boost their performance.

At the same time, today's challenges have a complexity and dynamic that can rarely be fulfilled by one person. Instead, it takes a team to jointly create solutions. In Agile, we bundle them into interdisciplinary power teams of ±7 people and connect them with other teams that work on the same epic. They collaborate, align assignments, identify, and if possible, eliminate dependencies and honor their commitments.

The teams benefit from transparency, access to data, constant communication, knowledge sharing, and fast feedbacks. Additionally, inspect and adapt sessions are embedded into the workflow along with joint planning and commitment and daily check-in standups.

As a result, everyone is highly engaged and involved in the definition of goals. It is up to each team to break down each objective into appropriate tasks and allocate them accordingly.

Giving teams all that latitude does not mean that they lack self-control or that we don't hold them accountable.

Managers often find it difficult to wrap their heads around self-organization and empowerment. They are afraid to lose control and open the backdoor to slacking, but the reality is far from it. Contrary to popular belief, Agile is a highly disciplined way of working. Agile teams prove that day in and day out.

By allowing the teams more self-determination, it is now up to the managers to become inspiring leaders whose role it is to mentor and coach, provide feedback and insights, facilitate and remove impediments, and above all, develop people and unlock their intrinsic motivation.

4 Embed individual and organizational learning and development into your workflow

Companies must constantly evolve to meet new challenges and opportunities. Learning and development is a key part of the equation, not only on a personal level but also on an enterprise level. You must provide the time and space for people to inspect and adapt in order to create a learning culture that is supported by work practices and daily routines.

Companies must constantly evolve to meet new challenges and opportunities. And it becomes even more important when you consider today's need for creativity and speed. We can no longer have the luxury of long-life cycles – neither for our products/services nor for our knowledge. Instead, we are required to innovate and grow on the fly. Continuous learning and relentless improvement are key elements to this equation.

Unfortunately, we are often so busy and preoccupied with our daily tasks that we fail to set aside time to acquire specific knowledge or to even think about what abilities we would like to develop. On top of that, we don't get enough advice and input from the people around us. All of which limits our development potential.

These constraints occur when we rely on Performance Management to set the cornerstone for feedback and development. Current practices do indeed provide us with review sessions – albeit infrequent. They give employees and managers an official time and place for comments and coaching that (should) translate into actions. But that is usually where it stops. The outcomes are limited because they are highly dependent on the ability to reflect and act upon the feedback.

4.1 Performance reviews don't maximize learning and development potential

Reviews are intended to cover two parts: 1) evaluate results and 2) identify opportunities for learning and development. Most organizations excel at the former part – i.e. calculating performance ratings right down to the last digit. Yet they are lacking when it comes to the latter part – i.e. their capacity to boost individual and organizational development and growth.

You might argue that your review sheets include a development plan. But chances are they only cover mandatory annual training course – learning sessions that are a one-time episode rather than a continuous venture. In an Agile world, this is certainly too little, too late and certainly not enough to endorse your effort for persistent improvement.

4.2 Creating a winning learning culture is a long-term commitment

After all, an Agile enterprise cannot stand still. It has to be a progressive enterprise where learning, innovation, knowledge sharing, and collaborative decision-making is routine and deeply embedded in the corporate DNA.

Therefore, learning initiatives cannot just be about sporadic trainings, nor can they be treated as the "flavor of the month". We must create a learning culture, which is a long-term commitment.

Furthermore, we cannot only focus on knowledge itself but must also look at the processes behind it. We also have to look at how knowledge is created, acquired, refined, stored, transferred, shared, and re-used. One element of that is to provide the time and space where people can inspect and adapt, so that learning and growing is supported by work practices and daily routines.

Agile approaches have learning and development deeply embedded into their workflow. They measure, assess, reflect, redefine, and innovate. Agile employees draw inspiration from inspiring work, successful collaboration, and instant feedback. And they are not afraid to address issues proactively and to move forward – not only on an individual level, but as teams and organizations.

