A Return to Qualitative

Frustrated at the inefficiencies of quantitative ratings and rankings, a quiet wave of organizations is turning to a more frequent, qualitative approach to performance management.

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For a company that outfits customers for the pursuit of outdoor adventure, Recreational Equipment Inc., or REI, once hardly dared to venture outside of the conservative order, especially when it came to its performance management process.

Prior to 2011, the Kent, Washington-based retailer's 11,000 employees were reviewed once a year based on their ability to meet company goals and work within a team environment. Employees' performance was quantified into one of four categories: exceptional, exceeds expectation, achieves expectations or needs improvement, with compensation awarded accordingly.

REI's approach was similar to that of many corporations, in which employees are rated annually through a quantitative method, allowing executives to standardize performance metrics across the organization.

But the tide on such quantitative performance analysis is turning, albeit slowly. Instead of standardizing hard metrics related to individual performance, many companies are opting to strip out numbers entirely in favor of more frequent, qualitative conversations, with the aim of providing feedback to help people improve in real time.

Supported by a wave of frustration against quantitative performance management systems — like Jack Welch's "Vitality Curve," instituted at General Electric Co. during his time as CEO in the 1980s and early '90s — many large companies like Microsoft Corp. and Adobe Systems Inc. have made headlines recently for ditching the staid ranking process for a more qualitative framework.

Three years ago, REI did its part to shift course. Upon receiving an assignment in preparation for an executive retreat to identify a company practice in need of improvement, Michelle Clements, REI's senior vice president of human resources, turned to the company's most recent employee surveys. What she found was more than 400 pages of survey commentary complaining about the company's performance review process. Employees, the survey showed, weren't getting proper feedback, so they weren't getting better at their jobs. Moreover, the bureaucracy of the process complicated the system to the point where managers, overstressed at the task of filling out forms and writing formal reviews, were focused more on administration and less on helping people improve.

"I went to this retreat and presented this idea that I thought formal performance reviews were a dead idea and that we should eliminate them and move to a culture of providing each other performance feedback on a regular basis," Clements said. "Much to my surprise, my colleagues jumped out of their chairs with delight. They said, 'Go forth and conquer, Michelle.'"

Ditching the System

Find Qualitative Rules
Like REI, a few notable organizations have moved to conquer traditional performance management's cumbersome inefficiencies. However, only a handful of companies have publicly acknowledged ditching the traditional once-a-year review process. According to a study on performance management by research firm the Institute for Corporate Productivity, only 19 percent of employees in 2013 said their company's performance management strategy is valuable. And while firms like Adobe, Microsoft and REI have gotten attention for their efforts to move to a more qualitative approach, just 6 percent of those surveyed in the i4cp study said their companies have done something similar.

Robert Sutton, a professor of organizational management at Stanford University's Graduate School of Business, has been steadfast in his opposition to stack ranking and the annual review process. Aside from writing a number of books calling for improved management techniques, Sutton has been outspoken in the debate against the traditional performance review. He said the problem with the system isn't that the focus is qualitative but that the process regularly distracts managers from doing what it was intended to do: provide employees with quality feedback. "Management is a daily grinded-out activity," Sutton said. "It's not a bizarre conversation that you have with your employees once a year when you never give them any feedback and you fill out this stupid form that bears no relationship to any feedback or anything you ever did with them."

Sutton and others contend that the traditional review process essentially enabled managers to not have to manage. Because performance conversations were only required once a year, the annual review session turned into more of an airing of grievances, putting the employee consistently on the defensive while managers looked to parse out relevant information to submit as part of a written review to HR.

The once-a-year review is essentially “a tool that prevents [managers] from learning how the employee works around his or her difficulties,” said Samuel Culbert, a professor at UCLA’s Anderson School of Management and author of “Get Rid of the Performance Review!” “They aren’t getting an accurate idea of what the employee thinks and how she or he sees the situation,” Culbert said. “You want to get into people’s logics and you want to learn about them and what they’re dealing with in terms of their self-perceived limitations so you can get good results for the company.”

Still, for companies to properly shift away from quantitative annual reviews, they first have to teach managers a better way to interact with their employees. In REI’s case, the company began the process of “sunsetting” its old performance review system. Clements said it held a series of skill-building sessions with management team members. The goal was to re-teach interpersonal communication skills. The company also created a series of videos to provide just-in-time learning for a variety of situations a manager would likely encounter. The new approach emphasized feedback.

“It is everything from delivering coaching feedback to how to have a tough discussion with an employee when you have to deliver a corrective,” Clements said. “We wanted to put tools and skill-building in place to build a culture of two-way feedback.”

