Performance Appraisal
Time for a (re)assessment of the performance appraisal?

Managers think they are a bureaucratic chore forced by human resources (HR).

Employees approach them with fear and trepidation.

No one likes them.

Is it time to fire annual performance reviews?

Many successful companies are saying yes—and finding new, more efficient and effective strategies for managers and employees to engage in frequent two-way conversations, offer feedback, set goals and raise morale and productivity.

Workforce surveys reveal that employees regard the traditional approach to performance reviews as arbitrary and unhelpful to their performance and career goals. The practice, in recent decades, of ranking employees has been shown to destroy morale and force workers to compete rather than collaborate. As companies are forced to readjust their goals and strategies quickly in response to market disruptions, the tradition of a once-a-year, time-consuming performance assessment doesn’t keep pace with today’s economics. Surely there is a better way.

This Blue Paper® will look at the history of performance reviews, examine the cases for and against retaining performance reviews and highlight examples of companies that are replacing them. Finally, we’ll provide a list of best practices for introducing new strategies that promote communication, development, performance and accountability.

Let’s review

While many workers today regard the annual performance review as a top-down, panic-inducing exercise that can result in anything from superficial praise to soul-crushing judgment, there was a time when the practice represented a new, enlightened view of the relationship between bosses and workers.

The industrial revolution ushered in a new era of work that placed a high value on efficiency, productivity and quality. The “Father of Economics,” Adam Smith, introduced theories on task division and specialization, and unions achieved reforms related to child labor, safety and the length of the workday. The 1920s
saw the birth of the concept of human relations in the workplace, and the Great Depression brought about further advances in pensions, minimum wages and labor standards.¹

A real shift in management styles became evident in the 1940s, with a greater understanding of group dynamics and the social needs of employees. Businesses learned that when supervisors functioned as leaders and facilitators rather than taskmasters, employee productivity and satisfaction grew. The concept of performance management entered the lexicon in the 1970s, and Management by Objectives (MBO) came along in the 1980s.²

The idea of rating employees emerged in the 20th century as well. The Performance Rating Act of 1950 established three summary ratings for federal employees: outstanding, satisfactory and unsatisfactory, and the Incentives Reward Act of 1954 provided a means to recognize and compensate government workers for superior performance.³ General Electric⁴ CEO Jack Welch popularized the forced or stack ranking system in the 1980s—ranking employees on a bell curve, rewarding high performers and getting rid of poor ones.⁴ The idea of multi-rater or 360-degree feedback has been around since WWII, but the practice wasn’t widely adopted until the 2000s, when the Internet began to make it easier to manage large quantities of data.⁵

When Yahoo!⁶ announced it was instituting a performance ranking system and Microsoft⁶ announced it was abandoning its ranking system within days of each other in November 2013, business journalists and management gurus rushed to weigh-in on the contrasting decisions of the tech giants, with many commentators coming down against ranking systems, the bell curve in particular.

“Basically, many people have lost faith that ranking employees works, and some research suggests that employee performance doesn’t follow a bell curve at all,” says Joshua Brustein of Businessweek.com⁶. “Instead, most people are slightly worse than average, with a few superstars. And while a bit of pressure can motivate people, constantly pitting employees against one another is terrible for morale.”⁶

2 Ibid.
3 Ibid.
Max Nisen of Business Insider\textsuperscript{SM} writes that forced rankings are especially harmful for companies in talent-rich industries such as those in Silicon Valley. “Employees at these companies already feel they’re competing against some of the world’s smartest people for limited opportunities and recognition,” he says. “If you tell them they’re also competing for their jobs—explicitly, that is, not just in the way we all are every day—it starts to look like a crummy deal.”\textsuperscript{7}

The practice of ranking employees has been found to be detrimental at companies that suffer large-scale layoffs: Once the first wave of employees is gone and the company shrinks, the bell curve forces supervisors to rank some average performers as poor ones, and some high performers as mediocre ones.\textsuperscript{8}

Out with the old...