4.3 Organizational development takes courage to tackle the system

Agile enterprises do not shy away from challenging the system. And as W. Edwards Deming said: "The system that people work in and the interaction with people may account for 90 or 95 percent of performance." Or in other words, almost all issues with work are due to the system, not the workers.

That means that in order to grow as an organization, you need to assess and improve your system – something most companies completely overlook. (Unless you count the recurring restructuring and transformation projects as continuous organizational learning and development).

From an HR perspective, we must focus on creating an inspiring, engaging work environment with great conditions, so that people are enthusiastic about what they do and their experience is enhanced. If they grow on a personal and professional level, we will grow on an enterprise level as well. It is up to us to create a stimulating learning culture that ignites personal and corporate development.

5 Motivate through mastery, autonomy, and purpose rather than cash incentives

Due to the industrial era belief that money is the strongest (and only effective) motivator for employees, traditional Performance Management approaches are strongly linked to cash incentives. But ever since Daniel Pink's "Drive" (and decades of scientific studies), we know that 21st century knowledge workers are, in fact, intrinsically motivated and driven by mastery, autonomy, and purpose. It is time to rethink your motivational theory.

Traditional Performance Management approaches are strongly linked to compensation – especially bonuses. This approach is rooted in the industrial era belief that cash is the strongest (and only effective) motivator for employees.

But, ever since Daniel Pink's "Drive" (and decades of scientific studies), we know that it is a different story for 21st century knowledge workers. They are intrinsically motivated and driven by mastery, autonomy, and purpose. Embracing this new thinking means fundamentally rethinking current takes on our motivational theories and our bonus programs.

Most people can easily resonate with the need to rethink our motivational approach (after all, they themselves are intrinsically motivated). But at the same time, they have doubts when it comes to altering or eliminating cash incentives. After all, how else can we guarantee the maximum outcome if not through a carrot and stick approach – especially now that we need to ask even more of our employees in order to be able to compete?

Agreed: cash incentives work – under certain circumstances. They were created in an era when tasks involved routine and mechanical skills. In that kind of setting, bonuses (still) function exactly the way they are supposed to – the higher the reward, the better the performance. However, the equation completely changes the moment you add the need for even rudimentary cognitive skills.

So, if your company operates with people who mainly do routine tasks, you are fine with stimulating productivity through bonuses. But if you are like most of us, you work in an industry that thrives on the creativity, passion, and agility of knowledge workers.

If you want to tap into your people's full potential, you must at least be aware of the following top seven obstacles of cash incentives:

5.1 Destroy intrinsic motivation

Since we have believed for so long that a person's motivation is increased by the promise of a financial reward, we have accepted it as a given. But Edward L. Deci confirms, "When money is used as an external reward for some activity, the subjects lose intrinsic interest for the activity." Consequently, by holding onto our (still largely unquestioned) faith in the virtue of incentives, we forget the hidden cost that comes from undermining the intrinsic motivation of a whole workforce.

5.2 Diminish performance

Although it is hard for us to swallow, the fact remains – bonuses diminish performance. There are countless scientific studies to prove this. For instance, the London School of Economics finds that "financial incentives [...] can result in a negative impact on overall performance". And Dan Ariely tops that with his discovery in a trial of MIT students, "In eight of the nine tasks we examined [...] higher incentives led to worse performance".

5.3 Corrupt collaboration

Despite declarations that performance management goals are aligned to ensure collective achievements, and thus, encourage collaboration, the truth is – incentives often have a significant individual component to it. And since this is the part that each employee can actively influence, it is where the focus remains. Hence, collaboration is corrupted. Unfortunately, we see this phenomenon not only on an individual level but also on a unit/department level, where teams optimize themselves rather than collaborate and overachieve on a corporate level.

5.4 Limit the breadth and depth of our thinking

Research shows that rewards can limit the breadth and depth of our thinking because of tangible "if-then" motivators. For example, when we tell our employees, "If your customer rating is above 4.5, then you will receive your bonus," we are not saying, "We want you to create an awesome customer experience, one where you come up with new ways that will leave our clients in awe and our competitors in the rear mirror." Instead, we are encouraging our people to find the easy fix and take the low road. There is nothing wrong with being efficient in what we do and finding the most direct route to get there. But it becomes an issue when it cripples our creativity, narrows our focus, and encourages minimalism and inside-the-box thinking.

