

# **Which is Best? Anniversary vs. Focal (Common Date) Performance Reviews**

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For most managers and supervisors, the annual employee performance review is about as much fun as completing a tax return followed by a root canal. So, it is no wonder that many supervisors put off doing performance reviews and some even skip them altogether.

Sadly enough, almost 33% of employees did not receive a review last year. Supervisors who delay or skip annual performance reviews are missing a great opportunity to motivate their employees and provide important feedback.

Annual performance reviews are like a double-edge sword. For the supervisor, it may be just another work task and an annoyance, but for the employee, the annual performance review is equivalent to the Olympics. In summary, without formal feedback, employees not only feel ignored, but are unmotivated to go the extra mile when they perceive no one notices.

In its recently released survey on Compensation Planning for 2008, Buck Consultants examined salary management practices among the 415 surveyed organizations; in particular, the timing of annual salary reviews.

The Buck survey found that most organization – over 80% (82.2%) – administer annual salary increases on a focal (or common) review date. This means that in most organizations, employees receive their annual salary increase on a common date such as January 1, rather than on the anniversary of their hire or promotion into their current position.

In the long-run, focal reviews are much more popular than anniversary-based reviews because they offer a lot of significant advantages. Both methods have their advantages and drawbacks, but more and more, we are seeing organizations switch to focal reviews because this type of review allows for a fairer performance management process on top of being easier to manage.

This summary will evaluate the advantages and disadvantages of both anniversary and focal performance reviews, explain why focal performance reviews are the best choice for organizations and provide some useful real-life strategies for focal performance review implementation.

## **Anniversary Reviews**

### ***The Pros of Anniversary Reviews***

- Anniversary reviews are often used in organizations that do a lot of hourly, lower level hiring on an ongoing basis.
- A fair system: every employee receives a performance appraisal and sometimes a compensation adjustment on the one year anniversary of their start in a job, and at one-year intervals thereafter. All employees get reviewed and receive compensation adjustments at the same interval.
- Anniversary reviews work well for organizations that want to evaluate individual employee performance against established standards, rather than against the performance of other employees.
- Anniversary reviews are seen by some to lighten managers' workloads and increases the likelihood that they'll spend more time on their employee performance reviews, since they're not caught trying to do them all at once. In addition, they spread out HR's appraisal-related workload over the year, avoiding processing peaks.

### ***The Cons of Anniversary Reviews***

- Often, the annual appraisal is executed on the employee's anniversary, which does not coincide with any particular performance period.
- When appraisals are conducted annually, on the anniversary date, at best, only 50% of the staff is aligned with future organizational objectives.
- Most appraisal systems are not automated and as a result, there is poor reporting and therefore low visibility as to who did or did not achieve their objectives. In addition to this fact, reviews are generally chronically late under this system.
- An employee's future is based solely on his/her manager's subjective opinion of them. There is no clear vision for the Senior Manager or other executive management as to who achieved their objective and who did not. As a result, the Senior Manager does not have the ability to see failure as it is occurring and conversely, see failure after the fact and then radical adjustments are then required to repair the situation.

- Annual appraisals are also much harder to administer, in general. For example, a single process runs for an entire year and management changes to roles and reporting must be managed on an ongoing basis. The anniversary timing also can be harder to make changes to forms or to the company's process, and implement them in a way and at a time that is fair for everyone. It is also more difficult to gather workforce analytics on the organization's performance as a whole because the data is constantly changing, as new reviews could be done virtually every day. In many cases, this creates extra work of HR and this must be kept in mind when considering which system to use.
- It is also more difficult for a manager to review employees fairly and consistently. The manager is constantly considering only the performance of an individual, not evaluating the performance of all his/her employees. This in turn creates an unfair environment because the manager is comparing each employee's performance to the performance of his/her peers.
- Establishing corporate goals and alignment of employee goals is also more difficult due to the year-long timing of anniversary based reviews. Also, on-time completion rates are almost always lower because there is not a larger organizational "push" to get the process completed. If a company chooses to utilize an anniversary performance appraisal, measurable or usable results will not be ready until one year later.
- Another major disadvantage of the anniversary process is that compensation allocations may not be fair. With the cyclical ups and downs of the company's business, Senior Managers and managers try to accommodate and manage the compensation budget accordingly. An employee who has an end-of-year review may get a lower increase simply because there is no money left in the budget. Also, an employee who has a review in a quarter that has lower sales numbers, may regularly get lower compensation increases than an employee who's review falls in a quarter with traditionally higher revenue.

## **Focal (One-Time or Common Date) Reviews**

### ***Advantages of Focal Reviews***

- Focal reviews, also called common date or scheduled reviews, have organizations evaluate all of their employees at one set time. The process usually takes one-two

months to complete depending on the number of employees and the complexity of the process. The benefits of this appraisal plan are numerous.

