Does the Annual Review Process Undermine Your Employee Engagement Strategies?

Why Leading Companies are Scrapping Annual Performance Appraisals in Favor of Real-Time Feedback and Development

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B ack in 2002 when Brian Jensen, then head of global human resources for Colorcon, told an audience of HR executives at the Wharton School that his company was abandoning traditional annual performance reviews, "they were appalled." Described in the article "The Performance Management Revolution" in the October 2016 issue of *Harvard Business Review*, Jensen explained that his company was moving to a system that focused on more frequent feedback tied to individual employees' own goals.

In Search of a Better Way to Improve Performance

Today, some industry experts estimate that over one third of U.S. companies have abandoned traditional employee annual appraisals. Among them are forward-thinking technology companies like Adobe, Dell and IBM, as well as firms in mainstream industries such as retail, manufacturing and financial services. Even General Electric, long considered the paragon for a highly-structured, traditional approach to employee appraisal, has changed course.

Given rapid transformation in the industry coupled with changes in the makeup and expectations of its workforce, isn't it time for health care to follow suit?

This **LeaderBriefing** from Stamp&Chase explores the reasons why health care organizations that are concerned about employee engagement, retention and productivity must realistically examine their approach to employee performance evaluation and management.

How did we get here?

Over the past century, organizations' philosophy and approach to employee performance appraisal has ebbed and flowed between a focus on accountability vs. development. The origins of today's system trace to military ranking systems during World War I that were designed to identify and dismiss poor performers. By World War II almost 30 years later, the military's approach had shifted to a focus on development because of the need to assess and rank enlisted soldiers based on their potential to become officers.

Following the military's example, by the end of the 1940s approximately 60 percent of U.S. companies were using some type of structured system to assess employee performance and distribute rewards. By the 1960s, that number had jumped to approximately 90 percent as most companies sought to "pay for performance" and link ratings on the appraisal to so-called merit increases.

Since that time, performance appraisal theories have been debated and have varied widely, ranging from social psychologist Douglas McGregor's call for organizations to move from a "Theory X" to "Theory Y" philosophy that emphasizes individuals' intrinsic desire to perform well[i] to Jack Welch's famous forced ranking – pejoratively labeled "rank and yank" – that in its purest form required managers to dismiss the bottom ten percent of their employees every year.[ii]

The vacillation in performance assessment strategy has been driven not only by changes in individual organizations' philosophy, but also significant shifts in society and the economy overall. Times when unemployment was low and competition for workers was high produced different strategies than periods of high unemployment and stagnant wages.

Today, given radically changing expectations for health care provider organizations, shortages in professional talent (especially in nursing), and increasing cost pressures, why do we hold onto an antiquated approach to employee assessment that is reviled by both managers and their staffs alike?

In a Washington Post article titled *"The corporate kabuki of performance reviews,"* [iii] author Jena McGregor argues that the excuse, "we've always done it this way," is at the heart of the problem across all industries. In health care, leaders often argue, "but the Joint Commission requires us to do annual performance appraisals." Yes, the Joint Commission does require assessment and confirmation of key competencies at least annually. They don't prescribe that the system has to be structured in its current clunky, expensive, frustrating form.

The Problems with Our Current Approach to Performance Assessment

In light of today's changing workforce and new demands on performance outcomes, problems related to the old-school approach to employee assessment are exacerbated and stymie fully engaging employees in the organization's mission and vision. Following is a summary of the most prominent, pressing issues related to annual performance reviews.

Annual Reviews Focus on Past Activities and Are Too Infrequent to Influence Performance

By design, most organizations' annual appraisal process is a look in the rear-view mirror, focusing on subjective commentary and ratings related to past behaviors and activities. This approach forces managers to try to recreate a fair, comprehensive picture of an employee's performance over 12 months. While some organizations have added an additional section listing goals for the coming year, managers seldom follow a disciplined approach to provide ongoing feedback – both positive and constructive – related to those goals.

Annual Reviews Were Designed Primarily to Allocate and Defend Pay Increases

One of the reasons that organizations hold onto a structured, traditional approach is the desire to base merit increases on performance. This is especially an issue with areas that have large numbers of employees under a single manager, such as nursing. By using ratings against defined competencies or job duties, the manager can *theoretically* avoid any charges of favoritism.

Additionally, organizations' legal counsel often argue that without some structured approach, terminations of employees can be challenged. Ironically, the opposite is often true. Most ratings-based appraisals fail to accurately reflect performance, and when an employee is subject to termination, the appraisal scores often contradict the performance concerns which led to the termination.