5.5 Foster unethical behavior, short-term thinking, and unnecessary risk-taking

There is no denying that the promise of a cash award (does not necessary but certainly) can lead to unethical behavior, short-term thinking, and unnecessary risk-taking. And too often, short-term optimization for individual incentives brings about devastating long-term effects on the organization. You have most likely seen this happening in other organizations or even experienced it at your own company. And we have certainly all experienced the rippling effect of such behavior on a whole economy.

5.6 Accelerate addiction

Financial rewards are extremely addictive. Daniel Pink again sums it up so nicely, "[What] unethical actions and addictive behavior have in common, perhaps more than anything else, is that they are entirely short-term. Addicts want the quick fix regardless of the eventual harm. They successfully achieve their short-term goals but threaten the health of the company two or three years hence".

5.7 Fuel the vicious circle trap

Financial rewards are not only extremely addictive but also trap you in a vicious circle. Once you start offering rewards, there is no going back. We cripple the inherent drive of people and replace them with a system that conveys that they are entitled to be rewarded. And it becomes increasingly difficult to motivate them. And if there is no reward, the task does not get done. After all, the system tells them that only tasks that are incentivized are worth doing.

This is not to say that people are (per se) being greedy and unethical. We are all simply rational human beings responding logically to a particular incentive system. And, of course, we don't say no to a generous year-end bonus. But, if we are honest, that is not the real reason we enjoy going to work in the morning, and it is certainly not what drives and motivates us – what ensures that we are engaged and dedicated.

This indicates that the malfunctioning of cash incentives is, as is so often the case, not to be blamed on the players within the system but on the system itself. Consequently, we need to challenge the system and the beliefs it is built on.

When we talk about a new take on rewards, people usually think we are simply replacing bonuses with another element of compensation. But the required change is more complex than that. After all, we must be careful not to replace one evil with another.

Let us remember what rewards are about. They are about validating efforts, acknowledging achievements, and showing appreciation. Here are some ways to break the current bonus dilemma:

- Eliminate traditional bonus programs completely
- Go for random rewards rather than a fixed schedule contribution; otherwise, rewards become predictable and thus expected
- Invest in non-contingent "now that" rewards rather than conditional "if-then" bonuses to encourage creativity, focus, and out-of-the box thinking
- Mix tangible and non-tangible rewards, whereby intangible rewards like informative feedback, acknowledging gestures and language, LinkedIn recommendations, etc. usually carry more weight than physical gifts
- Honor value-based behavior possibly more than you award achievements. This can include acknowledgements for collaboration, continuous learning, knowledge sharing, creativity, as well as recognition of personal achievements for people who have overcome a difficult situation in their private lives
- Remember the power of social recognition in the form of peer-to-peer appreciations and see how they make both parties proud – not just the recipients but also the benefactors
- Involve your people and give everyone a voice in the form of nominations and voting
- And above all, be authentic and proud in whatever form you share your acknowledgements

There is a lot of talk about the Zen of Compensation. Basically, it is about getting the topic of money off the table. This is certainly a very sensible thing to do. After all, how do you expect to avoid people being money-driven if you keep focusing on money? The recipe seems simple: Ensure internal and external fairness, pay more than average, and use wide-ranging, relevant, and hard-to-game metrics. However, the solution is hardly that simple.

We are talking about a huge systematic change, which cannot be done simply by fixing cash incentives. There is more to it. Here are some things that are more valuable to employees and are harder to match than a pay raise:

- Cherish and trust your most valuable asset – your people – not just in words but even more so in deeds
- Create a stimulating, interactive work environment that fosters enjoyment-based intrinsic motivation – the strongest and most persuasive driver
- Grant autonomy through freedom, empowerment, self-organization, and inspiring leadership rather than maintaining control & command micro-management
- Nurture the passion and aspiration for mastery through constant feedback, continuous learning, and relentless improvement, as well as transparency and unrestricted knowledge and information sharing
- Encourage collaboration within interdisciplinary teams
- Trigger creativity and innovation by eliminating boxes and turf wars
- Inspire purpose and meaning through shared vision and goals
- Redefine career and growth outside of traditional hierarchical structures

If we want to overcome decades of underachievement and do business in a meaningful, inspiring way, we must embrace a shift in our mindset and adjust our systems accordingly. Fixing our financial approach to Performance Management is a key component to that.

