Rethinking the annual performance review

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Knowledge Sharing, Innovation, and Value Creations with Constructive Dialogue vs. Discussion

While over 95% of organizations report that they conduct annual reviews with their employees (Willmes, 2018), there is growing concern about the usefulness of ‘such bureaucratic rituals’ in a world where new knowledge is the primary driver of value creation through innovation. We use the term ‘contribution dialogue’ to represent a replacement process. Others use terms like leadership dialogue, employee review, target setting and review, feedback meeting, performance dialogue and others to explain similar processes.

Sharing knowledge leads to value creation

In a knowledge driven economy, the primary challenge for managers is to create an environment where people trust each other and their own capabilities enough to share what they know. A key component to creating such an environment is to treat people as self-responsible who want to do good. Given that sharing knowledge is critical to innovation and value creation we continue to ask why any manager would just have one conversation with employees per year. An abundance of research establishes a positive correlation between constructive dialogue (sometimes called the ‘tool of the tools for people management’) and heightened engagement, satisfaction, and retention with employees all of which contribute to the knowledge sharing process. Such an outcome should not be surprising. Speaking directly with people has positive effects in both personal and business settings. However, simply talking to people is not

enough.

There are subtle but clear distinctions between talking to people, discussion, and dialogue.

- Talking to people assumes there is a sender and a receptive receiver who is listening, which we all know is not always the case.
- Discussion emphasizes analysis and resolution, where participants debate, analyze, and deliberate on a topic to reach a conclusion or decision.
- Dialogue prioritizes understanding and connection, allowing people to freely and creatively explore issues, listen deeply to each other, and suspend their own views in search of the truth.

Talking to people is an important part of any leader's everyday job, be it formally or informally. However, having a constructive dialogue is much more difficult, particularly when asking people to listen deeply and possibly reconsider their own views. That goes for both parties to the attempting to engage in constructive dialogue. To this end, providing unilateral performance feedback at the end of the year rarely goes beyond the talking stage. Constructive dialogue should occur regularly throughout the year and immediately after every relevant action. Constructive dialogue is best received if it is self-organized. Separating daily conversation from a more formal contribution dialogue makes sense but must be often throughout the year to give people multiple opportunities to share their unique knowledge. The focus of constructive dialogue must remain on the individual's contribution to the team and the organization in combination with development or growth opportunities for the employee. Constructive dialogue provides opportunities for both individuals to express their views in a trusting environment without fear of repercussion. This takes time, effort, and commitment as well as a solid understanding of psychology, particularly the psychology of motivation. No employee goes to work each day to fulfil some vague corporate objective. They go to fulfil personal objectives that are intrinsically motivational. Therefore, it becomes essential for managers to discover what the individual objectives and

motivations are if they want to get the best out of their people. For too long the annual performance review ritual has been talk or discussion on how the employee can meet corporate objectives rather than constructive dialogue that generates intrinsic motivation among employees.

Constructive leadership

A leader or manager who does not want to or cannot engage in constructive dialog with subordinates should not lead people. We have observed too many organizations where contribution dialogue, risk dialogue (the organization's appetite for risk taking), and performance conversations (what a subordinate must to do perform well) which are key elements for effective leadership and knowledge sharing in virtually every organization are shockingly low or virtually nonexistent. Too many so called "leaders" or "managers" hide behind the annual performance review process to avoid time consuming and sometimes uncomfortable constructive dialogue. The annual performance review also provides cover for ineffective managers and provides excuses or scapegoats for their own failings. Such behavior hurts both the employee and manager and ultimately the success of the organization by shutting down the process of knowledge sharing from which emerge innovative ideas that drive value creation. There is a lot of work ahead in today's organizations to retrain managers to not just talk to employees or have discussions but to engage in constructive dialogue regularly throughout the year.

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