



HighGround

BEYOND THE ANNUAL REVIEW:

The Transformative State of Performance Conversations

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INTRODUCTION

How do you ensure employees bring value to a company? And how do you ensure they feel valued? Strategically addressing these questions is the basis for improving performance.

For decades, HR departments relied on annual reviews to gauge and communicate employee performance. But this traditional approach to evaluating employees is antiquated. The annual performance review is a history report; it only looks backward to evaluate past performance and doesn't do enough to look forward and motivate employees to improve.

Today's employees are driving a performance management revolution. But what does the new way forward look like?

In recent years, many large companies like GE, Accenture and Gap have made headlines for jettisoning the annual review process.¹ Rather than relying on a relic, HR leaders are looking for ways to transform performance management into a more collaborative and frequent process. As an HR administrator at a Chicago-based weight management startup told The Chicago Tribune, performance management "has to be instantaneous because our world is instantaneous."²

But today's employees don't only want frequent communication; they want collaboration as well. Working alongside their managers, they expect to set agile and attainable goals. These expectations are helping drive a performance management revolution. So what does the new way forward look like?

¹ <https://www.bloomberg.com/news/articles/2016-07-26/ge-scraps-employee-rating-scale-as-it-rethinks-annual-reviews>; https://www.washingtonpost.com/news/on-leadership/wp/2015/08/17/why-big-business-is-falling-out-of-love-with-annual-performance-reviews/?utm_term=.ff1028caed6f

² <http://www.chicagotribune.com/business/ct-performance-reviews-overhaul-0424-biz-20160421-story.html>



METHODOLOGY

We wanted to understand the state of performance management today from both sides of the table. In surveys of 525 managers and 525 employees, we asked respondents how they prepare for coaching conversations, what these conversations look like, and the value they take from them. We also asked questions about goal-setting and the established processes companies have in place to better the employee and manager experience.³

The results paint a clearer picture of today's more agile performance management landscape, revealing the extent to which it has evolved, as well as areas for continued improvement.

Between the two surveys, these notable findings emerged:

- ▶ Annual performance reviews are no longer the norm. The majority of managers and employees hold – and appreciate – more frequent conversations.
- ▶ Manager and employee conversations are still too one-sided. Most managers don't use them as an opportunity to get feedback and identify ways to improve their performance as leaders.
- ▶ Introducing peer-to-peer feedback into the performance evaluation lifecycle reduces employee anxiety surrounding these check-ins and improves employees' and managers' satisfaction with their outcomes.
- ▶ Employees across all generations prefer in-person conversations to email, formal written reviews and instant messaging.
- ▶ Millennial managers in particular are leading the push for more frequent goal-setting.

³ Both surveys polled workers at companies with more than 500 employees. Managers surveyed manage at least one employee.



WHAT TODAY'S PERFORMANCE CONVERSATIONS LOOK LIKE

As referenced throughout our study, "conversation," "discussion," and "check-in" refer to any meeting (scheduled or otherwise) between manager and employee that is not a formal performance review.

When it comes to these check-ins, **just 7 percent of managers report only having them annually**. For the rest, conversations are more frequent: 51 percent of managers say they hold check-ins with employees at least once a week.

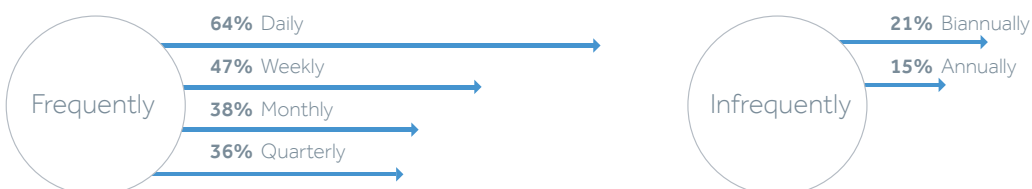
Younger managers are the key drivers behind more frequent conversations. Among Millennial managers, those between the ages of 18 and 35, 58 percent hold at least weekly check-ins, compared to only 39 percent of their Baby Boomer (52-70 years old) counterparts.