It is certainly not an easy road, but Daniel Pink gives us something to hang onto, "The good news is that the science demonstrates that once people relearn the fundamental practices and attitudes, and unlearn the negative ones, their motivation, and their ultimate performance, often soars. Any type X [eXtrinsically motivated] can become a Type I [Intrinsically driven]."

6 Eliminate performance ratings and annual appraisals in favor of open dialogue and continuous feedback and sharing

Companies excel at calculating ratings. They judge, force rank, provide infrequent and limited feedback, and assess outdated, obsolete, and irrelevant goals. And then they wonder why appraisals are so despised! Forget performance ratings and annual appraisals. Instead, create a culture of mutual respect where candid dialogues, continuous feedback, knowledge sharing, and learning are integral to the workflow.

Employee appraisals are considered a management tool to evaluate results, give valuable feedback, and identify opportunities for learning and growth. And performance ratings are a way to guide the discussion and differentiate performance.

Sounds like a great thing. So why do more and more companies join the ranks of those who eliminate employee ratings? The decision to go in a new direction usually starts with the realization that despite the time, money, and energy spent (investment), the outcome (return) is unsatisfactory.

Over the years, appraisals have taken over the whole Performance Management process and derailed the focus from vision, goal alignment, and performance. With the attention on calculating recognition, the system has become so fixated on the rating aspect that it leaves little room for anything else. In fact, employee appraisals have become synonymous with performance ratings.

And we all know, the higher the rating, the better the cash incentive. So, we fill out mounds of paperwork to get the numbers just right (even if that means tweaking certain categories to the get the desired outcome) while selling it as objective assessment.

At the same time, we fool our employees and ourselves into believing that there is a guaranteed and immediate link between ratings and promotions. However, these decisions are not purely driven by individual contributions and achievements. The economic situation, succession planning, and corporate climate have just as much to do with it. Individual managers usually have limited control over these factors but are the ones making promises to that end.

It is no wonder that, in most organizations, employee appraisals are no longer about assessing performance in order to learn and adapt but rather to calculate salaries and estimate career steps, leaving behind the appraisal part. The bulk of the discussion is on getting the rating to ensure the “correct” reward.

By doing so, we spend valuable time explaining away a number and negotiating a deal in performance with highly valuable employees. We have lost sight of what is important – to give purpose and meaning, provide a platform for growth and greatness, and unlock intrinsic motivation.

The situation gets even more dire when companies apply staked or forced rankings, which are supposed to help differentiate performance and ensure a favorable spread along the high to low achiever scale. But, more often than not, they simply leave employees demotivated and undervalued.

In other words, we judge people, we force rank them, and we provide limited feedback. On top of that, we rate them on goals that are most likely outdated, obsolete, and irrelevant. And then we wonder why everyone has ambivalent feelings about appraisals.

Some of the problem lies within the definition of appraisals. Appraisals are defined as "the act of estimating or judging the nature or value of something or someone," which in itself is not a very stimulating and engaging way to approach and deal with cherished employees. Such discussions are definitely no fun, regardless of whether you are on the giving or the receiving end. These discussions often push people into a defensive position, viewing the appraisal as unfair and blaming their superior for being unjust and biased. And they are right.

Of course, ratings are flawed and impartial – they are highly subjective, they differ in quality, and recent events account for more than accomplishments that were achieved earlier in the year. Over the years, organizations have tried to master this by imposing more sophisticated rating models. But regardless whether it is a 5, 7, or 9-point scale or one done by several people in a 360-degree approach, it remains a ranking conducted by human beings.