If a case needs to be made for rethinking the performance review, the results of the Cornerstone OnDemand\textsuperscript{SM} 2013 U.S. Employee Report provide a picture of the extent to which current practices are failing employees and employers. This survey captures employees’ perspectives and attitudes regarding performance feedback, training, development and career management. The results paint a grim picture of the way performance reviews tend to be conducted in the U.S.:

- Some 60 percent of respondents reported not receiving useful feedback in the past six months.
- Only slightly more than one-third (38 percent) reported that feedback helped them improve their performance.
- A mere 35 percent reported having performance goals aligned with company objectives.
- Only one in four respondents reported having established career goals with their manager or employer.
- Fewer than 30 percent believe the purpose of their employer’s review process was to help them succeed in their role.
- Fewer than half (47 percent) believe that the feedback they’ve received is a fair and accurate representation of their performance.\textsuperscript{9}

Samuel A. Culbert, a professor in the Anderson School of Management at the University of California, Los Angeles, says that in the traditional performance


review systems, employees tend to focus on pleasing the boss rather than achieving results. The author of “Get Rid of the Performance Review! How Companies Can Stop Intimidating, Start Managing—and Focus on What Really Matters” reports that empirical studies going back to the 1980s fail to show that performance reviews are fair, accurate or consistent across managers, or that they improve organizational effectiveness.10

“In my years studying such reviews, I’ve learned that they are subjective evaluations that measure how ‘comfortable’ a boss is with an employee, not how much an employee contributes to overall results,” he says. “They are an intimidating tool that makes employees too scared to speak their minds, lest their criticism come back to haunt them in their annual evaluations. They almost guarantee that the owners—whether they be taxpayers or shareholders—will get less bang for their buck.”11

Josh Bersin, ForbesSM contributor and founder and principal at Bersin by Deloitte®, describes traditional performance reviews as an “artifact from traditional top-down organizations where we had to ‘weed out’ the bottom performers every year. By forcing managers to rate people once per year we can have annual talent reviews and decide who gets more money, who to promote and who to let go.” Bersin lists these reasons for scrapping the traditional approach—and finding news ways to evaluate performance.

- Employees need and want regular feedback, so a once-a-year review is too late. Regular coaching is the key to alignment and performance.
- Managers cannot typically judge an entire year of work from an individual at one time.
- Manager-employee relationships are not 1:1, so one person cannot adequately rate an employee without peer input.
- While some employees are poor fits or poor performers, these issues should be addressed immediately, not once a year.
- People are inspired and motivated by positive, constructive feedback—and the appraisal process almost always works against this.
- The most valuable part of an appraisal is the development planning conversation—what can one do to improve performance and engagement—and this is often left to a small box on the review form.12

11 Ibid.
A final reason to abandon the annual review—and replace it with something more frequent—relates to the overall decline in job tenure, and especially the short job tenure of Millennials. According to a 2014 report from the U.S. Department of Labor, the median tenure of wage and salary workers at a single job is 4.6 years. But for workers ages 25 to 34, median tenure drops to three years, which means the practice of annual performance reviews provides the typical Millennial with just a couple evaluations at any one job. “Feedback is helpful from an employee standpoint,” says David Hassell, CEO of 15FiveSM, a San Francisco-based software company. “If it’s done more frequently, it may even give employees a reason to stay on the job longer.” For more tips on working with Millennials, see our Millennials Blue Paper.

But wait!

If performance reviews aren’t working, then why bother? In addition to goals that often include employee retention, development and compensation, there are legal reasons for companies to retain a framework for a review.

Barrie Gross, a former vice president and senior corporate counsel for an international Fortune 1000 company, warns that if an employee is disciplined or terminated and the employee does not agree with the action, the company’s performance review policy, or lack of performance reviews, may be drawn into any legal proceedings. “Oftentimes, the issue that caused the employer to take action could have or would have been addressed in the review,” she says. “In that case, an employee would be on notice of performance issues as well as the employer’s expectations for addressing the issues. By communicating in this way, employers can help a poorly performing employee turn the performance issues around and become a vital contributing member of the workforce. Or, if poor performance continues, a timely and accurate review helps provide a basis for taking adverse action.”

If an annual review is required but is delivered late or not at all, the company’s failure to follow its own policies can be used against it, Gross continues. “This failure to communicate can be used to bolster an adversarial position against the company or, at the very least, to persuade a jury that the employer was not ‘fair,’” she says. “Also, failure to deliver timely reviews can be used to paint the manager as uncaring or inadequate in a leadership role. This, too, can be used against the company in a later lawsuit.”

