Is the Annual Performance Review Dead?

GE is latest company to reject time-consuming paperwork and yearly appraisals

By Dana Wilkie
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The announcement that General Electric (GE) has joined a list of high-profile companies that 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.”

GE abandoned its forced rankings about a decade ago—a system that required managers to rate each worker’s performance using a number that compared them with peers. Those scoring in the bottom 10 percent were typically fired. But in August 2015, GE also reportedly decided (www.shrm.org/http://qz.com/428813/ge-performance-review-strategy-shift/to scrap formal annual reviews for its 300,000 employees entirely, replacing these evaluations with more frequent conversations and introducing an app to help employees’ managers and teammates share feedback.

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 (www.shrm.org/hrdisciplines/compensation/articles/pages/stack-ranking-microsoft.aspx) almost two years ago, as have Adobe, Gap and Medtronic. In the 18 months following Adobe's March 2012 announcement that it would replace stacked rankings, shares in the software company rose 68 percent, according to a Forbes article.

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. Cliff Stevenson, a senior research analyst for the Institute for Corporate Productivity—which studies management practices—recently told the Washington Post (www.shrm.org/http://www.washingtonpost.com/news/on-leadership/wp/2015/08/17/why-big-business-is-falling-out-of-love-with-annual-performance-reviews/?wpmm=1&wpsrc=nl_headlines) that the figure is closer to 10 percent.

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 demotivators."

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 (www.shrm.org/http://www.understandingprejudice.org/iat/index2.html) 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

Baizac 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 Baizac: "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," Baizac 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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If the Annual Performance Review Is on Its Way Out, What Can Replace It?

Systems are still needed to fairly award promotions, pay raises, bonuses

By Dana Wilkie
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The traditional performance review is losing favor with some companies, but without a systematic review, how can workers’ progress be documented so that managers can objectively hand out promotions, pay raises and bonuses?

That’s the overarching question among HR professionals as company after company announces that it’s scrapping annual performance reviews—a development that has sparked a national dialogue about the usefulness of such appraisals and the alternatives available.

Citing managerial dissatisfaction with reviews, their time-consuming nature, the awkward dynamic they create between managers and employees, and the unhealthy competition they can foster among co-workers, companies such as General Electric, Accenture, Deloitte, Microsoft, Adobe, Gap and Medtronic have replaced performance reviews with other approaches.

Among the changes: eliminating all numeric scales; doing away with “forced” or “stacked” rankings that create competition among employees; and replacing the once-a-year appraisal with ongoing feedback on a worker’s performance throughout the year.

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. Cliff Stevenson, a senior research analyst for the Institute for Corporate Productivity—which studies management practices—recently told The Washington Post (https://www.washingtonpost.com/news/on-leadership/wp/2015/08/17/why-big-business-is-falling-out-of-love-with-annual-performance-reviews/?wpmm=1&wpsrc=nl_headlines) that the figure is closer to 10 percent.

Shift from Annual to Ongoing Reviews
So are companies rejecting the conventional metric- and goal-based performance review altogether? Or just the "annual" nature of such appraisals? Are they getting rid of most of the data collection that tracks a worker’s progress, or only changing the way they collect data?

It depends on the company.

"In most cases, when we hear about organizations getting rid of annual performance reviews, we're actually hearing about a shift away from waiting until the end of the year to share information, rankings or ratings to [providing] ongoing feedback," said Dominique Jones, vice president of human resources at Halgen Software.

Real-time feedback, as it’s called in the HR industry, often relies on software that allows managers and workers to frequently report on what steps are being taken to reach goals, how far along a project has evolved and what roadblocks need to be removed to finish an assignment. Such software can allow managers to see a day-by-day snapshot of a worker’s progress toward specific goals, often using graphs or charts. An employee’s manager, direct reports and peers can comment on his performance. Managers get a broad, well-sourced perspective about an employee, which can eliminate some of the personal bias that can crop up during a one-on-one performance review, said Kris Duggan, CEO at BetterWorks, an information technology and services provider in the San Francisco Bay Area.

