Reflektive

How to
Transition
From Annual
Performance
Reviews to Real-
Time Feedback

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▶ Ultimate Guides by Reflektive

In our Ultimate Guide series, you'll learn how to navigate the changing world of performance management. These comprehensive guides cover topics vital to HR leaders and senior executives committed to innovation in today's workforce.

Performance Reviews Are Declining

> **"** The one common thread is that all companies modernizing their performance management processes are focusing on giving employee feedback more frequently.

The world's leading companies, from GE to Adobe to Deloitte, have announced their departures from the annual performance review. But, is this right for your company? Many companies are not ready to quit cold turkey – and that's OK.

Evolving performance management can mean phasing out the annual performance review, but if so, it should be replaced with a new, agile system that meets an organization's needs for compliance, compensation and promotions.

Keeping the annual performance review and augmenting it with real-time feedback so its results are more valid is also a valid option, especially for the short term — each company is different and it's important to determine what is best for your organization, not the one down the street from you or across the country. The one common thread is that all companies modernizing their performance management processes are focusing on giving employee feedback more frequently.

PROBLEMS WITH ANNUAL REVIEWS

58%
of employees believe performance reviews are inaccurate

86%
of organizations are unhappy with their performance management system

30%
of performance reviews result in decreased employee performance

Research proves that issues plaguing traditional performance reviews are recency bias, inaccuracies due to rating variations among managers, and associated anxiety for employees that de-motivates. Real-time feedback addresses these issues by collecting data that makes performance reviews better for employees and managers.

This e-book will help your company devise a strategy for implementing real-time feedback, and see how you can evolve your legacy performance management, without losing the structure employees and administrators need.

What Is Real-Time Feedback?

Real-Time Feedback, at its very core, is a process in which your managers and employees communicate in a semi-structured, ongoing manner regarding successes and opportunities for improvement. It is likely your organization already has some real-time feedback by the nature of manager-employee relationships – but few managers actually offer this regularly to their employees.

Another term you may hear about is "continuous performance management," which can include real-time feedback or can be more regular check-ins throughout the year compared to one big annual review, or a mixture of both. Terminology aside, the industry's move to more "always on" performance management is something no company can ignore.

Continuous performance management systems emphasize coaching between employees and managers and a feedback loop on a shorter cycle — with interactions that are quarterly, monthly or weekly. Real-time feedback can be shared in real time or collected to share weekly in one-on-ones.

Whether you choose to abandon annual performance reviews altogether or enhance them with real-time feedback, change management for most organizations makes it impossible to rip out and replace annual reviews all at once. We've put together best practices for introducing real-time feedback and de-emphasizing annual reviews in your performance management to help you make the transition away from the annual review in a way that works for your business.

The Case for Performance Reviews With Real-Time Feedback

> **"** Real-time feedback makes performance reviews more useful and accurate by allowing managers to collect performance data from throughout the year.

Performance reviews add value to organizations by collecting data that can be used to manage employee compensation, compliance and promotions. There are other options, but sometimes reviews provide the cleanest path to achieving your goals and provide employees structure.

As noted earlier, though, performance reviews are plagued with inaccuracies due to recency bias. By adding real-time feedback to your performance review process, you capture accurate performance information throughout the year that can feed into an annual report reflecting the employee's real performance. This also empowers your managers to help coach their employees when issues arise, not wait to review them a year after the fact.

Employees are most often concerned with compensation and bonuses — how will they know what their salary is based on? Meanwhile, organizations need performance data to hedge against potential lawsuits.

Real-time feedback makes performance reviews more useful and accurate by allowing managers to collect performance data from throughout the year. Employees develop more trust in the process, knowing their review is accurate and based on the whole picture of their performance from the full year. Real-time feedback means coaching happens continuously, and annual reviews continue to create structure. Administrators can rely on reviews and real-time feedback data for compliance needs.

Another Option:
Real-Time Feedback With
Quarterly Check-Ins

Some companies, citing the lost time and demotivation of reviews, do choose to drop them entirely. For example, Deloitte adopted a system in which leaders answer four questions about each team member each quarter, or at the end of a project. This more nimble solution collects data Deloitte can use when making compensation or talent development decisions. But, without annual performance reviews, most companies continue to do appraisals, just on a shorter time frame.

Quarterly check-ins pair well with real-time feedback and can replace annual performance reviews. They are lightweight and do not take up hours of productivity. Because check-ins are done along with real-time feedback, they train leaders to be better coaches, and employees to follow up on learning opportunities.

How to Manage Compensation

Performance reviews are a safety net for employees who want to understand how compensation decisions will be made and how they can influence the outcome.