Annual Reviews Rely Too Much on Numerical Ratings

Even when managers provide detailed, helpful commentary, most employees focus on and are frustrated by the numbers. Comments such as, "I got a 4.17 rating this year and a 4.21 last year. Does that mean you think I'm doing a worse job?" are difficult for managers to justify and address. Ratings, especially when organizations force a distribution across team members, can push managers and employees into an uncomfortable, non-productive corner focused on numbers instead of constructive feedback about the most important elements of performance.

"Ratings detract from the conversation. If an employee is sitting there waiting for the number to drop, they're not engaged in the conversation …"

"Ratings detract from the conversation," insisted Caroline Stockdale, former chief talent officer for medical technology company Medtronic, as she explained why her company ditched old-style performance management.[iv] "If an employee is sitting there waiting for the number to drop, they're not engaged in the conversation, at best. At worst, it can actually make them angry and disaffected for a period of up to a year."

Annual Reviews are Expensive

Recently, one major, mid-size health system shared with Stamp&Chase that they calculated the annual performance review process cost at more than $5 million in manager and staff time alone. We didn't have to ask whether they believed they received $5 million in benefit from the annual process. Additionally, as management ranks are reduced and managers' span-of-control increases, an even larger percentage of their time is tied up annually in writing, documenting and delivering annual reviews.

Annual Reviews Carry an Exaggerated Sense of Importance

Like the hype associated with a New Year's Eve party or special date, annual performance reviews seldom live up to individuals' expectations. Employees come to the meeting nervous about what they'll hear, while managers enter the conversation anxious about what their staff members' reaction will be and how they'll answer push-back. It is impossible to quantify the post-meeting impact on productivity and morale.

A Better Model for Assessing and Shaping Performance

If the old-school model of frustrating annual performance appraisals is ineffective, what's the alternative? Stamp&Chase has developed an efficient, cost-effective, comprehensive mobile approach that enables managers to consistently assess employee performance and coach for improved results. Using the acronym T.E.A.M., which stands for **Teach**, **Empower**, **Align** and **Mentor**, this framework is grounded in evidence-based approaches that improve overall employee engagement and individual success.

Underpinning our model are four key characteristics that make assessment and feedback more powerful:

- **Frequent** to capture instances of both positive and problematic behaviors as they occur,
- **Aligned** with team priorities and goals for improvement,
- **Specific** to help employees understand and change the behaviors that lead to success, and
- **Two-way**, reflecting the manager's opportunity to improve his/her performance by encouraging input from staff and colleagues

Built on these characteristics, the scaffolding of specific management practices that lead to improved staff performance are incorporated into a comprehensive, easy-to-access mobile application and web portal called **MyTEAM™**. Each part of the T.E.A.M. model focuses on a different core competency of successful leadership practice.

Teach – Providing Effective Leadership to the Team as a Whole

Staff look to their manager to establish clear priorities and direction, and then provide focused support for the team to successfully achieve defined goals. As a teacher, the manager offers the expertise and wisdom that shapes the course of the workgroup. Of course, a strong teacher also is a continuous learner, benefitting from the knowledge and contributions of individuals to make the team stronger as a unit.

There are three specific practices included in the Teach module of the **MyTEAM™** application:
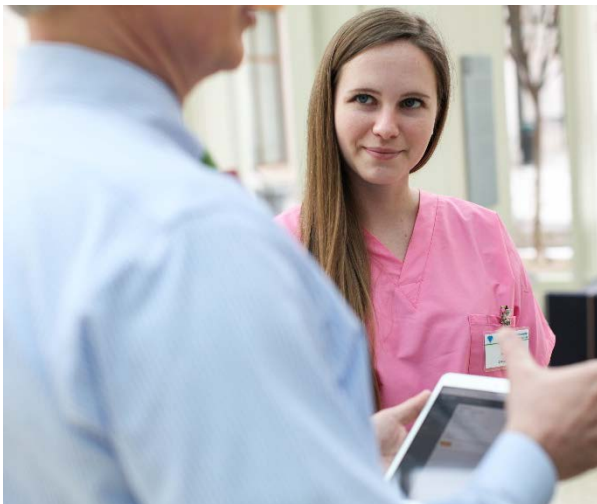
*The **Teach** and **Mentor** modules in the **MyTEAM™** application make it easy for managers to capture key information during rounding, flag needed follow up and document feedback to staff members via smart phones, tablets or the desktop.*