The majority of the time, these conversations go beyond quotas and deadlines to focus on performance and development. Of the managers who meet with their employees at least weekly, 61 percent say they use that time to address the employee's personal performance goals, while 29 percent discuss career progress and advancement.

The more frequently managers check in with their employees, the more effective those conversations seem to be. Among managers who hold at least weekly conversations, 73 percent strongly feel these meetings help them better track their employees' progress. This percentage steadily declines the less frequently development conversations are held; 67 percent of managers who have monthly check-ins strongly feel they improve progress tracking, compared to 52 percent who do so biannually or annually.

Among employees, positive feelings toward performance conversations are also linked to frequency: The more often they discuss performance with their manager, the more likely they are to feel strongly that these meetings lead to better work.

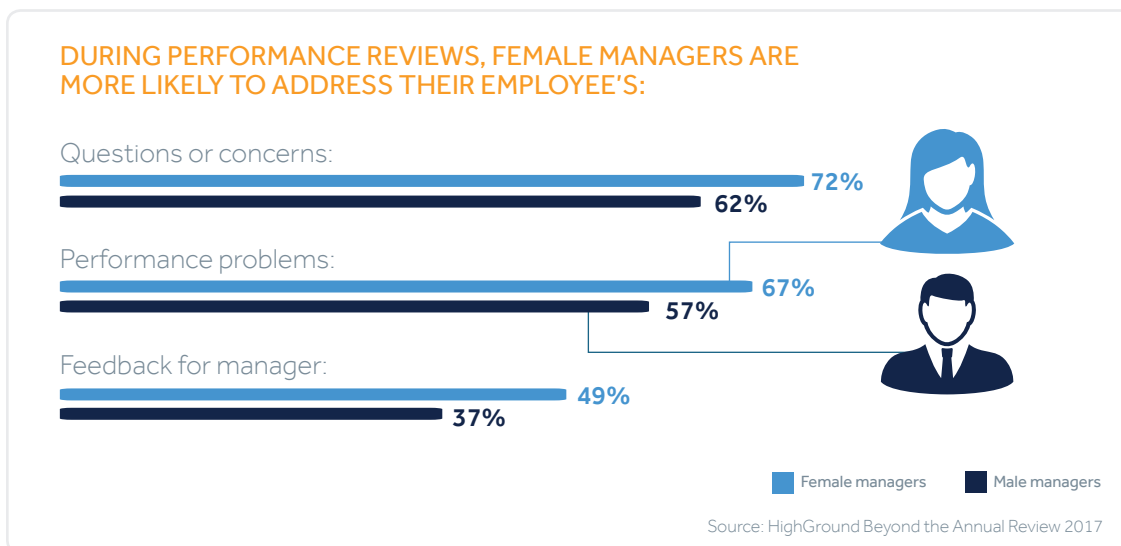
EMPLOYEES WHO FEEL STRONGLY THAT CHECK-INS LEAD THEM TO DO BETTER WORK, BASED ON FREQUENCY OF CHECK-INS



Source: HighGround Beyond the Annual Review 2017

In addition to frequency, there's also an industry component to how managers feel about development discussions: More than 60 percent of managers in tech, foodservice and retail feel strongly they lead to better work, compared to fewer than 40 percent of those in the government and finance sectors. Industry culture and work environment are a few factors that explain this difference: Compared to government and finance, sectors like foodservice and retail often function around inconsistent and hectic schedules. In these industries, check-ins provide managers with needed oversight. Unlike managers, employee positivity toward performance conversations is not significantly dispersed across industry lines.