14 Ibid.  
17 Ibid.
And those dreaded ranking systems? While acknowledging that they lead to employee morale problems and offer little flexibility to managers, Victor Lipman, a former manager with MassMutual Financial Group SM, argues that in his experience, rating systems force managers to have hard conversations with employees that they might otherwise avoid. “As any manager knows, it’s often easier to avoid difficult, painful performance-related conversations than to confront them head on,” Lipman says. “Though some managers are outstanding in dealing with conflict, many (being only humane after all) prefer to avoid or minimize it. It literally forces performance issues to be addressed; for an organization that wants to tighten or formalize its management processes, I believe the system can have benefits.” 18

And in with the new

It is possible to replace the traditional performance review with an approach that achieves the same goals—accountability, communication, performance, development—and is viewed by managers and employees alike as a natural and easy process, rather than a necessary evil.

Hassell recommends an approach that involves asking employees these four questions each week:

- What are your successes and what’s going well?
- What challenges are you facing, and where do you need help?
- Do you have any new ideas that could improve your job and/or the company?
- How are you feeling, and what is the morale around you?

If the thought of a weekly meeting sounds like an additional burden, Hassell emphasizes that employees should spend no more than 15 minutes answering the questions, and managers no more than 5 minutes listening to or reading the responses. The goal is quick feedback and engaged employees.19 “Annual reviews feel burdensome to those who must prepare them,” Hassell says. “Weekly check-ins are moving, lightweight and agile.”20

Tim Baker, author of Winners at Work, advocates for an approach he calls The Five Conversations. This method provides a framework for five conversations

20 Ibid.
managers have with an employee over the course of six months. Each conversation should take about 10 minutes, with both managers and employees preparing for the discussion. “It should be employee-centered,” Baker says. “In other words, unlike the traditional performance appraisal, the manager’s comments are guided by their employee’s contribution.”

Fig. 1: The 5 Conversation Framework by Tim Baker is designed to facilitate ongoing dialogue rather than a once-a-year review.

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>Content</th>
<th>Key Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>Climate review</td>
<td>Job satisfaction, morale and communication</td>
<td>- How would you rate your current job satisfaction?</td>
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<td></td>
<td></td>
<td></td>
<td>- How would you rate morale?</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>- How would you rate communication?</td>
</tr>
<tr>
<td>February</td>
<td>Training and development</td>
<td>Development over the next 6 months</td>
<td>- What are some skills you would like to learn?</td>
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<td></td>
<td></td>
<td></td>
<td>- What courses would you like to undertake?</td>
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<tr>
<td>March</td>
<td>Innovation and continuous improvement</td>
<td>Ways to improve the efficiencies and effectiveness of the business</td>
<td>- What’s one way that you could improve your own working efficiencies?</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>- What’s one way we can improve our department?</td>
</tr>
<tr>
<td>April</td>
<td>Improved performance</td>
<td>Improving performance and standards</td>
<td>- What are some opportunities for improved performance?</td>
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<td></td>
<td></td>
<td></td>
<td>- How can I assist you to do this?</td>
</tr>
<tr>
<td>June</td>
<td>Career</td>
<td>Career direction and guidance</td>
<td>- What part of your job do you enjoy?</td>
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<td></td>
<td></td>
<td></td>
<td>- What would we need to do to help you develop?</td>
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</table>

Baker argues that this framework takes the topics of a traditional appraisal and turns them into an ongoing dialogue that is more relaxed, prompting employees to be more honest and direct about developmental needs. It still provides management with information for planning and training needs, while feeling more natural and enjoyable.

22 Ibid.
23 Ibid.
24 Ibid.
Stacia Garr, an analyst with Bersin by Deloitte, says the questions she receives most frequently about abandoning performance scores are:

1. How do you compensate employees without performance scores?
2. How do you deal with compliance in countries that require documentation?
3. How do you identify high-potential employees? 

Garr answers those questions with a case study of Kelly Services\textsuperscript{SM}, one of the first major companies to abolish performance scores in 2008:

1. **On compensation without scores**: Kelly Services provides annual market adjustments as appropriate, given an employee’s position within the salary range. “Further, the company has developed an evolved definition of ‘total rewards’ that reflects the holistic approach the company takes in providing appropriate recompense to employees. This approach includes incentives, recognition and other rewards,” Garr says.\textsuperscript{26}

2. **Documentation requirements**: In most countries where Kelly Services operates, this only extends to proving that conversations take place—not recording what is being said. “Since performance conversations still most definitely take place at Kelly, this arrangement was not a problem,” she says.\textsuperscript{27}

