

TheFive Minute MBA

Performance Reviews

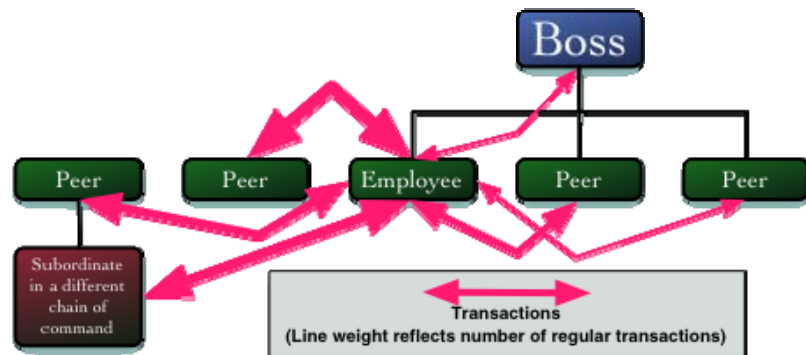
That Actually Improve Performance

The Opportunity

Performance reviews are like a trip to the dentist or buying insurance, something that everyone needs but nobody wants.

That having been said, performance reviews can and should be a very powerful and useful force to help employees understand what success looks like and how to achieve it. However, traditional performance reviews suffer from a variety of limitations that generally make them of marginal value in practice. In fact most such processes are so bad that W. Edwards Deming, the father of Total Quality Management and who Douglas MacArthur sent to Japan after WWII to teach the Japanese how to manufacture quality products, included performance reviews in his list of seven deadly diseases of Western management (Deming, *Out of the Crisis*, pg.98).

The first problem with traditional performance reviews is the person conducting them. Think of it this way, what percentage of transactions occurring daily between an employee and all his/her colleagues are between him/her and his/her boss? Typically a small percentage, probably less than 10%. So why is the boss doing the performance review? He or she probably knows less about the employee's performance than almost anyone in the company. This kind of review is satisfying to the manager because, after all it is his/her ex-



The Five Minute MBA is a series of white papers on topics of interest to CEOs and senior managers of companies. They are written by noted management consultant Lanny Goodman. They are intended to provide an overview of the opportunities and issues associated with each topic and to provide resources for more in depth study. For more information, visit www.managementtech.com.

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pectations that are being addressed. What about the legitimate expectations of the rest of the employees? They pretty much have to live with whatever they get.

Furthermore, the very name *performance review* or *assessment* or *evaluation* is inappropriate. My opinion, these terms are paternalistic, demeaning and dehumanizing and while the traditional names imply a wise, balanced and objective evaluation of someone's performance, in my experience it is rarely any of the above.

First of all, the past is past. You can't change it so the only real value of the look backwards is that it may cause a person's behavior to change at some point in the future. So why don't we call it *performance planning*? That's what I call it with my clients.

If you use any kind of rating scales you are really missing the boat. They masquerade as being quantitative and objective, but they really aren't. Further there are legal issues with using rating scales. They have been deemed by the courts and "personality tests" and without evidence of the validation and reliability that a psychological instrument would have to have to be used in either a business or clinical setting, the courts say they can't be used as a basis for promotion or termination.

The underlying problem is this. Traditional management was built around the paradigm of the machine. The machine was designed by management to take predictable inputs, operate predictable processes in order to get predictable outputs. In order for this model to work, employees had to function as cogs in the machine, expected to function in certain very mechanistically defined ways. The job of managers was to make sure the cogs followed the blueprints and design specs of the machine.

The approach worked fantastically well in the early and middle part of the 20th century. Today, however, the demographics of the workforce have changed dramatically. Talent is no longer plentiful and cheap. Nor do today's younger workers show up with the limited expectations of earlier generations. Businesses today are increasingly talent constrained where a hundred years ago they were more likely to be capital constrained. Over the next decade, the population trends tell us that talent is going to become even more of a constraint as the boomers leave the workforce. The next generation in the pipeline is much smaller.

Our understanding of how the universe works has undergone a radical transformation as well. The inventors of management as we know it, particularly Frederick Winslow Taylor and his cohort, grew up in a universe that was conceived as a machine, running on Divine laws that we would eventually decipher and then master creation. Quantum, chaos, and complexity theories have put that tidy, anthropocentric notion to rest. We now know the universe is a much more complex and unpredictable place than we thought. However, we have learned that the universe is self-organizing!

What that tells us business people is that our employees will self-organize to do the right things under the right conditions. The performance review as traditionally practiced is an artifact of the machine model. Having intelligent conversations to understand and accommodate legitimate mutual expectations is how human beings self-organize to get things done. Our job as leaders is to give them the space and tools in which to have these conversations.