While performance conversations are frequent, they're also short. **Eighty-three percent of conversations last less than half an hour, while one-third are between five and 10 minutes** – which is the NeuroLeadership Institute's recommended sweet spot for productive in-person conversations.⁴ Because of the more informal and conversational nature of these meetings, managers don't have to spend too much time preparing for them; the significant majority of managers – 76 percent – report less than 30 minutes of prep time.



In terms of agenda items, the majority of development discussions address employees' personal performance goals (70 percent), questions (67 percent), and any performance problems (62 percent). But while most conversations touch on employee-centric issues, the majority don't address company performance goals (only 46 percent do this) or managers' own performance. **Only 43 percent of managers use these meetings to ask their employees, "How can I be a better manager to you?"**

When managers don't use the opportunity to talk about their own and the company's performance, check-ins turn into one-way conversations. Instead of providing an open forum, they risk leaving their employees feeling constantly on the defensive.



FEELINGS TOWARD PERFORMANCE CONVERSATIONS

The traditional annual performance review is largely associated with only one feeling: dread.

In contrast, the mood toward development conversations is more measured; half of employees say they feel neutral in the lead-up. However, the other half of employees are more likely to feel anxious (27 percent) than excited (20 percent). Anxiety is higher in certain departments – marketing (43 percent) and IT (30 percent), for instance, as compared to finance (21 percent) and HR (27 percent) – as well as among women (30 percent vs. 24 percent of men).

HR leaders and managers can mitigate employee anxiety surrounding development discussions by integrating peer-to-peer (P2P) feedback into the conversation. We found that **only 18 percent of employees at companies with P2P feedback built into performance reviews report anticipatory nerves. However, this doubles to 36 percent at companies without P2P feedback.** Instead of feeling anxious, roughly one-third of workers who are evaluated by their peers say they're excited for performance conversations; only 8 percent of employees at companies without P2P feedback are similarly excited.

IMPACT OF P2P FEEDBACK ON FEELINGS TOWARD PERFORMANCE CONVERSATIONS



Employees feel strongly that check-ins...



Managers strongly agree that check-ins...



■ P2P feedback ■ No P2P feedback

Source: HighGround Beyond the Annual Review 2017

ROOM TO IMPROVE VALUE

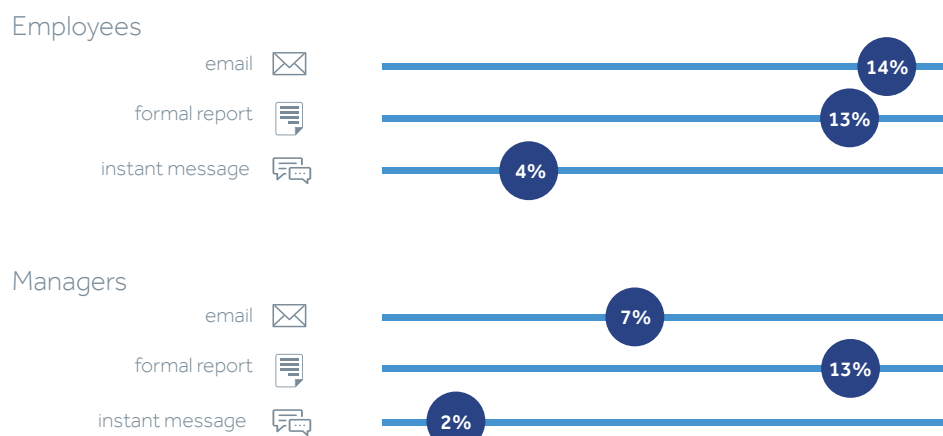
While most managers and employees (98 percent and 86 percent, respectively) see development discussions as helpful, respondents' answers reveal that there's room for improvement. On a 10-point scale, employees, on average, rank the value of performance conversations at 7.45 – a moderately positive rating perhaps explained by the finding that the most employees (55 percent) leave check-ins feeling the feedback was only "somewhat" helpful. Similarly, 43 percent of managers said they only "somewhat" feel their employees do better work as a result of performance conversations.