“We need to document performance, but we need to do this on a more frequent basis than once a year when managers can't remember what their team members did at the beginning of the year,” said Jason Averbook, CEO of TMBC, a global provider of engagement and performance solutions based in Los Angeles, Calif. “By asking team leaders to frequently answer questions about each team member, this allows organizations to establish metrics and data that can be used to assign promotions, raises and bonuses, with statistically reliable data.”

There is much talk about more-frequent check-ins with employees—for instance, immediate feedback after an assignment—rather than annual reviews. Could this mean even more work on the part of managers, especially those who oversee large teams?

“Actually, more-frequent check-ins with employees saves time,” Duggan said. “It takes three weeks a year to do an annual performance review, or it can be done in small segments regularly, making it more relevant to the employee and less burdensome to the manager. Imagine waiting until the end of the year to get a summary of your Fitbit step count. The information obtained wouldn’t be as timely or relevant, and it certainly wouldn’t change much behavior.”

What about forced rankings, which typically require managers to rate each worker’s performance using a number that compares him or her with peers? In some companies, employees scoring in the bottom percentiles are fired. Research indicates that forced rankings don’t foster productivity or improvement and actually create antagonism between managers and workers.

“Ultimately, an employee’s performance should not be judged and compared to others, but judged against the metrics that are set for success for that role,” said David Brennan, general manager for Achievers, a San Francisco-based employee recognition company. “The days of pitting employees against each other are gone. The days of recognizing employees for their individual attributes and contributions, and how those strengths can support the overall company goal and mission, are here.”
Yet some companies dole out limited promotions and salary and bonus dollars by comparing the work of employees. Can a worker more easily claim discrimination in promotions or pay if there isn’t data documenting that others were more deserving based on their ranking in the company?

Experts said that promotions and raises have long been decided based partly on subjective evaluations, even when supposedly objective annual reviews are involved. Well-respected testing tools (www.shrm.orghttp://www.understandingprejudice.org/iat/index2.htm) show that personal quirks and biases, conscious and not, influence how supervisors think about and describe workers.

“When evaluating who gets promotions, raises and bonuses, it has to be done in a more subjective manner, taking into account the competitive rate for the market, the amount of time since the last raise, what sorts of customer or internal relationships have been developed, and how well the employee is executing on his or her objectives,” Duggan said. “Ratings and ranking don’t capture this—the framework is too difficult to follow and often ends with managerial debate. If things remain the way they are across many companies, you will let down your highest performers.”

Tips for Transitioning

Brennan said it should be every company’s 2016 New Year’s resolution to transition from “outdated annual performance reviews to a new feedback system that increases engagement.” A few of his tips:

- **Train your front line.** Give managers the tools they need—such as real-time performance software—to initiate frequent and productive conversations with workers. Make sure they know why this new approach is important. “Traditional performance reviews can be extremely anxiety-inducing,” Brennan said. “Managers feel awkward giving them, and employees shut down and turn defensive in the face of imminent criticism. Teach your leaders how to engage in real-time conversations that raise performance—not blood pressure.”

- **Be consistent.** If you’re ditching the annual performance review, be consistent in the new format so employees know what to expect. Achievers, for instance, encourages managers to meet one-on-one with each employee every week. “These conversations are invaluable,” Brennan said. “Managers can help employees set career paths, provide important coaching moments, listen to ideas, and identify areas where they need to remove roadblocks. The focus isn’t on grading how well people are doing, but on constant improvement through consistent communication.”

- **Get executive buy-in.** Executives will warm up to a new performance management system if you show them data, Brennan said. That means reporting on return on investment for financial leaders, customer satisfaction for sales leaders and engagement for HR executives. Record baseline metrics before you eliminate your old review system, and then track changes as managers begin to roll out real-time feedback. When you’re able to provide concrete evidence that the new system achieves desired outcomes, you can win executive support.

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