Our goal for performance planning should be for individuals who serve each other in an organization to have meaningful conversations in which they recalibrate and align their mutual expectations and commit to specific levels of service. If we go out to the marketplace, we know that we want our drycleaner to have our clothes available to us within x number of days. If they fail to meet our expectations, we're either going to have a conversation with them or go somewhere else. Since internal relationships don't

usually include the option of going somewhere else, we need to be able to have the conversation and get the person to agree to meet our expectations. If they are unable to do so by virtue of other priorities or process issues, we need to get a manager involved who has the authority to change the systems to implement the solutions the employees have developed.

So what conclusions can we draw thus far?

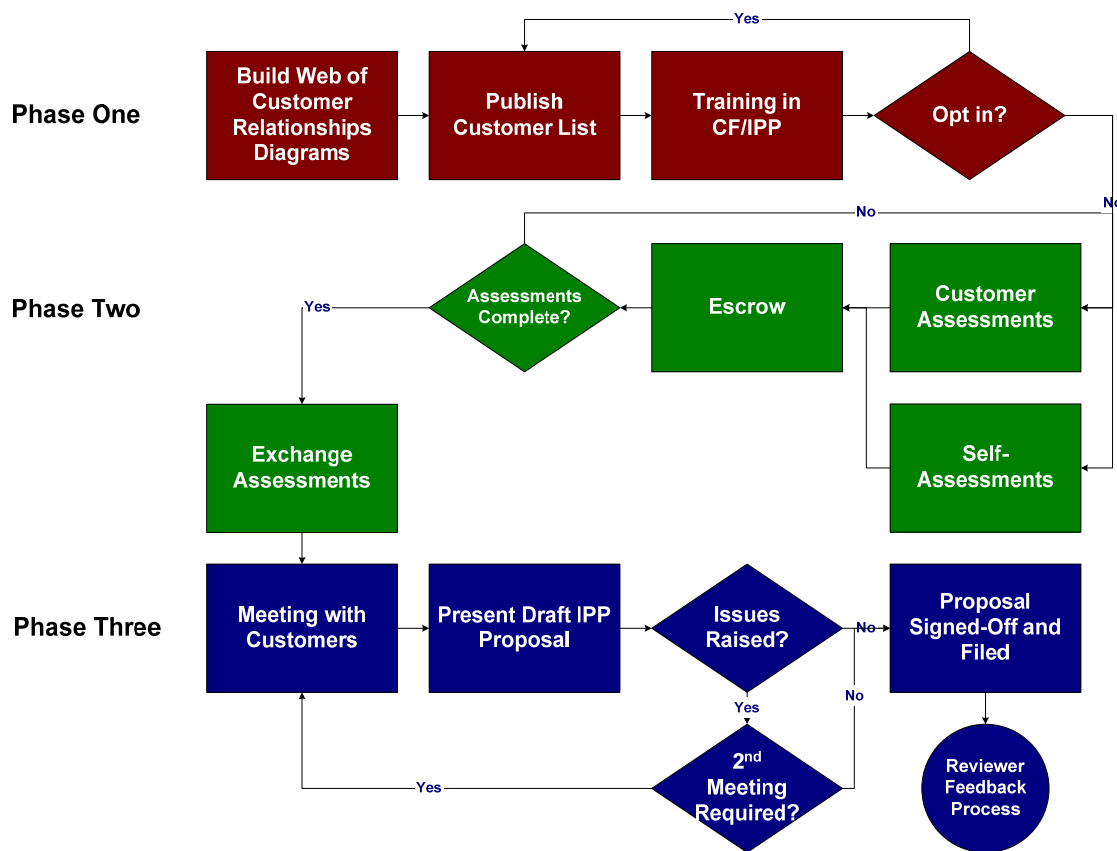
1. Traditional vertical performance review is the least effective.
2. Rating scales are to be avoided
3. The reviewers should be the employee's internal customers (one of whom is their boss)
4. The process should be called individual performance planning rather than performance review

How might such a process work?

Steps

The diagram below illustrates the internal customer feedback/individual performance planning process I recommend for my clients. Let's walk through the steps.

In phase one, we are preparing for the process. This includes:



1. Each manager meets with each of his/her direct reports to help them develop a list of their three most important (or at least most insightful and articulate) customers.
2. All these customer groups get published to the whole company

3. All employees go through formal training in the internal customer/vendor individual performance planning process.
4. Any employee who wishes to opt into any other employee's review team (up to a predetermined limit – usually five or six total) may do so during a specific window of time once the internal customer list is published.

An important note on item number four. What this creates is a culture in which all employees understand that any other employee may show up on their review team. Therefore there is no one in the company to which they can afford to be abusive, unresponsive or treat in any other way that is inconsistent with the company's values.