Downsides of Review-Driven Compensation

The algorithms companies use to determine compensation based on ratings are difficult to understand and do not translate across departments and roles. There is little utility in ranking middle performers for small differences in compensation, as research shows that anything smaller than a 7 percent raise does not impact performance. Managers can already identify their top and weak performers, and don't necessarily need a formal rating system.

The Alternative

Some companies give managers oversight over compensation, with a bucket to allocate among their team as they see fit. When managers are given free reign over rewards, they must take into account the motivation impact of raises. As mentioned, a raise smaller than 7 percent is not found to impact future performance, but if employee A did not get a raise, but knows that employee B got a 3 percent raise, this could create some resentment.

When doling out raises, managers should look at five performance factors, in conjunction with market rates:

1. Proficiency – has the employee completed education or acquired new skills?
2. Performance feedback as collected in real-time feedback tool
3. Peer feedback
4. Progress on objectives related to business results
5. Value of contributions to the rest of the team

Managers can score employees on these factors if that is easier, or simply rank employees. Then, distribute raises based either on a set amount or a percentage (i.e., the top performer gets a 5 percent raise, or $10,000). If the team's salaries are fairly congruent, it can make sense to use percentages, perhaps ranging from 15 percent for top performers to 2 percent for those on the lower end.

If a percentage is used on a team with widely varying salaries, the bigger rewards will go to those already on top of the scale – in that case, a set amount may make sense.

How to Address Compliance Needs

The human resources function relies on performance reviews to justify cutting staff and advocating for promotions. Performance reviews can validate hiring decisions, document job performance, identify employees ready for a raise or promotion and assess training needs. They can also justify termination or disciplinary actions.

Performance improvement plans may also enable employers to document how they've addressed issues to help an employee succeed. In the case of a termination, performance improvement plans indicate a form of discipline has taken place prior to termination.

Downsides of Review-Driven Compliance

Because managers want to maintain their relationship with reports, and put a rosy front on their own department, performance reviews are often biased towards the positive end, even if performance has been mediocre. Often when it comes time to fire an employee, these positive performance reviews will not help the case.

The Alternative

In the case of termination or disciplinary measures, real-time feedback may capture information left out in performance reviews, due to recency bias. An employee who has been for a company less than a year may not yet have a performance review, but real-time feedback may demonstrate they should not continue with the company.

Real-time feedback offers a new way to collect data. The 360 or 180 feedback can be made actionable with artificial intelligence and machine learning can influence the quality and effectiveness of the data. Quarterly check-ins allow employees to retain structure, which will address discrepancies in managers' soft skills.

In addition to additional performance data, real-time feedback gives employees more transparency into the needs of the company. For example, after Netflix replaced performance reviews with real-time feedback, the company found employees were better able to handle bad news when they were regularly given honest feedback, and that reduced potential for lawsuits.

Frameworks for Effective Real-Time Feedback

COMPANY MODEL	PRODUCT CONFIGURATION	COMPANY OBJECTIVES
Google facebook **Facebook, Google 360's**	⭐ ✓ 🎯 👥 **Real-time Feedback and Recognition**	• Provide comprehensive feedback on performance, strengths, and development • Create a culture of feedback and recognition
Deloitte. **Deloitte Performance Check in**	⭐ ✓ 🎯 👥 **Real-time Feedback and Recognition**	• Keep a pulse on who are top and bottom performers • Give frequent feedback on performance and competencies
Pinterest **Pinterest Goal Check-In**	⭐ ✓ 🎯 👥 **Real-time Feedback and Recognition**	• Deliver frequent, structured feedback on goals • Enable agile alignment on goal performance and progress

- - - Real Time Feedback

⭐ **Performance Reviews**   ✓ **Check-Ins**   🎯 **Goals Management**   👥 **1x1 Coaching**

Steps to Real-Time Feedback

▶ **REAL-TIME FEEDBACK + PERFORMANCE REVIEWS**

1. Introduce real-time feedback with a pilot group

2. Present results of the pilot, and roll out real-time feedback to everyone

    a. Real-time feedback data addresses recency bias, making performance reviews easier for managers and based on the employee's contributions throughout the year

    b. Encourage employees to cite competencies or skills in feedback, such as #teamwork #leadership

    c. Drive constructive feedback by requiring managers to use specific examples

3. Run a performance review powered by real-time feedback data

▶ **REAL-TIME FEEDBACK + QUARTERLY CHECK-INS**

1. Continue your annual review and add real-time feedback

    a. Real-time feedback data addresses recency bias, making performance reviews easier for managers and based on the employee's contributions throughout the year

    b. Encourage employees to cite competencies or skills in feedback, such as #teamwork #leadership

    c. Drive constructive feedback by requiring managers to use specific examples

2. Option to roll out quarterly check-ins with a pilot group for 1-2 quarters

3. After presenting results of the pilot, roll out check-ins to all staff, and remove performance reviews

Get Started With Real-Time Feedback

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