Integrated Rounding
- Providing frequent visibility and support to the team in the work environment
- Focused on meaningful conversations with patients, family members, staff and/or physicians to better understand successes and opportunities for improvement
- Designed to check *in* on staff, not check *up* on staff

Daily Huddles
- Brief stand-up meeting lasting just 5 minutes
- Focused on key issues for that shift and helping staff be successful **today**
- Emphasis on sending staff "on the field" inspired, not discouraged

Effective Team Meetings
- Most effective forum for meaningful dialogue among the team when leaders strive for a **50/50** ratio of giving vs. receiving information and ideas

Empower – Getting Staff More Involved in Decision-Making

Central to all contemporary performance improvement methodologies – including LEAN and Six Sigma – is the idea that better solutions emerge when you involve the people who are closest to the work. While larger, complex projects often involve cross-functional groups drawn from departments throughout an organization, managers have the opportunity to launch more focused, intradepartmental projects that involve team members in decision-making within the workgroup. This approach is especially well aligned with nursing self-governance philosophies advocated by Magnet nursing principles.

The importance of staff member involvement in decision-making related to their core responsibilities is well documented. In his 2009 book, *Drive: The Surprising Truth About What Motivates Us*, author Daniel H. Pink describes three major factors in the workplace that accentuate the intrinsic motivation to succeed

within all of us: autonomy, purpose and mastery[v]. Involving staff in how to make the work better, more efficient and more satisfying supports all of these factors, especially autonomy.

Align – Establishing Workgroup Goals to Drive Performance

Most organizations have mastered the art of setting well-defined, specific, measurable goals at the corporate level. But to influence behaviors and the performance of workgroups and individuals, more specific, tactical goals should be established at the departmental/unit level. Setting, tracking, consistently reporting and then discussing progress against these goals helps the workgroup strengthen a sense of purpose around priority initiatives to improve quality, service, efficiency or other aspects care.

The Align module in the MyTEAM™ application offers one consolidated location to efficiently enter, track and report departmental goals in quality, safety, patient experience or other organization-specific areas. An attractive report is easy to print for monthly staff meetings or to distribute electronically to the team.

The **MyTEAM**™ application makes it easy for managers to input goals related to quality, safety, service, finance and/or people, then print attractive summary reports for use during departmental meetings on a monthly basis. Consistent tracking and reporting encourages teams to celebrate accomplishments … and course-correct with results are falling short of expectations.

Mentor – Providing Consistent Feedback to Individuals

In the Mentor module, the real power of the **MyTEAM**™ framework comes together. Focused on more frequent and meaningful positive feedback (which reinforces desired behaviors) and constructive criticism (which corrects substandard behaviors), three recommended leadership practices provide a platform for continuous individual and team improvement:

Daily Coaching
- In-the-moment comments on a job well done or areas for improvement
- Balanced positive and negative feedback, striving for a 5-to-1 ratio of appreciative vs. constructive comments

Development Dialogue
- More structured dialogues regarding individual performance, held a minimum of twice per year
- Tone: "You are an important member of our team. Working on these things will make you even more successful."

Observation

- Consistent direct observation of employees in their environment doing their jobs, offering the most powerful opportunities for Daily Coaching and/or Development Dialogues
- Focuses on the *how*, not just the *what*

With insights on each individual employee's performance and the manager's associated feedback consistently documented in **MyTEAM**™, organizations can elect to use this information in a number of ways to support annual appraisal:

- As evidence for annual validation of key job competencies,
- To craft a brief summary statement on performance, highlighting key strengths and opportunities for improvement, or
- As a stand-alone document summarizing specific feedback provided throughout the year.

Using the **MyTEAM**™ model means that a manager's time devoted to performance appraisal is spent very differently. What was a horrendous several weeks holed up in a closed-door office and/or spending time on nights and weekends to complete all of forms is now time spread throughout the year in brief conversations with individual team members to provide real-time feedback. Also, energies invested in assessment and feedback occur more naturally in the work environment, rather than in a stressful annual performance meeting.

Summary

Successfully adopting the **MyTEAM**™ framework to improve individual and workgroup performance requires more than simply implementing discrete tools. For leaders, embracing the mindset and philosophy that their most important job is helping members of their team be successful is fundamental.

With increasing demands on the health care workforce and changing expectations for consistent feedback from the next generation of employees, changing the way we think about and structure performance appraisal systems is essential. Moving from an antiquated, frustrating annual review process to a consistent focus on beneficial feedback and personal development makes sense for both frontline staff and the managers who are tasked with supporting them.