Adobe took giving managers more room to manage a step further. In addition to creating an employee resource center that provides access to materials designed to help managers improve interpersonal communication, the technology company incentivized managers to get more involved in managing by giving them the ability to control how annual bonuses are awarded. Donna Morris, Adobe’s vice president of global people and places, said giving managers more responsibility in this light forces them to be more hands-on in communicating with their people, because they’re essentially running their own business.

“In the old days with stack ranking systems, managers would use the excuse that they would like to give out bonuses, but HR wouldn’t let them,” said Sutton, who has written an extensive case study on Adobe’s performance management shift. “Now, they can’t say that because it’s all on them.”

Forging Ahead

Engaging Employees and Managers in the Process
Establishing an expectation that managers must help their employees perform better is only part of what’s needed to shift to a more qualitative approach. Some companies have gone as far as instituting policies so that employees themselves are pushed to set goals and hit performance benchmarks.

Cloud technology company Nitro Inc. has instituted a 90-day contract culture that aims to outline three to five deliverables that employees are expected to focus on during that period (the nature of the employment is not literally a 90-day contract, but a way of thinking about setting goals and working to achieve them).

Gina O'Reilly, the San Francisco-based company's chief operations officer, said part of the goal with the 90-day contract is to establish a culture around constant performance measures and feedback in the minds of employees. The goal is to narrow the gap between what employees say they can achieve and what is actually delivered.

"The whole concept of the 90-day contract is to bring you back to that North Star," O'Reilly said. "Wherever it is in that quarter, these are the three to five things you are focusing on. They have to be measurable, something that has to do with revenue or lead conversion or bug fixes. It has to align with projects."

Those goals then become access points for managers to check in with employees and have more in-depth conversations. Every manager at Nitro is required to do one-on-one check-ins on a weekly basis, though many opt for a biweekly meeting.

O'Reilly said the 90-day contract and checks are a reference point for employees and managers to do performance management. "How are you doing? What are your blockers? Have we overestimated or underestimated something?"

Though their approaches are less formulaic, REI and Adobe have moved to create a system in which employees are getting feedback as part of their day-to-day routine. And in REI's case, the move has had some unintended consequences like employees getting frequent feedback from more people.

"We're hearing from employees that instead of having one supervisor who used to give me formal feedback, I now have four leaders who are giving me coaching and feedback and insights all the time," Clements said. "It's been a richer experience."

In addition to the informal feedback employees are likely to receive as part of the shift, REI store managers are required to have a formal quarterly check-in to make sure they are getting the feedback that they need. Employees are also given an annual survey that asks them to rate their satisfaction with manager feedback quantitatively.

Adobe has stripped formality out of the process entirely. Morris said the company doesn't require any forms to document conversations between manager and employee. The goal is to remove all barriers to giving and receiving feedback so that employees can drive the conversation based on their areas of concern instead of being forced by an administrative process.

Morris said data collection requirements are minimal; managers are asked to simply list or bullet an overview of each feedback conversation. Cliff Stevenson, senior human capital researcher at i4cp, said such less-structured performance review systems still manage to collect useful data.

Instead of collecting rankings and rating employees on a curve, technology systems have enabled managers to input informal performance conversation notes that can generate more qualitative assessments of data, like word clouds or other forms of visual analytics. “Using these techniques can make sense of the massive conversations that are happening to judge those against other measures of engagement scores and customer satisfaction correlations between those things,” Stevenson said.

While data collection is still feasible with qualitative performance metrics, others are content to forgo analytics. Frequent, qualitative conversations are enough. This is especially true for REI, Clements said. “When we eliminated the formal performance reviews, management now comes together twice a year — and in many of our locations they actually do it quarterly — to talk about the talent in their stores in terms of who are the leaders and who might be endorsed for management in the future,” she said.

Clements also said eliminating the performance review has forced managers at REI to be more familiar with their employees so that they can make a more comprehensive judgment of performance and the employee’s trajectory at the company moving forward.

For Nitro, the annual review remains intact. But thanks to the 90-day contract culture and check-ins, the annual review becomes just another checkpoint in a continual performance management process for the company.

“We like to think that the annual review is a time for you to actually celebrate your tenure at Nitro and feel good about that,” O’Reilly said. “Rather than focus on the past and things that might not be going well, we talk about the future and career development. “At the end of the day, your job as a manager is to make sure that you have that open communication and that people are clear on what is expected of them,” O’Reilly said. “It’s about making your team the best it can possibly be. Their performance is a reflection of yours.”

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