How can HR leaders improve the perceived value of performance discussions? Both employees and managers at companies with P2P feedback built into the performance process find these conversations to be more beneficial.

IN-PERSON CONVERSATIONS WIN

Despite the proliferation of mobile communication tools in the workplace, there's no replacing the human element when it comes to performance conversations. In-person remains the check-in method of choice for both managers (78 percent) and employees (69 percent). There's significantly less affinity for methods like email, formal written reviews and instant messaging. While some might assume that Millennial managers would gravitate toward tech-focused alternatives to in-person conversations, that's not the case: Millennials managers are almost just as likely as Baby Boomers to hold counterparts to hold in-person development conversations (59 percent vs. 62 percent).

EMPLOYEES AND MANAGERS WHO PREFER DIGITAL TO IN-PERSON CHECK-INS OPT FOR THE FOLLOWING METHODS:



Source: HighGround Beyond the Annual Review 2017

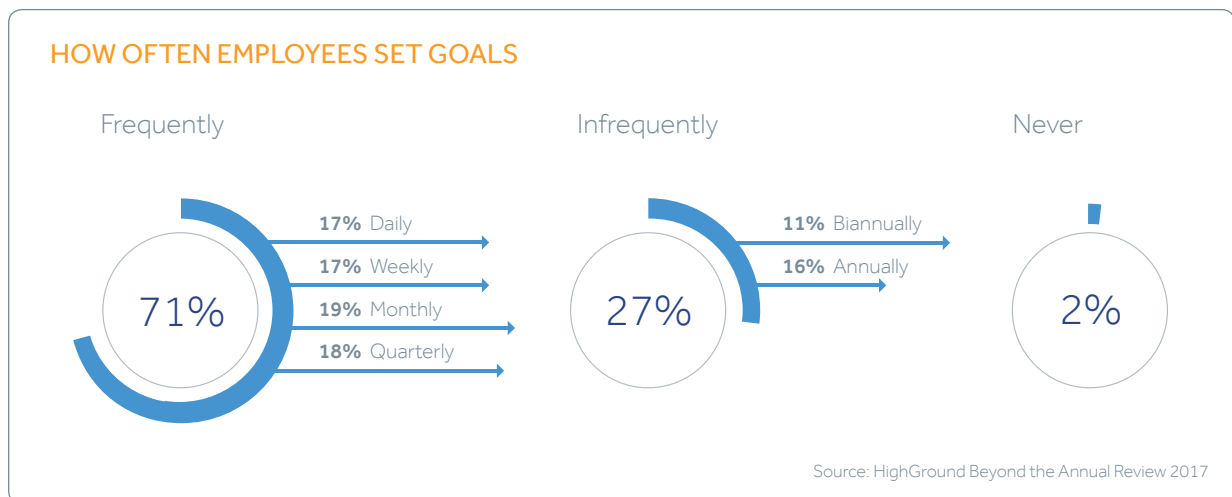


MILLENNIALS' PUSH FOR FREQUENT GOAL-SETTING

Like the annual performance review, annual goal-setting has become an outmoded solution for a constantly changing workplace. Shirking tradition, Millennial managers are leading the charge to do it more frequently.

Instead of having their employees set goals once a year, 82 percent of Millennial managers ask their workers to establish goals quarterly or more often. And Millennials are more than twice as likely as Baby Boomers to enforce daily goal-setting with their employees (23 percent vs. 11 percent). One reason younger managers prioritize more frequent goal-setting may be because they observe better employee performance from the regular check-in structure. While only 46 percent of Baby Boomer managers strongly believe their employees do better work because of performance conversations, 59 percent of Millennial managers feel this way.

Now the largest generation of workers, Millennials are increasingly occupying managerial roles in the workplace. As we found, a mere 8 percent of Millennial managers have employees set goals annually. The rest treat goal-setting – like performance conversations – as something that should be a regular habit rather than an infrequent formality.