However, subjectivity in itself is not the issue. There is nothing wrong with having different opinions. Quite the opposite, it is one of the key ingredients for innovation and growth. And who says two people can't have an honest and valuable discussion on achievements and development potential and leave the meeting energized and eager to move forward instead of demotivated and weary?

This does not mean that we shy away from hard discussions. Agile teams prove that daily. They are accustomed to being held accountable for their actions and results. They showcase, get evaluated, and learn and adapt – not only on an individual level but as a team and organization. They are not afraid to move forward and make changes to the system. Rather, the discussion is focused on the right outcomes, relentless improvements, and continuous learning.

Agile enterprises eliminate traditional performance ratings and employee appraisals. Alternatively, they opt to create a stimulating performance culture based on mutual respect and trust, in which open, honest, and candid dialogues, continuous feedback and self-reflection, as well as transparency, knowledge sharing, continuous learning, and relentless improvement are integral parts of the workflow.

7 Accept that handling poor performance is a leadership mandate and don't hide behind Performance Management

Organizations misleadingly believe that their Performance Management will miraculously separate their people into groups, rewarding the stars and dealing with the low performers. They might even apply forced rankings to guarantee an adequate separation between the two. Stop pretending! You don't need annual reviews to know your players. Accept that handling poor performance is a leadership mandate. And no approach will (nor should) take that responsibility away from you.

Many managers erroneously rely (too much) on Performance Management to reward their stars and deal with their low performers. As a result, "problem" employees are subtly ignored throughout the year in the hope that the year-end process will take care of their inadequate output and that a subsequent development plan will turn things around for the better in the upcoming performance cycle.

However, it rarely turns out like that. The reality is usually a series of uncomfortable discussions. After months and months of trying to make things work, the realization sets in that only a hard cut will do, with the employee released into the internal or external job market. But by that time, emotions are running high and bridges are burned.

And there is another aspect that is usually overlooked – the impact of such a person on co-workers. Studies[4] show that one bad apple in an otherwise high performing group can bring down productivity by as much as 30-40%. That is something you cannot ignore.

However, managers are usually very uncomfortable with having "that" talk. So, instead of providing timely feedback and dealing with performance and behavioral issues head-on, they waste valuable time waiting for an appraisal process where they can no longer avoid the topic, must give precise feedback, and assign a performance rating comparing achievement levels to other employees. This is another chore managers dislike, especially when such distinctions necessitate difficult discussions about mediocre or poor performance.

HR tries to support managers in the process through staked rankings, which were initially implemented to guide managers with a tendency towards uniform, often exaggerated ratings. The idea was to "force" managers to differentiate and have an in-depth dialogue

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[4] http://www.kinesisinc.com/how-much-does-a-bad-employee-cost-my-business/

with their employees in order to give distinguished feedback and identify development opportunities.

Although these initiatives were well intended, making it policy to categorically rate some of their staff as “not meeting expectations” while telling them how much they value and trust them is not the most effective approach, especially for organizations that rely on the expertise and engagement of knowledge workers.

Instead, this approach has a devastating effect on people and teams who strive to deliver outstanding results. In Agile enterprises, the work environment and approach help ordinary people to produce extraordinary outcomes. And let’s face it, if you have 20% low performers, you definitely have a recruitment and leadership problem – neither of which is fixed by forced ranking nor an annual employee rating.

Yet, hordes of managers still rely on performance management as a leadership tool to deal with inadequate performance and behavior. But the reality is – you don’t need an annual review to know your champions from your slackers. And you certainly cannot afford to wait for an annual appraisal to deal with people issues. It is time to embrace this as part of your leadership mandate and accept that no Performance Management approach will (nor should) take that responsibility from you.

Pay attention when building a powerful team by hiring slow (with consideration) and firing fast (with integrity). And focus on inspiring people, giving direction, removing impediments, and doing everything possible to help them thrive and grow.

Invest in regular face-to-face conversations and provide fast feedbacks. Also remember bosses of knowledge workers are often knowledge workers themselves. This makes the role of coach and mentor even more important. Develop a relationship in which you give knowledge workers the freedom and support they need to do their work so that you can bring out the best in your people.

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