



## Is the Annual Performance Review Dead?

*Companies are turning away from time-consuming paperwork and forced rankings*

By Dana Wilkie 7/31/2015

The announcement by several high-profile companies that they are getting rid of annual performance reviews has sparked a national dialogue among HR professionals about the usefulness of such appraisals—and the alternatives available for deciding who gets pay raises, bonuses and promotions.

In the minds of some in the HR profession, “the annual performance review is dead,” said Jim Barnett, CEO and co-founder of Glint, which sells a cloud-based employee engagement tool.

“We’re in the early stages of a revolution,” he said. “A lot of companies are doing this ... and I think over the next two years we’re going to see a profound shift in this area. Progressive HR leaders are realizing that they need continuous, real-time feedback and solutions.”

In July 2015, Accenture—one of the largest consultancies in the world—announced it was shedding annual performance reviews in favor of a system in which employees receive timely feedback from their managers immediately following assignments.

Other prominent corporations have decided to ditch the forced rankings and voluminous paperwork that have come to be associated with performance reviews, and which some studies indicate don’t foster productivity or improvement and actually incite antagonism between managers and employees.

Deloitte has announced that it’s experimenting with a new program that eschews rankings, evaluates workers incrementally throughout the year and relies on only four simple questions, two of which require mere yes or no answers. [Microsoft chucked its stacked rankings](#) almost two years ago, as have Adobe, Gap and Medtronic. In all, 6 percent of Fortune 500 companies have gotten rid of rankings, according to CEB, a management research firm formerly known as the Corporate Executive Board.

## **Why They're Not Working**

CEB research has found that more than 9 in 10 managers are dissatisfied with how their companies conduct annual performance reviews, and almost 9 in 10 HR leaders say the process doesn't yield accurate information.

In addition, "they're incredibly time-consuming," said Rose Mueller-Hanson, HR practice leader at the CEB, who noted that in a recent CEB survey, managers said they spend an average of 210 hours a year in performance management activities. Managers said their employees, in turn, each spend 40 hours a year. Seventy-seven percent of HR executives, Mueller-Hanson said, believe performance reviews don't accurately reflect employee contributions.

"It turns out this mistrust is well-founded," she added. "Our research shows that individual performance ratings have absolutely zero correlation with actual business results. Many of our members and clients have started to really question the return they are getting from all this work."

Furthermore, performance reviews "set up an uncomfortable dynamic between managers and employees in which one person is judge and jury for the other," she said.

"Recent neuroscience research shows that this dynamic can put employees on the defensive and actually result in worse performance—even for high-performers."

The process can also be perceived by employees as unfair. When an organization is foundering financially, managers might be instructed to deflate performance appraisals so the company doesn't hand out too much in pay raises or bonuses. This makes the performance review process seem "rigged" to employees, leaving them less motivated and harming relationships between them and their managers.

"People are realizing that doing anything annually, whether it's a performance review, engagement survey or goal-setting, makes no sense," said Barnett. "Society is moving so much faster. People are leaving [jobs] at a much faster rate, and we have to keep up with that pace; that's impossible with annual reviews."

## **More Frequent Check-Ins**

Some companies that have stepped away from annual reviews are, in addition to taking other steps, encouraging more frequent manager-employee check-ins—quarterly, monthly or even weekly. This could be as simple as a short meeting or a coffee break.

“Check-ins don’t have to be long affairs,” said Stephen Balzac, president of the organizational development firm 7 Steps Ahead. “With practice, they should become fairly smooth and quick.”

Said Barnett: “Think of it this way: A conversation is a lot less work than an essay. If you’re no longer providing ratings in, say, 30 areas, with multiple paragraphs explaining strengths and weaknesses and summarizing someone’s objectives for an entire year, then it’s about having a meaningful conversation in which you recognize accomplishment and strengths and discuss developmental areas.”

Mueller-Hanson said one example of a check-in might be when a manager and employee pause briefly after a meeting to discuss what went well, what could have gone better and what should be done differently for the next meeting.

“If an organization removes some of the time-consuming administrative requirements of the performance review approach—setting complex goals, filling out review forms, multi-rater feedback—this will free up time for higher-value activities, like ongoing informal feedback,” she said.

### **Promotions, Pay, Productivity**

All of these ideas may make one wonder how employers can objectively hand out pay raises, bonuses and promotions if they no longer rely on a rating system that, in essence, puts employees in competition with one another for the highest scores.

“Performance reviews are based on several long-held assumptions that don’t hold up to scrutiny,” Mueller-Hanson said. “One is that having a rating is necessary to make decisions about pay and promotions. It’s actually not, and many organizations have started to figure out alternatives.

“A second assumption is that getting a rating at the end of the year is a way to motivate people to perform better because they will want to strive for the highest possible rating. Actually, performance ratings are not motivators and can even be de-motivators.”

One reason for that, Barnett said, is that promotions and raises have long been decided based on subjective evaluations, even when supposedly “objective” annual reviews are involved. For instance, unconscious bias appears to be a factor when supervisors fill out performance appraisals. Well-respected [testing tools](#) show that personal quirks and biases, conscious and not, influence our appraisals of other people. These hidden biases influence how supervisors think about and describe workers.

## Alternative Ways of Thinking

Balzac offered some advice for companies to rethink the way they evaluate their employees:

1. Eliminate all checkboxes and numeric scales. “Performance is more complex than that,” he said. “A good system needs to highlight significant incidents, provide clear examples of positive and negative behaviors, and include specifics.”

Is this HR sacrilege? No, said Balzac: “There is an inherent assumption that forced rankings are clinical and objective. Just because we assign something a number doesn't make it either clinical or objective. It's just a number, and numbers feel good, logical and scientific. We lose a lot of information when we turn things into numbers. Shades of meaning and nuance are erased, which blinds us to how performance may be occurring and what people are actually doing.”

2. Provide feedback on things the employee can change. Avoid talking about personality traits or characteristics they can't change.

3. When giving negative feedback, focus on specific incidents and examples. Talk about your impressions and feelings, and never make judgments about what's going on in the employee's head, for instance, by saying: “You clearly don't care about this project.”

4. Don't set up your team members in competition with one another. “As soon as you do that, performance reviews are just an excuse to promote yourself and trash your teammates,” Balzac said. “I hear a lot about how a real professional would never do that. If you believe that, I have a bridge to sell you.”

5. Focus on strengths more than weaknesses. “Focusing on weakness sends the message ‘What's wrong with you?’ Focusing on strength gets people excited and motivated to grow. A focus on weakness really says that your strengths don't matter. You can praise [Boston Red Sox player] David Ortiz for being a great home run hitter or you can fire him for being a terrible pitcher.”

6. Don't forget about intangible behaviors. “It's hard to rate behaviors like helping a team member or boosting morale. Reviews need to be more holistic and find ways to take into account nonobvious team-building behaviors. The person who helps keep everyone else's mood up when things are tough is appreciated, but not really noticed—until they're gone.”

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