3. **Identifying talent**: Kelly instituted senior leader talent summits, forums for leaders to discuss their talent, development activities that have occurred and next steps in development. “Talent summits typically cover discussions at the top two to three levels of management below the executive level and a small number of other top talent employees who leaders wish to highlight.”\textsuperscript{28}

Motorola Solutions\textsuperscript{®} also did away with a ranking system and separated performance reviews from compensation. In the new system, managers and employees are required to have ongoing conversations about performance and an annual review to determine if objectives have been met. Bonuses are based on the company’s overall performance, with merit pay for top performers. Shelly Carlin, human resources chief at Motorola Solutions, says the new review system reduced the time spent on reviews by 50 to 70 percent.\textsuperscript{29}


\textsuperscript{26} Ibid.

\textsuperscript{27} Ibid.

\textsuperscript{28} Ibid.

Best practices

“Seinfeld” introduced the world to the holiday of Festivus and its annual “Airing of Grievances.” But managers shouldn’t spend a year compiling a list of corrections that an employee needs to make and then dumping them on the employee all at once. “There’s a wonderful supervisor’s mantra and it’s six words: ‘When you see it, say it,’” says Sharon Armstrong, author of “The Essential HR Handbook.” “Make your feedback an ongoing workplace discussion.”

Turning once-a-year reviews into ongoing dialogue is just one of the “best practices” companies are adopting when they replace the traditional performance review process. Here are more:

- **Separate compensation discussions from evaluations.** “Neuroscience research shows that conversations about compensation provoke an almost primordial ‘fight or flight’ reaction among employees, which obviously inhibits the coaching process,” says Alex Nabaum of Deloitte University Press. “Rather than directly linking ratings and salary increases or bonuses, compensation decisions should be based on the critical nature of an employee’s skills, the cost of replacing them, their value to customers and the external labor market.”

- **Develop a “feedback-rich” culture and set of tools to facilitate feedback.** These tools can be formal, informal or online (most employee engagement and HR software vendors offer these tools). The key is encouraging employees to give feedback to each other.

- **But don’t get too bogged down with forms and reports.** Nabaum recommends simplifying the process. “Reduce the number of forms and make them very simple and easy to use,” he says. “Ignore the advanced features in performance management software.”

- **Get buy-in from upper management.** A senior executive-level conversation will help to define what the organization hopes to achieve from performance management activities and identify the best means to achieve those goals.

- **Focus managers on hiring the best possible employees and developing a team of high achievers.** “This is never 100 percent possible of course, but

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34 Ibid.
rather than assuming that 20 percent of your employees will perform poorly,
spend more time on assessment, culture and fit to make sure very few low
performers make it into the organization in the first place,” Bersin says.\(^\text{35}\)

- **Teach managers to give better feedback.** When managers and employees
engage in productive performance and developmental conversations on a
regular, informal basis, employees are less likely to look outside the company
for new employment.\(^\text{36}\)

- **Coach everyone.** Remember the employees who are neither stars nor poor
performers—the ones in the middle of the bell curve, who would have
received the rather uninspiring label of “satisfactory” under past rating
systems? Inspire these employees to see themselves as valued contributors,
and aim for providing employees at all levels with practical steps and
developmental opportunities to advance in the organization. “Hold
everyone accountable, but give everyone coaching, development planning
and training to improve,” Nabaum says.\(^\text{37}\)

It may be impossible—and detrimental—to get rid of all forms of performance
assessments. But it is possible to make the process one that develops employees
to perform their best—and is no longer regarded by everyone involved as a
necessary evil. One key component to new approaches is that they get away from
the idea of the performance review as a review—with a focus on the past—and
instead become an ongoing conversation about the future of the employee and
the company.

“Performance reviews are basically like saying, let’s sit down in a room and look
back at what you’ve done in the last year and see where you went wrong,” says
Jacob Shriar of Officevibe. “A smarter idea is to look forward and define goals
that you want to hit that are aligned with the company’s core values, and then
have regular check-ins to see how you’re doing on meeting those goals.”\(^\text{38}\)


\(^{36}\) Nabaum, Alex, Lisa Barry, Stacia Garr, and Andy Liakopoulos. “Performance Management Is Broken: Replace
‘Rank and Yank’ with Coaching and Development.” Deloitte University Press. Deloitte Development LLC, 4

\(^{37}\) Ibid.