- When are you going to have your focal review time period? Things to consider include:
  - Is there a period where your organization is a bit less busy than others? For example, retail establishments would not want to do their reviews in December and the Alaska tourism industry would not want to do their reviews in the middle of the summer.
  - Can your organization handle doing all your reviews at one time OR do you need to split it either by departments, Exempt vs. N/E employees, location? For example, in a retail firm, maybe all the stores could do their reviews in January/February and the home office (which might be heavily accounting) may want to do their reviews after the audit—which might be March/April.
- One biggest advantage is that focal reviews have is that they allow for corporate and individual goals to unite. HR actually spends less administration time on focal reviews because the process typically runs over a few months, rather than an entire year. This allows for corporate goals to be in place before HR begins its process, allowing everyone in the organization to align their goals appropriately. Managers are also able to assess employee performance in light of business results, which helps link individual and organizational goals further.
- Focal reviews are advantageous because everything is done at once. Since everyone's performance is being evaluated at the same time, managers can easily compare employees' performance and provide ratings and feedback that are fair and consistent.
  - Do you have top management support for making this change? For example if your top management currently reads all reviews (they should) this means that they will have to set aside a large amount of time to do this all at once.
- Another advantage is that if any changes to evaluation criteria have to be made, new forms or processes can be distributed out to everyone at the same time.
- Also, on-time completion rates are typically higher than for anniversary processes because the entire organization is focused on completing appraisals at the same time. When the organization is focused on appraisals occurring once a year, it is easier to arrange and offer training on tools and processes, as well as on the

management skills needed to conduct effective employee performance appraisals. Another benefit is that employees will apply the learning immediately.

- How will you implement and communicate this change? For example, depending on how complex your payroll is, you may need to give this group twice or three times the amount of time than is usually needed to input a payroll.
- To put together a timeline—work backwards for when you want to pay increase to be in the employee’s paycheck. For example, the following would be a reasonable time frame to change from an Anniversary Based to Focal Review Cycle that is effective July 1—and is in the employee’s July 1 paycheck on the pay date of July 20.
  - January—Do research as to the feasibility of the change and review budget impact. Get Senior Management buy-in. Set budget impact by using performance appraisal scores by employee for prior year.
  - February—Start employee communication by conducting management training meetings. Send initial communication materials to employees.
  - March—make sure systems are in order, start management training sessions on the new system. Update the how-to-’s of performance appraisals.
  - March—do the last of the anniversary based reviews.
  - April 1—all anniversary reviews after this date are now delayed until July 1 effective date.
  - May 1—performance review process begins with employee input section.
  - May 15—all managers write reviews with employee input.
  - June 5—all senior managers review performance appraisals and approve corresponding raises.
  - June 5 to June 25—all reviews given to employees and signed off.
  - June 25 to July 10—Payroll inputs raise information
- Another advantage that focal reviews provide is that they are fairer. Since compensation adjustments are being made at the same time, it is easier to keep them fair and consistent and unaffected by changing business cycles. Focal reviews also make the whole compensation budgeting process simpler and easier.
  - Have you budgeted for this change? For example, rather than having your merit increases sprinkled thru out the year—there may be a very different

overall budget impact for the first year—depending to where in your budget year you move your focal review period.

- There is no need to wait for data to become usable with focal reviews. HR can access and work with the gathered data immediately if they are using the performance review process to gather succession planning data. There is no lag time. Also, HR and executives have access to overall workforce analytic data as soon as the process is complete, making business planning much easier.

### ***IMPORTANT STEP—PRO-RATE MERIT INCREASES:***

One of the toughest things about changing from anniversary to focal review performance appraisal feedback/merit increases—is how to most fairly handle the employees during the switch over. I have found that during this time, it is important to pro-rate the increase for the focal review, based on employee's old anniversary date. So by using the above example of a July 1 switch over date—the following is my recommendation for pro-rating the increase:

- January—6/12ths (50%--of the average raise)
- February 5/12ths
- March 4/12<sup>th</sup>
- April 15/12th (1.25% of the average raise)\*\*last raise was 15 months ago.
- May 14/12<sup>th</sup>
- June 13/12<sup>th</sup>
- July (even raise)—if the spend number is 4% --this becomes 4%
- August—11/12<sup>th</sup>
- September—10/12<sup>th</sup>
- October—9/12<sup>th</sup>
- November—8/12<sup>th</sup>
- December—7/12<sup>th</sup>

### ***Disadvantages of Focal Reviews***

- However, with all of the benefits that focal reviews provide, there are a few disadvantages to them. For instance, newer employees and those new to a role will not have a full year of performance to be evaluated with. Organizations need to have a firm policy to address partial-year reviews and managers need to keep this in mind when conducting reviews. Also, managers with a large number of employees

will need to dedicate significant time to the review process and neglect other tasks for a period of time until the process is completed.

### **Summary**

In the end, HR professionals need to choose the approach that best fits their company's organizational needs and goals. Business planning cycles, organizational culture, hiring practices and need to compare employee performance must be taken into consideration when deciding which review process is best. Despite which performance appraisal is chosen, it is important to remember that performance feedback should be an ongoing process.

### **Recommendation:**

It is my hope that after reading this summary, your organization will be ready to begin their journey for a focal review cycle. Listed below is a practical checklist for implementation.