CONCLUSION AND STRATEGIC NEXT STEPS

The performance management landscape is dramatically changing. Processes that, for decades, were intermittent are becoming more continuous.

Since abandoning annual reviews, GE now handles performance development via an app that encourages frequent conversations and goal-setting.⁵ Adobe has replaced its yearly appraisals with ongoing check-ins.⁶ And Patagonia has introduced a system of transparent goal-setting that gives its workforce visibility into organization-wide objectives, empowering its employees to work together to fulfill them.⁷ These regenerative feedback loops demonstrate concrete value for the company. Patagonia employees receiving higher bonuses in 2017 were more likely to have asked for crowd-sourced feedback from their peers and completed a check-in with their manager.

Across industries, there's a similar push toward more frequent performance-related touch points between managers and employees.

With the shifts underway in performance management, HR leaders should carefully examine their business' existing approach to employee development, identifying areas for improvement.

FUTURE-FOCUSED PERFORMANCE STRATEGIES



Performance management platforms



Ongoing check-ins



Transparent goal-setting

⁵<https://qz.com/428813/ge-performance-review-strategy-shift/>

⁶<https://www.gsb.stanford.edu/faculty-research/case-studies/adobe-building-momentum-abandoning-annual-performance-reviews-check>

⁷<http://www.highground.com/resources/highground-customer-story-patagonia;>
http://staging.www.highground.com/wp-content/uploads/2017/01/HG_Roundup_PerformanceManagementinTheirOwnWords_.pdf

Here are some strategic steps HR administrators can take to drive coaching conversations into the future:

▶ **INCREASE THE FREQUENCY OF MANAGER CHECK-INS AND GOAL-SETTING:**

While there's no one-size-fits-all approach to successful performance conversations, it's clear both employees and managers value greater frequency. HR leaders looking to move away from the annual review process should work with managers and employees to determine the optimal meeting cadence.

▶ **PROVIDE A PLATFORM FOR GOAL-SETTING:**

Millennials take a goal-oriented approach to performance. To facilitate this approach, HR leaders can implement digital tools to help document and track employee progress. Agile performance and engagement tools offer employees and managers a platform for setting and tracking goals and ensuring those objectives align with overall company objectives. In addition, top engagement resources allow for goal transparency across an organization.

▶ **INCORPORATE PEER-DRIVEN FEEDBACK:**

Our surveys found that managers and employees at companies with P2P feedback built into reviews see greater value in the performance management process. Integrating P2P feedback gives HR leaders a 360-degree view of their employees' abilities and areas for improvement, as well as create a more inclusive, feedback-driven culture.

▶ **BOOST THE BREADTH AND QUALITY OF COACHING CONVERSATIONS:**

Currently, fewer than half of managers use performance conversations to ask employees about their own abilities and competencies as supervisors. In addition, most managers don't discuss overall company goals. But these interactions should be conversations, not report cards. Expanding the breadth of coaching conversations to address these issues will help companies promote the honest communication necessary for a productive check-in.

By taking these steps, HR leaders can meet the new vision of performance management – one that keeps employees constantly improving, engaged and happy.

ABOUT HIGHGROUND

HighGround's cloud platform is designed to improve the employee and manager experience while helping companies build highly engaged and high-performing cultures through continuous feedback, ongoing employee development and real-time recognition. By using HighGround, employees are empowered to recognize peers daily and contribute to their own career path and companies can more effectively capture the voice of the employee and turn annual performance reviews into meaningful, ongoing coaching conversations. With an inspired workforce able to reach its full potential and visibility into organizational health, HighGround customers, such as Patagonia, Echo Global Logistics, Intermedix and Allianz can increase employee retention, productivity, customer satisfaction, and ultimately drive bottom line results.

TO LEARN MORE, VISIT WWW.HIGHGROUND.COM.