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[ii] Welch, Jack and Suzy. "'Rank and Yank?' That's Not How's It's Done." LinkedIn.com, December 2, 2013. Accessed at https://www.linkedin.com/pulse/20131202152255-86541065--rank-and-yank-that-s-not-how-it-s-done/
[iii] McGregor, Jena. "The corporate kabuki of performance reviews." The Washington Post, February 14, 2013. Accessed at https://www.washingtonpost.com/national/on-leadership/the-corporate-kabuki-of-performance-reviews/2013/02/14/59b60e86-7624-11e2-aa12-e6cf1d31106b_story.html?utm_term=.62e8e3ae9e2d
[iv] Ibid.
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About the Authors

William (Bill) Behrendt, PhD, PCC, is a Principal Consultant with primary responsibility for organization development and human resources strategy. Dr. Behrendt most recently served as Vice President for Human Resources at the University of Texas Southwestern Medical Center in Dallas, Texas, where he was responsible for all "people" issues at the medical school and its University Hospitals and Clinics.

Prior to coming to Dallas in 2003, Bill served as Vice President for Human Resources for CareGroup Health System and Beth Israel Deaconess Medical Center in Boston Massachusetts. He previously held the role of Senior Vice President for Human Resources at the BJC Healthcare System in St. Louis, Missouri. He also served as President of Barnes-Jewish West County Hospital in St. Louis. In these positions, Bill gained extensive knowledge and experience in organization development, mergers and acquisitions, change management, strategic planning and executive coaching.

Bill began his career in retailing with the May Department Stores Company headquartered in St. Louis, where he held positions in consumer research, strategic planning, executive development and human resources. He earned a B.S. in Psychology from Tulane University in New Orleans, and his PhD in Clinical Psychology from Washington University in St. Louis, and completed a psychology internship at UT Southwestern in Dallas. He is also a graduate of the Certificate in Executive Coaching Program at University of Texas at Dallas, and a Professional Certified Coach member of the International Coach Federation. Dr. Behrendt has held faculty positions at Simmons College in Boston, UT Southwestern, and UT Dallas, and has served as a board member for the Barnes and Jewish Colleges of Nursing, the Picker Institute, LaunchAbility, and HealthPartners of the Midwest.

Dr. Behrendt was recipient of the 2014 "Strategic HR Leadership Award" from Strategic HR Excellence, and named one of the "Top 10 Breakaway HR Leaders" for 2011 by the HR Global Summit for his work in innovation, engagement, and cultural transformation at UT Southwestern. In 2012, Dr. Behrendt also accepted the International Coach Federation – North Texas Chapter PRISM Award for integrating coaching as part of the UT Southwestern Leadership Development Program.

Burl Stamp, FACHE, is the President/Founder of Stamp & Chase, Inc. With broad-based experience working alongside health care professionals from the boardroom to the bedside, Burl has helped major health systems, academic medical centers and community hospitals improve bottom line, patient experience, staff engagement and patient safety results.

Prior to launching Stamp & Chase over 14 years ago, Burl served several leading health care organizations in executive roles. As president and CEO of Phoenix Children's Hospital, he spearheaded development and construction of the first comprehensive, freestanding health care campus in Arizona dedicated to pediatrics. He developed the first strategic planning and marketing department at St. Louis Children's Hospital, where he started the highly successful Answer Line in 1989 to provide reliable, accessible health advice to families. He went on to lead pediatric services development for BJC Healthcare/Washington University Medical Center.

As the principal consultant to Ascension Health's Experience Team for over four years, Burl worked with a dedicated group of leaders within the country's largest not-for-profit health system to develop structured, sustainable approaches to consistently improving the patient experience across the system's 75+ hospitals.

Burl is the author of *The Healing Art of Communication*, a health care professional's guide to improving communication. He is a frequent speaker on communication, leadership, organizational culture and business development strategy in health care organizations.

About Stamp & Chase

Stamp & Chase partners with leading healthcare providers across the globe to enhance the care experience by improving communication competencies and practices among frontline caregivers and leaders. At the heart of the firm's work are two comprehensive sets of tools and strategies to support care teams:

CAREmunication®

A comprehensive curriculum for frontline staff focused on building competencies and practices that improve communication with both patients and colleagues

A robust portfolio of cloud-based tools that sustain performance improvement through more effective manager coaching, goal-setting, mentoring and accountability

Stamp&Chase