



COUNTY OF SAN MATEO HUMAN RESOURCES DEPARTMENT

May 22, 2017

Proposal to Pilot Evidence Based Employee Performance and Development

RECOMMENDATION Pilot a new employee performance and development process with the Executive Leadership Academy (ELA) that will eliminate formal annual performance reviews and replace them with future focused frequent check-ins and pulse surveys to create a data rich, high performance culture focused on growth and development.

NEED Annual performance reviews are a costly and ineffective strategy for improving employee performance and fostering employee development. A conservative estimate for the annual cost of San Mateo County performance evaluations is \$2,675,360 (891,200 employee hours)--a figure that does not account for lost productivity and overhead costs. A variety of annual performance evaluation formats are used in San Mateo County, with the largest percentage, 52%, using a traditional one page evaluation.

Companies that have discontinued annual reviews include Adobe, Accenture, Dell, Deloitte, Disney, Eli Lilly, The Gap, GE, Goldman Sachs, IBM, Juniper Systems, KPMG, Lear, Medtronic, Microsoft, Morgan Stanley, Motorola, Netflix, OppenheimerFunds, PwC, Sears. It's estimated that by 2018, 75% of the US Fortune 1000 will have transitioned away from annual performance reviews. Government organizations including the FBI and NASA are rethinking their approach, and a few local governments, (including Riverside County, Pinellas County, Walnut Creek, and Johnson County) are also eliminating annual reviews.

Primary business drivers to make changes to performance approaches now are twofold:

1. The changing nature of work and the need to be agile, iterate solutions, and quickly evolve. Most work today does not conform to a 12 month period.
2. The return to a development focus and the growing importance of fostering talent and increasing employee skills.

Key Findings: Annual performance reviews are a source of dissatisfaction.

- 82% of companies report that performance evaluations are not worth the time.
- 95% of managers are dissatisfied with the way their companies conduct performance reviews.

- Performance reviews are the second most disliked work activity by managers after firing employees.
- 86% of employees report being unhappy with their performance management systems.

Annual performance reviews negatively impact performance and are demotivating.

- More than 33% of annual performance reviews have a **negative** impact on performance.
- Formal performance reviews can be highly demotivating to even the highest performers.
- Most people believe they are above average: a rating system that labels employees as average or in the middle of the ratings scale will be deeply demotivating to the majority of employees.

Annual performance reviews undermine the manager/supervisor-employee relationship.

- The act of evaluation causes the employee to feel judged and to withhold information that could be helpful to their development.

Annual performance reviews are flawed, bad data.

- Two thirds of employees who receive the highest performance review scores were not in fact their organization's highest performers.
- Individual performance ratings have zero correlation with actual business results.
- Decades of research show that people are inaccurate and unreliable raters of others-- issues include recency bias, idiosyncratic rater effect, how demographically alike the rater and ratee are.
- An annual review does not accurately predict future performance.
- 61% of a performance rating is a reflection of the rater, not the ratee.
- Raters do not agree in their evaluations of ratees and are likely to show correlations in the .50s, not much better than random.

PROPOSED PILOT A successful model to foster positive employee development and improved performance will consist of frequent coaching conversations, a future orientation, and be employee driven. A successful model will also reduce complexity, administrative systems, and bureaucratic processes.

Evidence Based Employee Performance and Development will be a rigorously structured pilot that tests the success and scalability of replacing formal annual reviews with future focused frequent check-ins and employee directed pulse surveys. The pilot sites will take place in up to 5 County Departments with a current ELA participant. The existing relationships built over the course of the ELA experience will be leveraged to support implementation and feedback on the pilot. Initiating the pilot in diverse departments and including represented staff will give us rapid information and testing conditions representative of the overall County. Variables will be tested in the departments to isolate best practices and the group will iterate improvements to

the pilot over the course of project. Project variables and key dates are detailed in **ATTACHMENT I**. Participants in the pilot will

- Ensure that managers/supervisors meet with their staff a minimum of every other week.
- Ask their staff to complete weekly pulse surveys of no more than 4 questions highly correlated to performance and engagement.

ISSUES AND RISKS

- Moving from compliance with a formal process to having high quality performance conversations is a culture change. Not all managers are comfortable acting as coaches and will need support in developing coaching skills
- Performance improvement processes will remain intact, which could include Performance Improvement Plans (PIP), pre-evaluation memos, special evaluations or other tools for underperforming employees. Guidance will need to be developed to ensure managers and supervisors are able to take employees off of the development track and onto the performance improvement track when appropriate.
- Meet and confers with unions will be required.
- Two departments are required to conduct annual performance evaluations and may not be able to fully realize the benefits of annual performance evaluation elimination.

BENEFITS AND OUTCOMES

- Future focused, strengths based frequent conversations between managers and employees will build relationships and translate into increased performance and development.
- Focusing on developing employees will increase our success in recruiting and retaining an excellent workforce, critically important in San Mateo County where our prospective employee pool can be limited by cost of living and housing issues.
- Pulse surveys will provide frequent information to managers to act on in real time and also allow for longitudinal analysis, allowing us to adjust the pilot approach to employees as data indicates.
- Participants will report increased levels of engagement.

A successful pilot will show that

- Manager/supervisor participants meet with their reports weekly/biweekly
- Employees' positive responses to measures correlated to high performance will increase
- At least 80% of employees will routinely complete the pulse surveys
- Managers/supervisors will report increasing confidence in their ability to coach and have focused conversations with their employees

COST/FUNDING The costs associated with this pilot (performance management fellow, pulse survey technology) have been budgeted in 2017-18. Tremendous potential cost savings related to increasing employee engagement and productivity are anticipated.

NEXT STEPS If this proposal is approved, staff will work with interested ELA Cohort departments to finalize pilot participation, determine size of department pilot, and select project variables for testing.