In phase two, all reviewers fill out a questionnaire on their reviewee, the same questionnaire the reviewee fills out on him/herself. These questionnaires are open ended. Typical questions are:

1. What is this person's job?
2. Over the past year, what have been your most positive experiences with the reviewee? Be specific.
3. Over the past year, what have been your least positive experiences with the reviewee? Be specific.
4. Over the past year, to what extent has the reviewee been effective as a vendor to you and fulfilled your needs as an internal customer?
5. Over the past year, to what extent has the reviewee *not* been effective as a vendor to you and failed to fulfill your needs as an internal customer?
6. What should the reviewee's priorities be over the coming year?
7. What specific services/deliverables do you need from this employee? What are the standards and how will those standards be measured?
8. What personal and professional development activities would be beneficial for the reviewee to make them more effective?

The reviewers and reviewee do not get to see each other's answers prior to developing their own. When all the questionnaires for a specific review team are complete, they are collated and distributed to all team members *with attribution*.

In phase three, it is incumbent on the reviewee to convene a meeting of his/her review team. Based on the information they have received from others and their own point of view, at this meeting they will present a proposal for their performance plan, outlining the standards, qualitative and quantitative, they are prepared to meet, the specific professional and personal development accomplishments to which they are committed.

The review team will question, challenge, possibly negotiate changes and ultimately ratify the plan which they all sign and the employee comes away with a clear charter for success. A copy is given to each reviewer and one goes in the reviewee's personnel file.

To keep everyone in the process honest, the reviewee then fills out a short multiple choice assessment of each reviewer's value and contribution to the process. This feedback will highlight any reviewer who does not put appropriate time, effort and thought into the process.

Be Aware of Some Issues

Training is clearly critical to the process. Few people understand how to effectively give and receive feedback. There is also quite a lot of paperwork involved in all this. To simplify the administration of the process, I have developed a web based system to handle all the administrative details. For more information, visit www.selfmanagementsystems.com.

If you have not read my paper, *Internal Customer/Vendor Relationships, Unleash the Power of the Marketplace in Your Organization* I would encourage you to do so. It will help clarify the importance of establishing the customer/vendor language and mindset in the organization. The internal customer feedback process is an essential adjunct to this definition of organizational reality.

Action

1. Conduct an informal poll of your employees to find out how many get real value out of your performance review (planning) process, why, and if not why not.
2. Learn more about internal customer/vendor relationships by reading the paper I mentioned which can be found at www.customervendorrelationships.com
3. Read Deming's *Out of the Crisis* if you haven't already.
4. Run a pilot test of the process I've described and get feedback from the employees (and manager).
5. Investigate the use of the automated system I've described.

It is important to note that this kind of process is very likely to be unlike anything your employees have ever experienced. I have found that it takes two or three iterations of the process over a year or two for employees to *begin* getting comfortable with having these kinds of conversations with their peers.

Conclusions

Employees need and deserve to know how to be successful. They need to be able to articulate to their colleagues what they legitimately need to be successful in the way of time, tools, input and support. Collectively, employees need to have a process by which they can figure out how to remove the roadblocks that interfere with either their own needs being met and/or their colleagues' ability to help them fulfill their legitimate needs. They also need the support of the managers who have the authority to make those changes.

If the system I've described is of interest, it is just one part of a more comprehensive model for addressing the many dysfunctions of modern organizational life. Drawing on advances in the newly emerged science of complexity, I have developed a systematic design for organizations that are largely self-managing. For more information, visit www.managementtech.com or to learn about my book, *The End of Management, How to Have More Time, Make More Money and Have More Fun by Creating a Company That Runs Itself* visit www.theendofmanagement.com.

About Lanny Goodman

Since 1980, CEOs of companies large and small have consulted with Lanny around their strategic planning processes. Primarily focused on entrepreneurial organizations, Lanny's planning methodologies help companies focus their efforts, improve profitability, rationalize their operations and leverage their people.

In the late 1980's Lanny began exploring how changes in our understanding how the universe works might apply to how we lead and manage companies. Building on the principles of the new science of complexity theory, Lanny began working with his clients, researching and experimenting to create the first comprehensive system for creating companies that run themselves. Lanny's book, *The End of Man-*

agement lays out the logic of self-managing systems. His company, Management Technologies Inc. provides comprehensive support services to organizations interested in creating companies built from the ground up to fully leverage their people. For more information visit www.managementtech.com.

Lanny's work has been the subject of a feature article in Inc. Magazine. He has been quoted there extensively as well as in Fortune Small Business and the New York Times. Lanny has spoken at sixteen Inc. Magazine national conferences including five Inc. 500 conferences, celebrating the 500 fastest growing private companies in the country.

Lanny holds a BA in Fine Arts and an MBA in Financial Management and lives in Albuquerque, NM. He can be reached at lanny@lannygoodman.com or by phone at 505-884-7300.

Thanks for your interest in the Five Minute MBA.